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In accordance with Regulation 32 of the Overseas Companies Regulations 2009

OS AA01

Statement of details of parent law and other information for an overseas company

Companies House

✓ What this form is for
You may use this form to accompany your accounts disclosed under parent law

✗ What this form is NOT
You cannot use this form an alteration of manner with accounting requiren

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A05 06/01/2014 #5
COMPANIES HOUSE

→ Filling in this form
Please complete in typescript or in bold black capitals.
All fields are mandatory unless specified or indicated by *

Part 1 Corporate company name

Corporate name of overseas company ❶: AIR MALTA PLC

UK establishment number: B R 0 1 0 8 6 9

❶ This is the name of the company in its home state

Part 2 Statement of details of parent law and other information for an overseas company

A1 Legislation

Please give the legislation under which the accounts have been prepared and, if applicable, the legislation under which the accounts have been audited

Legislation ❷: Laws of Malta

❷ This means the relevant rules or legislation which regulates the preparation and, if applicable, the audit of accounts

A2 Accounting principles

Accounts

Have the accounts been prepared in accordance with a set of generally accepted accounting principles?

Please tick the appropriate box

☐ **No** Go to Section A3

☑ **Yes** Please enter the name of the organisation or other body which issued those principles below, and then go to **Section A3**

Name of organisation or body ❸: International Accounting Standards Board (IASB)

❸ Please insert the name of the appropriate accounting organisation or body

A3 Accounts

Accounts

Have the accounts been audited? Please tick the appropriate box

☐ **No** Go to Section A5

☑ **Yes** Go to Section A4

OS AA01

Statement of details of parent law and other information for an overseas company

A4 Audited accounts

Audited accounts	Have the accounts been audited in accordance with a set of generally accepted auditing standards? Please tick the appropriate box ☐ **No** Go to **Part 3 'Signature'** ☑ **Yes** Please enter the name of the organisation or other body which issued those standards below, and then go to **Part 3 'Signature'**
Name of organisation or body ❶	International Auditing and Assurance Standards Board (IAASB)

❶ Please insert the name of the appropriate accounting organisation or body

A5 Unaudited accounts

Unaudited accounts	Is the company required to have its accounts audited? Please tick the appropriate box ☐ **No** ☐ **Yes**

Part 3 Signature

I am signing this form on behalf of the overseas company

Signature	Signature **X** gwc **X**
	This form may be signed by ~~Director~~, Secretary, P~~ermanent representative~~

OS AA01

Statement of details of parent law and other information for an overseas company

Presenter information

You do not have to give any contact information, but if you do it will help Companies House if there is a query on the form The contact information you give will be visible to searchers of the public record

Contact name: Godwin Aquilina

Company name: Air Malta plc

Address: SkyParks Business Centre

Level 2,

Malta International Airport

Post town: Luqa

County/Region:

Postcode: L Q A 4 0 0 0

Country: MALTA

DX: email godwin aquilina@airmalta com

Telephone: +356 22999 185

Checklist

We may return forms completed incorrectly or with information missing

Please make sure you have remembered the following

- ☐ The company name and, if appropriate, the registered number, match the information held on the public Register
- ☐ You have completed all sections of the form, if appropriate
- ☐ You have signed the form

Important information

Please note that all this information will appear on the public record

Where to send

You may return this form to any Companies House address

England and Wales
The Registrar of Companies, Companies House, Crown Way, Cardiff, Wales, CF14 3UZ
DX 33050 Cardiff

Scotland
The Registrar of Companies, Companies House, Fourth floor, Edinburgh Quay 2, 139 Fountainbridge, Edinburgh, Scotland, EH3 9FF
DX ED235 Edinburgh 1
or LP - 4 Edinburgh 2 (Legal Post)

Northern Ireland
The Registrar of Companies, Companies House, Second Floor, The Linenhall, 32-38 Linenhall Street, Belfast, Northern Ireland, BT2 8BG
DX 481 N R Belfast 1

Further information

For further information, please see the guidance notes on the website at www companieshouse gov uk or email enquiries@companieshouse gov uk

This form is available in an alternative format. Please visit the forms page on the website at www.companieshouse.gov.uk

189609/60

AIR MALTA p l.c.

Annual Report and Consolidated Financial Statements
31 March 2011

Company Registration Number C 2685

Directors' report

The directors present their report and the audited financial statements of Air Malta p l c for the year ended 31 March 2011.

Principal activities

The principal activity of the Air Malta p l c Group, as exercised by the holding Company, is the undertaking of airline operations Ancillary activities of the Group include amongst others, ground handling operations, tour operations, the provision of tourist accommodation and other tourism related activities and insurance. During the current financial year, the Group pursued its efforts to divest from non core operating activities. The Group holds investments in a number of subsidiary and associated undertakings

Review of the business and results

General

On 30 November 2011, the Directors approved the Company's Restructuring Plan, and the Government of Malta, as the Company's principal shareholder, has taken ownership of the Restructuring Plan and communicated this to the European Commission The Restructuring Plan sets out the Directors' and Management's vision for the Company, the implementation activity necessary, and the financing required in achieving this plan It also sets out the actions required under the European Commission Guidelines on State Aid for Rescuing and Restructuring Firms in Difficulty

This Restructuring Plan sets out the turnaround strategy for Air Malta for the five-year period subsequent to 31 March 2011 (FY2012 to FY2016) The Plan was drawn up following the Government's notification – and subsequent European Commission approval dated 15 November 2010 – of the provision of a €52m Rescue Aid Loan to the Company This strategy is set out over five years after a careful assessment of the shortest time required to restore the long-term viability of the Company, keeping in mind possible future operating conditions.

The Company has been incurring losses on its core airline business for several years In order to stem these losses and address the commercial challenges the airline is currently facing, this Restructuring Plan sets out the strategy to return the airline to a positive net cash flow position by the end of FY2014. This return to a positive net cash flow will require the Company to sell its main remaining property assets The funding raised will then be employed in the restructuring of the Company and supplemented by approved State Aid in the form of a capital injection The funding plan has been formally approved and fully supported by the Maltese Government

The survival of the Company is intrinsically linked to the ability of the airline to rapidly and successfully execute a range of cost and revenue initiatives A profitable and stable airline is crucial as it provides Malta with a regular and dependable link to main European and North African centres whilst also supporting the economy through services such as the transportation of mail and cargo, a role which is not filled by the Company's main competitors.

This Restructuring Plan aims to restore the long-term viability of the Company by providing a challenging yet realistic way forward. The Restructuring Plan shows that the existing level of losses can be turned around to breakeven levels by FY2014 and to profitability by FY2015.

Directors' report - continued

General - continued

In support of this, the key actions proposed by the Company (many of which are already underway) are summarised as follows.

- Significant downsizing of the head count by approximately 500 employees

- Implementation of comprehensive change agenda of more than 160 projects covering all aspects of the airline

- Implementation of a more disaggregated and internet-based reservation/sales function in line with the successful model adopted by other carriers

- Realisation of market price levels in relation to ground handling and engineering services by targeting cost structures and pricing mechanisms for benchmarking to competitors

- Appointment of key executives with industry expertise – the Company has hired a new Chief Executive Officer, Chief Commercial Officer, Chief Financial Officer and Chief Officer Organisational Development The Company has further engaged, on a temporary basis, an experienced airline restructuring agent, as Chief Restructuring Officer, and external resources to facilitate the restructuring process

These initiatives are forecast to improve the financial performance significantly and return the Company to profitability within a three year period from 31 March 2011

Key risk

Whilst the Directors express their confidence in the ability to turn the Company around, this depends on the Restructuring Plan being approved by the European Commission such that this will

- Allow the Government as the principal shareholder to fund the Company with sufficient equity to be able to achieve the implementation of the Restructuring Plan,

- Maintain market compensation measures to an extent where the Company can continue operating as set out in the Restructuring Plan,

- Not place additional conditions or burdens on the Company that will substantially impair management's ability to implement the Restructuring Plan successfully

The timeliness of the European Commission approval is also critical since the Company has entered into the restructuring period in November 2010 and subsequent to that, operations together with the restructuring itself, are being funded to date from own resources and the Rescue Aid Loan, which has been fully utilised

The Government of Malta has expressed its confidence in that the European Commission will approve the Restructuring Plan. On this basis, and on the basis of the robustness of the Plan, the Directors are also of the view that approval will be forthcoming

Directors' report - continued

Major commitments over the next six months

Management has translated the Restructuring Plan into an Implementation Plan that identifies more than 160 projects to deliver the turnaround The projects are managed using a structured change management process through a dedicated Programme Management Office

The Restructuring Plan, and therefore its implementation, is based on three core tenets

1 Operational excellence
2 Organisation and cultural development
3 Revenue enhancement

The restructuring effort commenced in November 2010 in this vein with revenue bearing activities including the sale of spare aircraft engines, the strengthening of the management team to be able to undertake the effort required to achieve the core tenets of the plan, strategy setting, detailed planning, union negotiations, discussions with the European Commission, and bank negotiations The Company now needs to make major commitments in line with the Restructuring Plan and these are required to be implemented over the next six months, possibly prior to European Commission approval of the Restructuring Plan being received

Financing commitment

The Government, as the principal shareholder, has committed to the financing of the Restructuring Plan To this end the Rescue Aid Loan from the principal shareholder that was due for repayment in November 2011 has been extended for a further period to November 2012

Furthermore, the approved financing requirements as set out in Restructuring Plan are being actioned, and the underlying financing process has been set into motion The principal steps in this process are the following

- Subsequent to 31 March 2011, a Promise of Sale Agreement to dispose of the principal property, constituting the remaining main asset owned by the Company, for an amount of €66 2 million has been entered into with Government. A deposit of €20 million will be paid by Government in early 2012

- Simultaneously, the Company has successfully negotiated fresh bank loans amounting to €30 million These facilities are secured on the Promise of Sale Agreement referred to above Further facilities of €20 million will be required during the later part of the 5 year plan

- The disposal process of the Company's subsidiaries and other strategic investments, which have been earmarked for sale, has been initiated

- Government will make a fresh commercial loan of €52 million to the Company on the approval of the Restructuring Plan by the European Commission These funds will be used by the Company to pay back the Rescue Aid Loan in line with Rescue and Restructuring Guidelines The commercial loan will be converted to equity in the later part of the 5 year plan

- The Company will allocate €78 million of fresh equity to Government on the approval of the Restructuring Plan by the European Commission The capital will be called up in tranches in due course in accordance with the program established in the Restructuring Plan.

Directors' report - continued

Promise of Sale Agreement of Remaining Property

The disposal of the property is a key part of the own contribution of the Company as set out in Restructuring Plan Whilst the European Commission has not yet approved the Restructuring Plan, the Company will be utilising its own contribution portion first prior to the principal shareholder recapitalising the airline.

The property held by Air Malta is held on an emphyteutical grant with a 58 year term to expiry Most of the land surrounds the Malta International Airport and has been determined to be strategic to the Country by Government. The Company has entered into an irrevocable Promise of Sale Agreement in relation to the main elements of this property with Government, retaining a site earmarked for its future offices.

The entire property has been valued by a firm of independent professionally qualified valuers on behalf of the purchaser (Government) at €68 8m and the Promise of Sale Agreement covers property for an amount of €66 2 million The Board has resolved that the purchaser's valuation should be accepted as a reasonable and fair valuation under the existing circumstances, after obtaining advice from a professional qualified valuer appointed by the Company This valuation is therefore reflected in the Promise of Sale Agreement, which has a term of 3 years

Redundancy Schemes and New Conditions of Work

The Directors and Management feel that it is necessary to be able to selectively apply redundancies if the Company culture is to be changed for the long term viability of Air Malta This is because the Commission's Rescue & Restructuring Guidelines determine that State Aid for restructuring of the nature being requested can only take place 'one time last time' over a ten year period As such the Directors and Management have taken such a long term view in establishing that selective retirement schemes to be applied immediately are the best option forward

Over the last 6 months Air Malta has been negotiating its Industrial Relations (IR) strategy in good faith with the 4 represented trade unions The IR strategy is underpinned by the fundamental aim of ensuring long-term viability of the airline The strategy aims at minimising the risks for the airline going forward by trying to ensure that industrial relations remain on a good footing, whilst at the same time achieving the efficiencies that can deliver the necessary factors to see the turnaround of the Company, including

- Cultural transformation
- Operational and work practice efficiency
- Headcount reduction (preferably voluntarily in the interest of maintaining peaceful industrial relations going forward) and a new organisation framework
- Restructuring Agreements which include cost-effective work practices conducive to the restructuring These Agreements are framed within the restructuring financial constraints and conscious of the financial capacity of the Company going forward

The profile of the staff is such as will arguably hinder the cultural and operational transformation of the Company Additionally, the work practices prescribed in the current Collective Agreements are antiquated for an airline such as Air Malta, and must be changed if the Company is to achieve the optimal staffing structures

The four trade unions have a legally valid Collective Agreement which still applies, through which early retirement schemes (ERS) are available to staff, as an entitlement Where substantial inequality between the respective schemes exists, Air Malta has endeavoured to, cost effectively, normalise the schemes for staff equality reasons The eligibility criterion of the ERS is such that only 181 staff are eligible to apply.

Additionally, the Company offered a voluntary redundancy scheme (VRS) which is universally available to staff wherein the Company retains the right to accept or refuse the staff member's application The VRS has been designed to take cognisance of previous Air Malta schemes (as recent as 2008), other local schemes, both public and private, and employee statutory rights under Maltese law. Due to budget limitations the VRS has a maximum payout amount

Directors' report - continued

Redundancy Schemes and New Conditions of Work - continued

The financial cost of these schemes is estimated to be approximately €28.2m, depending on who applies to participate A significant part of the estimated amount could become payable in 2012 before European Commission approval of the Restructuring Plan is received

The Company faces many challenges The Board is confident that with the support of all stakeholders and the actions being taken, these will be met and overcome Many of the actions required by the Restructuring Plan are being undertaken before the approval of the Restructuring Plan by the European Commission is obtained. There can be no assurance that the European Commission will approve the Government's Restructuring Plan for the Company, and this will largely dictate the level of financial commitment in equity and other funding that is essential for the Company The Government of Malta has expressed its confidence in that European Commission will approve the Restructuring Plan. On this basis, and on the basis of the robustness of the Plan, the Directors are also of the view that approval will be forthcoming

Financial results

The financial year ended March 2011 was characterised by important and critical decisions, which necessitated immediate action and had to be taken to safeguard the interests of its shareholders and stakeholders

An application has been made by Government, the Company's shareholder, to the European Commission for financial aid through the Rescue and Restructuring programme and a response is awaited in 2012

As detailed in these financial statements, the operating results before restructuring costs for the year reported a Company operating loss of €34.1 million compared to €23 1 million for the previous financial year These figures reflect the negative impact of changes in the fair value of investment property amounting to €4 4 million mitigated by the gain on the sale of spare engines of €6 million registered during the course of the financial year The net results after restructuring costs, are characterised by one off charges associated with the restructuring exercise which commenced during the year, amounting to €31 7 million The tax expense reported is mainly due to the reversal of a deferred tax asset arising from unabsorbed tax losses, as this asset was inextricably linked to the deferred tax liability attributable to the revaluation of property

Group revenues remained constant at €202 million when compared to the same period last year

From a Company perspective, an increase of 2 2% was registered in the number of passengers carried over the same period last year, despite the economic situation currently being experienced in the Company's major markets Notwithstanding the 1 82 million passengers carried, substantial drops in yields were experienced as a result of the pressures on margins originating from competition on existing routes and other market dynamics This resulted in the Company's turnover for the financial year ended 31 March 2011 decreasing by €3 4 million when compared to the previous year. Schedule revenue dropped by €2 7 million, mainly due to the continued drop in fares, driven by increased competition on the local and international markets Furthermore, the Malta-based charter business also dropped 5% of revenues, amounting to approximately €0 6 million due to the continuing market shift away from package tour business to individual direct bookings

During the current reporting period, the Company's cost of sales increased by €11 million, before the impact of restructuring costs, when compared to the previous year, thus resulting in the deteriorated gross result reported. This increase was mainly due to fuel prices, which kept on spiralling upwards contributing to an increase in fuel costs of €10.4 million when compared to the results for the year ended 31 March 2010

Directors' report - continued

Financial results - continued

Further to the results reported through the income statement, during the current financial year both the Group and the Company also recognised other net losses directly through equity of €6 million

The €88 9 million Company net loss registered in the financial year ended 31 March 2011, continues to negatively affect the Group's and Company's statement of financial position which has deteriorated considerably over the course of these 12 months. Total Group assets declined from €168.7million to €151.2 million with equity decreasing from €15.5 million to a negative €68 8 million.

As part of the Company's restructuring programme, a decision has been taken to place the Holiday Malta Group for sale The results of both the current and prior years relating to this sub Group have been reclassified as results attributable to discontinued operations

Dividends

The directors do not recommend the payment of a dividend

Directors

The directors of the holding Company who held office during the year under review and during the period until the date of authorisation for issue of the audited financial statements are

Louis A Farrugia - appointed as Director and Chairman on 25 May 2011
Sonny Portelli - appointed as Director on 28 January 2010 and as Chairman on 13 May 2010, term of office expired on 13 May 2011
Lawrence Zammit - term of office as Director and Chairman expired on 12 May 2010
Alison Attard
Anton Attard - term of office expired on 13 May 2011
Henriette Busuttil - term of office expired on 13 May 2011
Clyde Micallef - term of office expired on 13 May 2011
Paul Bonello - term of office expired on 12 May 2010
Joe Fenech Conti - term of office expired on 12 May 2010
Adrian Coppini - appointed as Director on 30 June 2010
Carmel John Farrugia - appointed as Director on 6 July 2010, term of office expired on 13 May 2011
Andrew Calascione - appointed as Director on 25 May 2011
Alan Caruana – appointed as Director on 25 May 2011
Roderick Chalmers - appointed as Director on 25 May 2011
Helga Ellul - appointed as Director on 25 May 2011
Mark Micallef Eynaud - appointed as Director on 25 May 2011

Directors' report - continued

Statement of directors' responsibilities for the financial statements

The directors are required by the Maltese Companies Act, 1995 to prepare financial statements which give a true and fair view of the state of affairs of the Group and the parent Company as at the end of each reporting period and of the profit or loss for that period

In preparing the financial statements, the directors are responsible for

- ensuring that the financial statements have been drawn up in accordance with International Financial Reporting Standards as adopted by the EU,
- selecting and applying appropriate accounting policies,
- making accounting estimates that are reasonable in the circumstances,
- ensuring that the financial statements are prepared on the going concern basis unless it is inappropriate to presume that the Group and the parent Company will continue in business as a going concern

The directors are also responsible for designing, implementing and maintaining internal control relevant to the preparation and the fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error, and that comply with the Maltese Companies Act, 1995 They are also responsible for safeguarding the assets of the Group and parent Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities

The financial statements of Air Malta p l c for the year ended 31 March 2011 are included in the Annual Report and Consolidated Financial Statements 2011, which is published in hard-copy printed form and made available on the Company's website The directors are responsible for the maintenance and integrity of the Annual Report on the website in view of their responsibility for the controls over, and the security of, the website Access to information published on the Company's website is available in other countries and jurisdictions, where legislation governing the preparation and dissemination of financial statements may differ from requirements or practice in Malta

Auditors

PricewaterhouseCoopers have indicated their willingness to continue in office and a resolution for their re-appointment will be proposed at the Annual General Meeting

On behalf of the board

Louis A Farrugia
Chairman

Alison Attard
Director

18 January 2012

Corporate Governance Statement

Corporate Governance is concerned with how companies are directed and controlled. Good governance ensures that the Board of Directors monitors managerial performance effectively to achieve a fair return for the shareholders whilst upholding the values of fairness, transparency, accountability and responsibility towards all stakeholders.

The Group's supreme decision-making body is the General Meeting of Shareholders of Air Malta p.l.c The Group's parent Company is Air Malta p.l.c. which is responsible for the Group's management, accounting and financing, strategic planning, personnel management, communications and corporate governance

The Group is committed to high standards of Corporate Governance The Board of Directors of Air Malta p l c believes that the current set up of the Company and the Group enables them to operate in a proper and efficient manner and provides adequate safeguards for good Corporate Governance.

The Board

Pursuant to the Company's Articles of Association, the administration and management of the Company is conducted by a Board of Directors consisting of not less than five and not more than ten Directors. The Directors of the Company are appointed by the Shareholders as nearly as may be in proportion to the shares held by such Shareholder All Directors may be removed from their post by the shareholder appointing them, by a letter addressed to the Company Unless otherwise specified in their letter of appointment, Directors hold office for a period of one year Directors are eligible for reappointment upon the lapse of the period stated in their letter of appointment

The Board comprises of seven non-executive Directors and a non-executive Chairman The Directors are considered independent and no one individual or one Grouping exerts an undue influence on others. All Directors, in the furtherance of their duties, have access to take independent professional advice on any matter at the Company's expense. The Directors are conscious that their primary responsibility is always to act in the interest of the Company and its shareholders as a whole, irrespective of who appointed them on the Board The personal interest of a Director does not take precedence over those of the Company and its shareholders Should a conflict arise, the Director discloses the conflict in full and abstains from taking part in the discussion and refrains from voting on the matter

The Board convenes monthly and all Directors receive written reports prior to each Board meeting which enable them to make an informed decision on the corporate and business issues under consideration The Chairman ensures that all relevant issues are on the agenda and facilitates and encourages the presentation of views pertinent to the subject matter After each Board meeting, minutes that faithfully record attendance and decisions taken are made available to all Directors prior to the subsequent Board meeting

The roles of Chairman and Chief Executive Officer (CEO) are separate roles which are undertaken by separate individuals The Chairman is responsible for leading the Board, facilitating Board discussions and managing the Board's relationship with the shareholder and senior management The CEO ensures that management and employees receive adequate and relevant training so that the Company remains competitive The CEO together with the Chief Officers is responsible for implementing the Company's strategies and policies

The Directors believe that the Company has in place the appropriate structures, including an adequate system of controls, in order to achieve an adequate level of good Corporate Governance

During the financial year ended 31 March 2011 the Board of Directors met 22 times

Corporate Governance Statement - continued

Responsibilities of the Board

The Board exercises leadership, enterprise, integrity and judgement in directing the Company so as to safeguard and improve its economic and commercial prosperity The key responsibilities of the Board in fulfilling its mandate are to

- establish sound Corporate Governance Standards,
- establish a clear internal and external reporting system so that the Board has continuous access to accurate, relevant and timely information such that the Board can discharge its duties, exercise objective judgement on corporate affairs and take pertinent decisions to ensure that an informed assessment can be made of all issues facing the Board,
- define the Company's objectives, goals and general strategic direction for management,
- contribute to, approve and monitor, strategy, financial and performance objectives developed by management,
- continuously assess and monitor the Company's present and future operations, opportunities, threats and risks in the external environment and current and future strengths and weaknesses,
- ensure that appropriate policies and procedures are in place to manage risks and internal control,
- seek to establish an effective decision-making process in order to develop the Company's business efficiently,
- ensure compliance with applicable laws, regulations and best industry practices,
- appoint the Company's Chief Executive Officer, participate in the appointment of senior management and establish a succession plan for senior management, and
- exercise accountability to shareholders and be responsible to relevant stakeholders.

The items that are reserved for approval by the Board of Directors are the business plan, the annual budget, the network, the procurement of fixed assets and services and the issuance of loans above established thresholds and the performance review including related performance bonus payments to senior management.

In addition, the Board sets the Company's values and standards, including matters relating to corporate social responsibility and ensures that its obligations to its shareholders and other stakeholders are understood and satisfied

Relations with Shareholders

Apart from the AGM, the Company communicates with its shareholders by way of the Annual Report and Financial Statements, and by means of other Company announcements made to the public in general during the year

Corporate Governance Statement - continued

Relations with Stakeholders - Works Council

The main objective of the Works Council is to promote dialogue through the sharing of information and exchange of ideas in a collaborative, participative and open manner, between the Company's senior management team and its employees represented by the Central Representative Council The CRC is given the responsibility by the Trade Unions and other non-unionised categories of staff for the development of industrial democracy in Air Malta Eligibility for membership to the CRC is confined to full time employees of the Company

The Works Council is composed of the CRC and the Company Delegates representing management. The Company Delegates comprise the Chairman, the CEO, and any other Chief Officer, General Manager or employee as required depending on the agenda to be discussed

Committees established by the Board

The Board has constituted the following Committees to further enhance and enable the promulgation of good corporate governance practices throughout the Company The Board may add new Committees or remove existing Committees as it deems fit in the fulfilment of its primary responsibilities Each Committee is governed by a written charter approved by the Board The Board is responsible for the appointment of Committee members and Committee chairpersons according to criteria that it determines to be in the best interest of the Company

1) Board Committees

Audit Committee

The Audit Committee meets on a quarterly basis and has clear terms of reference, as approved by the Board of Directors, in relation to its authority and duties The Audit Committee reports directly to the Board of Directors The ultimate responsibility for delegated functions rests with the Board The Audit Committee is chaired by a non executive Director and another member of the Board is also a member of the Committee

The Chairman of the Company, any Director, the CEO, the external auditors, any member of the Senior Management Team or any other employee of the Company may be requested to attend part of or all of an Audit Committee meeting as may be decided by the Audit Committee The Audit Committee primarily assists the Board in fulfilling its fiduciary responsibilities to provide oversight with respect to

- the integrity of the Company's financial statements,
- review of Company policy with respect to risk assessment and risk management, compliance with legal requirements and Company policies regarding ethical conduct,
- the Company's system of internal controls, and
- the performance and engagement of the Company's internal and external auditors

Corporate Governance Statement - continued

Remuneration Committee

During June 2011, a Remuneration Committee was constituted and is chaired by a non-executive Director, and its other members are the Chairman and another non-executive Director The role of the Remuneration Committee is to advise the Board on the remuneration packages for the Chief Executive Officer, the members of the Senior Management and Consultants.

Risk Management Committee

The Risk Management Committee assists the Board and the Audit Committee with respect to risk assessment and risk management, specifically, by providing oversight and guidance to management who is responsible for the timely identification, mitigation and management of those risks that could have a material impact on the company

The Risk Management Committee is chaired by a non-executive Director and its members are all the Senior Management of the Company The Committee meets as frequently as required A summary of the matters discussed and actions taken at each Risk Management Committee are presented to the Audit Committee with an annual risk management report being presented to the Board

2) Management Committees

Corporate Management Board

During the year ended 31 March 2011, the CEO led the Corporate Management Board ("CMB") and reported directly to the Board The CMB was made up of all the Chief Officers of the Company which convened on a weekly basis and concentrated mainly on

- implementing corporate strategy and making recommendations on significant corporate strategic initiatives,
- developing the Company's annual budget and business plan and recommending it to the Board for approval,
- managing the Company's day to day operations in accordance with the Board approved authorisations, policies, procedures, budget and business plan, and
- monitoring the Company's performance and reports monthly to the Board on key performance indicators mainly through the regular updating of the corporate dashboard and the presentation of detailed management accounts

Since the initiation of the restructuring process undertaken by the Company in the recent months, the newly appointed CEO is holding regular Senior Management Meetings The Senior Management Team is made up of the Heads or Chief Officers responsible for the; Finance, Commercial, Flight Operations, Engineering, Ground Services and Information Systems departments Members from the Restructuring Office and the Programme Management Office are also requested to attend The Senior Management Meeting is at present being convened on a weekly basis The appointed Secretary circulates the agenda and the minutes for each meeting

Corporate Governance Statement - continued

Financial Risk Management Committee

On 31 August 2011, as a result of the restructuring process undergone by the Company, the Financial Risk Management Committee and the Fuel Hedging Committee have been merged and is at present being referred to as the Financial Risk Management Committee

The key objectives and responsibilities of the Financial Risk Management Committee relate to

- develop, review and maintain a funding strategy for the Company, with a view to ensure proper funding of the Company's business activities,
- provide guidelines and ensure control of financial risks emanating from interest rate risk, exchange rate risk, and liquidity risk,
- authorise the adoption and acquisition of investment instruments, risk hedging instruments and related derivatives,
- recommend to the Board ways in which the financial position can be developed through Treasury activities This includes ensuring that the structure of the Company's statement of financial position is appropriate in terms of, funding mix and gearing, capital adequacy and financial risk management policy

The Financial Risk Management Committee comprises both internal executives and external non-executive consultants with a view to reach balanced and informed decisions on the subject-matter Meetings are held on a regular basis and are chaired by the Company's Chief Financial Officer The Committee reports directly to the Chairman and the Board

Internal Audit

The Company promotes the independence of the function as a whole and allows internal audit to form objective judgement Internal audit has free and unrestricted access to management, employees, activities, physical locations and to all information considered necessary for the proper execution of the internal audit's work, at the discretion of the Chief Officer Internal Audit The Chief Officer Internal Audit reports to the Audit Committee

Internal Audit is an independent, objective assurance and consulting activity designed to add value to the Company's operations. It helps Air Malta and the Audit Committee in accomplishing its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes

External Audit

The Audit Committee makes recommendations to the Board in relation to the appointment of the external auditor, the audit fee, the terms of engagement and any questions of resignation or dismissal thereof The Committee also monitors and reviews annually the external auditor's independence, objectivity and effectiveness The Committee reviews the nature and extent of non-audit services rendered by the auditors and oversees that the provision of such services is in line with regulations and best governance practice.

The nature and scope of the audit are discussed with the Audit Committee prior to the commencement of the statutory audit. Likewise, any audit issues arising during the course of the audit are discussed by the auditors with the Audit Committee

Corporate Governance Statement - continued

Internal Controls

The Directors acknowledge their responsibility for the Company's systems of internal control which are designated to ensure effective and efficient operations, including financial reporting and compliance with laws and regulations and for reviewing their effectiveness In establishing and reviewing the systems, the Directors have regard to the materiality of relevant risks, the likelihood of a loss being incurred and the costs of control It follows therefore that such systems can only provide reasonable and not absolute assurance against material misstatement or loss. The key procedures that have been established to date to provide effective internal control include

- an independent and professional Board which meets at least on a monthly basis and has separate Chairman and CEO roles,
- weekly Senior Management meetings,
- an Audit Committee which approves audit plans and considers significant control matters raised by the internal and external auditors together with management,
- a Risk Management Committee that provides oversight and guidance in the risk identification process, risk analysis, risk evaluation, risk mitigation and management reporting and monitoring of material risks,
- an internal audit function which reviews key financial/operational processes and controls which reports directly to the Audit Committee,
- an ICT Governance Committee that assists the Board in governing and overseeing the Company's ICT related issues,
- clearly defined organisation structure and limits of authority,
- a comprehensive system of internal financial reporting which includes the preparation of detailed monthly management accounts providing financial and operational performance measure indicators to management,
- the business agenda is determined by the Business Plan which represents the operational and financial evaluation of the corporate strategy, identifying and prioritising improvement opportunities to achieve financial budgets and service standards;
- information systems are developed to support the Company's long-term objectives

The Board confirms that the above processes were in place during the year under review or as otherwise indicated in the respective sections of the Corporate Governance Statement as a result of the restructuring process that is taking place within the Company and that the information it received was sufficient to enable it to review the effectiveness of the Company's system of internal control The Board shall continue to monitor the appropriateness of the internal control systems in place in light of adjourning such controls to best current practice pwc

Independent auditor's report

To the Shareholders of Air Malta p.l c

Report on the Financial Statements for the year ended 31 March 2011

We have audited the consolidated and the stand-alone parent Company financial statements of Air Malta p l c (together the "financial statements") on pages 16 to 98 which comprise the consolidated and parent Company statements of financial position as at 31 March 2011 and the consolidated and parent Company statements of income, comprehensive income, changes in equity and cash flows for the year then ended, a summary of significant accounting policies and other explanatory notes

Directors' Responsibility for the Financial Statements
The directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU and the requirements of the Maltese Companies Act, 1995 As described in the statement of directors' responsibilities on page 7, this responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances

Auditor's Responsibility
Our responsibility is to express an opinion on these financial statements based on our audit We conducted our audit in accordance with International Standards on Auditing Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion

Opinion
In our opinion the financial statements

- give a true and fair view of the financial position of the Group and parent Company as at 31 March 2011, and of the Group's and the parent Company's financial performance and cash flows for the year then ended in accordance with IFRSs as adopted by the EU, and
- have been properly prepared in accordance with the requirements of the Maltese Companies Act, 1995

pwc

Independent auditor's report - continued

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1 1 1 – Basis of preparation Assessment of going concern, which indicates the existence of a material uncertainty that may cast significant doubt about the Group's ability to continue as a going concern in that the Group has net liabilities of €68 8 million as at 31 March 2011, and that its current liabilities exceed its current assets by €62 7 million as at that date excluding the impact of sales in advance on the Group's current liabilities

Since the year end, the Company has signed a Promise of Sale Agreement to dispose of property to the Government of Malta for proceeds amounting to €66 2 million On the strength of this agreement, it has also successfully negotiated fresh banking facilities for the amount of €30 million, and has extended the term of borrowings from the shareholder in the form of Rescue Aid Loan to November 2012 Furthermore, the Company's Restructuring Plan has been approved by the principal shareholder, which has submitted the Plan to the European Commission for its approval The Restructuring Plan anticipates that the performance of the Company will improve, and that, following the European Commission's approval of the Restructuring Plan, the shareholders will provide equity of €130 million, through an injection of €78 million and the conversion of a fresh commercial loan into capital of €52 million Accordingly these financial statements have been prepared on a going concern basis

The matters highlighted above indicate the significance of the Group's dependence on the continued financial support of its shareholder, that is dependent on the approval of the Restructuring Plan by the European Commission, in its ability to continue as a going concern

Report on Other Legal and Regulatory Requirements

We also have responsibilities under the Maltese Companies Act, 1995 to report to you if, in our opinion

- The information given in the directors' report is not consistent with the financial statements
- Adequate accounting records have not been kept, or that returns adequate for our audit have not been received from branches not visited by us
- The financial statements are not in agreement with the accounting records and returns
- We have not received all the information and explanations we require for our audit
- Certain disclosures of directors' remuneration specified by law are not made in the financial statements, giving the required particulars in our report

We have nothing to report to you in respect of these responsibilities

PricewaterhouseCoopers

167 Merchants Street
Valletta
Malta

David Valenzia
Partner

18 January 2012

Statements of financial position

	Notes	2011 Group €000	2010 Group €000	2011 Company €000	2010 Company €000
		As at 31 March			
ASSETS					
Non-current assets					
Property, plant and equipment	5	**56,520**	77,242	**56,000**	76,016
Investment property	6	**15,477**	19,781	**15,977**	20,290
Investments in subsidiaries	7	**-**	-	**1,863**	4,543
Investments in associates	8	**639**	339	**225**	358
Deferred tax assets	23	**124**	205	**-**	-
Available-for-sale financial assets	9	**268**	849	**107**	688
Other receivables	11	**4,938**	4,905	**4,938**	4,905
Term placements with banks	14	**1,239**	2,300	**-**	-
Total non-current assets		**79,205**	105,621	**79,110**	106,800
Current assets					
Inventories	12	**1,711**	1,832	**1,711**	1,832
Trade receivables	13	**21,749**	24,531	**21,804**	23,987
Amounts owed by subsidiaries		**-**	-	**14**	4,044
Amounts owed by associates		**245**	272	**245**	272
Amounts owed by related parties		**710**	1,113	**451**	582
Current tax assets		**864**	1,387	**849**	1,220
Other receivables		**4,609**	5,096	**3,931**	3,688
Prepayments and accrued income		**4,184**	6,151	**3,998**	6,085
Available-for-sale financial assets	9	**1,167**	1,419	**-**	-
Derivative financial instruments	10	**650**	2,996	**650**	2,996
Term placements with banks	14	**4,617**	3,664	**-**	-
Cash and cash equivalents	15	**23,531**	9,180	**22,915**	7,179
		64,037	57,641	**56,568**	51,885
Assets classified as held for sale	16	**7,914**	5,462	**4,323**	9,872
Total current assets		**71,951**	63,103	**60,891**	61,757
Total assets		**151,156**	168,724	**140,001**	168,557

Statements of financial position - continued

	Notes	2011 Group €000	2010 Group €000	2011 Company €000	2010 Company €000
		As at 31 March			
EQUITY AND LIABILITIES					
Capital and reserves					
Share capital	17	**25,892**	25,892	**25,892**	25,892
Share premium	18	**42,762**	42,762	**42,762**	42,762
Revaluation reserve	19	**13,868**	17,778	**13,868**	17,778
Hedging reserve	20	**(187)**	1,879	**(187)**	1,879
Other reserve	21	**(3,497)**	(3,497)	**-**	-
Accumulated losses		**(147,682)**	(69,295)	**(156,838)**	(67,984)
Total equity		**(68,844)**	15,519	**(74,503)**	20,327
Non-current liabilities					
Borrowings	22	**4,000**	1,488	**4,000**	1,161
Provisions in respect of maintenance costs	24	**32,885**	26,086	**32,885**	26,086
Other payables		**7,881**	8,417	**6,699**	7,468
Total non-current liabilities		**44,766**	35,991	**43,584**	34,715
Current liabilities					
Trade payables		**23,216**	24,068	**21,770**	20,980
Amounts owed to subsidiaries		**-**	-	**5,615**	4,884
Amounts owed to associates		**102**	466	**102**	466
Amounts owed to related parties		**2,400**	2,073	**2,400**	2,016
Sales in advance		**40,568**	41,897	**40,717**	41,161
Current tax liabilities		**425**	500	**-**	-
Other payables		**2,470**	2,426	**2,454**	2,251
Indirect taxation and social security		**932**	1,014	**925**	934
Accruals and deferred income		**15,474**	13,784	**15,130**	12,898
Borrowings	22	**48,987**	25,573	**48,987**	25,017
Derivative financial instruments	10	**795**	-	**795**	-
Provisions in respect of maintenance costs	24	**3,407**	2,490	**3,407**	2,490
Provision in respect of restructuring costs	26 3	**28,200**	-	**28,200**	-
Other provisions	25	**418**	418	**418**	418
		167,394	114,709	**170,920**	113,515
Liabilities directly associated with assets classified as held for sale	16	**7,840**	2,505	**-**	-
Total current liabilities		**175,234**	117,214	**170,920**	113,515
Total liabilities		**220,000**	153,205	**214,504**	148,230
Total equity and liabilities		**151,156**	168,724	**140,001**	168,557

The notes on pages 23 to 98 are an integral part of these consolidated financial statements

The financial statements on pages 16 to 98 were authorised for issue by the board on 18 January 2012 and were signed on its behalf by

LMIS Fa-9.9

Louis A Farrugia
Chairman

Alison Attard
Director

Income statements

	Notes	2011 Group €000	2010 Group €000	2011 Company €000	2010 Company €000
		Year ended 31 March			
Continuing operations:					
Revenue	26 1	**202,030**	202,387	**207,496**	210,871
Cost of sales	26 2	**(223,900)**	(190,671)	**(231,165)**	(200,978)
Gross result		**(21,870)**	11,716	**(23,669)**	9,893
Selling and distribution costs	26 2	**(24,540)**	(22,765)	**(24,540)**	(22,765)
Administrative expenses	26 2	**(19,530)**	(11,091)	**(19,175)**	(10,742)
Losses from changes in fair value of investment property	6	**(4,426)**	-	**(4,426)**	-
Other operating income	26 1	**6,036**	535	**6,045**	465
Operating loss		**(64,330)**	(21,605)	**(65,765)**	(23,149)
Operating loss before restructuring costs		***(32,630)***	*(21,605)*	***(34,065)***	*(23,149)*
Restructuring costs	*26 3*	***(31,700)***	-	***(31,700)***	-
Operating loss after restructuring costs		***(64,330)***	*(21,605)*	***(65,765)***	*(23,149)*
Investment and other related income	28	**(555)**	42	**(323)**	2,126
Results of subsidiaries and associates	29	**655**	214	**-**	93
Finance income	30	**171**	102	**18**	180
Finance costs	31	**(1,682)**	(1,795)	**(1,692)**	(1,802)
Loss before tax		**(65,741)**	(23,042)	**(67,762)**	(22,552)
Tax (expense)/income	32	**(10,991)**	11,442	**(10,583)**	11,512
Loss for the year from continuing operations		**(76,732)**	(11,600)	**(78,345)**	(11,040)
Discontinued operations:					
(Loss)/profit for the year from discontinued operations	16	**(1,562)**	3,580	**(10,509)**	(590)
Loss for the year		**(78,294)**	(8,020)	**(88,854)**	(11,630)

The notes on pages 23 to 98 are an integral part of these consolidated financial statements

Statements of comprehensive income

	Notes	2011 Group €000	2010 Group €000	2011 Company €000	2010 Company €000
		Year ended 31 March			
Loss for the year		**(78,294)**	(8,020)	**(88,854)**	(11,630)
Other comprehensive income:					
Adjustments to surplus arising on revaluation of land and buildings, net of deferred tax	19	**(8,763)**	17,778	**(8,763)**	17,778
Reversal of deferred tax arising on revaluation of land and buildings	19	**4,853**	-	**4,853**	-
Cash flow hedges, net of deferred tax	20	**(2,066)**	(1,751)	**(2,066)**	(1,751)
Currency translation differences		**(93)**	(161)	**-**	-
Other comprehensive income for the year, net of tax		**(6,069)**	15,866	**(5,976)**	16,027
Total comprehensive income for the year		**(84,363)**	7,846	**(94,830)**	4,397

The notes on pages 23 to 98 are an integral part of these consolidated financial statements.

Statements of changes in equity

Group

	Notes	Share capital €000	Share premium €000	Hedging reserve €000	Revaluation reserve €000	Other reserve €000	Accumulated losses €000	Total equity €000
Balance at 1 April 2009		25,892	42,762	3,630	-	(3,497)	(61,114)	7,673
Comprehensive income								
Loss for the year		-	-	-	-	-	(8,020)	(8,020)
Other comprehensive income·								
Revaluation surplus on land and buildings arising during the year, net of deferred tax	19	-	-	-	17,778	-	-	17,778
Cash flow hedges, net of deferred tax	20	-	-	(1,751)	-	-	-	(1,751)
Currency translation differences		-	-	-	-	-	(161)	(161)
Total other comprehensive income		-	-	(1,751)	17,778	-	(161)	15,866
Total comprehensive income		-	-	(1,751)	17,778	-	(8,181)	7,846
Balance at 31 March 2010		25,892	42,762	1,879	17,778	(3,497)	(69,295)	15,519
Comprehensive income								
Loss for the year		-	-	-	-	-	(78,294)	(78,294)
Other comprehensive income·								
Adjustment to surplus arising on revaluation of land and buildings, net of deferred tax	19	-	-	-	(8,763)	-	-	(8,763)
Reversal of deferred tax arising on revaluation of land and buildings	19	-	-	-	4,853	-	-	4,853
Cash flow hedges, net of deferred tax	20	-	-	(2,066)	-	-	-	(2,066)
Currency translation differences		-	-	-	-	-	(93)	(93)
Total other comprehensive income		-	-	(2,066)	(3,910)	-	(93)	(6,069)
Total comprehensive income		-	-	(2,066)	(3,910)	-	(78,387)	(84,363)
Balance at 31 March 2011		**25,892**	**42,762**	**(187)**	**13,868**	**(3,497)**	**(147,682)**	**(68,844)**

Exchange differences arising from the translation of the net investment in foreign Group entities were deemed immaterial and accordingly have been taken to accumulated losses

Statements of changes in equity - continued

Company

	Notes	Share capital €000	Share premium €000	Hedging reserve €000	Revaluation reserve €000	Accumulated losses €000	Total equity €000
Balance at 1 April 2009		25,892	42,762	3,630	-	(56,354)	15,930
Comprehensive income							
Loss for the year		-	-	-	-	(11,630)	(11,630)
Other comprehensive income.							
Revaluation surplus on land and buildings arising during the year, net of deferred tax	19	-	-	-	17,778	-	17,778
Cash flow hedges, net of deferred tax	20	-	-	(1,751)	-	-	(1,751)
Total other comprehensive income		-	-	(1,751)	17,778	-	16,027
Total comprehensive income		-	-	(1,751)	17,778	(11,630)	4,397
Balance at 31 March 2010		25,892	42,762	1,879	17,778	(67,984)	20,327
Comprehensive income							
Loss for the year		-	-	-	-	(88,854)	(88,854)
Other comprehensive income:							
Adjustment to surplus arising on revaluation of land and buildings, net of deferred tax	19	-	-	-	(8,763)	-	(8,763)
Reversal of deferred tax arising on revaluation of land and buildings	19	-	-	-	4,853	-	4,853
Cash flow hedges, net of deferred tax	20	-	-	(2,066)	-	-	(2,066)
Total other comprehensive income		-	-	(2,066)	(3,910)	-	(5,976)
Total comprehensive income		-	-	(2,066)	(3,910)	(88,854)	(94,830)
Balance at 31 March 2011		**25,892**	**42,762**	**(187)**	**13,868**	**(156,838)**	**(74,503)**

The notes on pages 23 to 98 are an integral part of these consolidated financial statements.

Statements of cash flows

	Notes	2011 Group €000	2010 Group €000	2011 Company €000	2010 Company €000
		Year ended 31 March			
Cash flows from operating activities					
Cash used in operations	34	**(18,439)**	(13,329)	**(18,144)**	(9,485)
Investment and other related income received		**215**	334	**68**	307
Dividends received from subsidiaries		**-**	-	**-**	6,057
Dividends received from associates		**225**	114	**225**	114
Interest paid and similar charges		**(1,635)**	(2,076)	**(2,299)**	(1,776)
Tax paid		**(340)**	(1,297)	**-**	(690)
Tax refunded		**454**	-	**371**	-
Net cash used in operating activities		**(19,520)**	(16,254)	**(19,779)**	(5,473)
Cash flows from investing activities					
Purchases of non-current tangible assets		**(6,921)**	(1,037)	**(6,880)**	(982)
Proceeds from sale of non-current tangible assets		**14,533**	212	**14,533**	64
Proceeds from sale of investments classified as held for sale		**308**	3,530	**308**	3,181
Proceeds from disposal of property classified as held for sale		**-**	10,090	**-**	-
Increase of investments in subsidiaries		**-**	-	**-**	(3,487)
Loans granted to subsidiaries and associates		**-**	-	**(80)**	(1,119)
Loan repayments received from subsidiaries and associates		**46**	124	**235**	2,780
Acquisition of available-for-sale financial assets		**(1,595)**	(3,343)	**-**	-
Proceeds from redemption of available-for-sale financial assets upon maturity		**1,847**	4,277	**-**	366
Funds advanced under term placements		**(953)**	(5,964)	**-**	-
Proceeds from maturity of term placements		**1,061**	2,160	**-**	-
Net cash generated from investing activities		**8,326**	10,049	**8,116**	803
Cash flows from financing activities					
Proceeds from bank borrowings		**7**	9,329	**-**	8,744
Proceeds from shareholder's loan		**41,000**	-	**41,000**	-
Repayments of bank borrowings		**(13,483)**	(4,578)	**(13,123)**	(2,269)
Net cash generated from financing activities		**27,524**	4,751	**27,877**	6,475
Net movement in cash and cash equivalents		**16,330**	(1,454)	**16,214**	1,805
Cash and cash equivalents at beginning of year		**7,159**	8,666	**5,266**	3,614
Exchange differences on cash and cash equivalents		**(267)**	(53)	**590**	(153)
Cash and cash equivalents at end of year	15	**23,222**	7,159	**22,070**	5,266

The notes on pages 23 to 98 are an integral part of these consolidated financial statements

Notes to the consolidated financial statements

1. Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below These policies have been consistently applied to all the years presented, unless otherwise stated

1.1 Basis of preparation

These consolidated financial statements include the financial statements of Air Malta p l.c and its subsidiaries The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU and the requirements of the Maltese Companies Act, 1995 They have been prepared under the historical cost convention, as modified by the fair valuation of the land and buildings category within property, plant and equipment, investment property, available-for-sale financial assets and derivative financial instruments

The preparation of financial statements in conformity with IFRSs as adopted by the EU requires the use of certain accounting estimates. It also requires the directors to exercise their judgement in the process of applying the Group's accounting policies (see Note 3 – Critical accounting estimates and judgements)

1.1.1 Assessment of going concern

During the financial year ended 31 March 2011, the Group incurred losses from continuing operations amounting to €76 7 million (2010 €11 6 million) putting the Group's equity base under significant strain as a result The Group's liabilities exceeded its assets as at 31 March 2011 by €68.8 million and its current liabilities exceeded its current assets by €62 7 million as at that date, excluding the impact of sales in advance from the Group's current liabilities.

The Company has been incurring losses on its core airline business for several years. In order to stem these losses and address the commercial challenges the airline is currently facing, the Company's Restructuring Plan sets out the strategy to return the airline to positive financial results and a positive net cash flow position

On 30 November 2011, the Directors approved the Company's Restructuring Plan, and the Government of Malta, as the principal shareholder, has taken ownership of the Restructuring Plan and communicated this to the European Commission. The Restructuring Plan sets out the Directors' and Management's vision for the Company, the implementation activity necessary, and the financing requirements in achieving this plan It also sets out the actions required under the European Commission Guidelines on State Aid for Rescuing and Restructuring Firms in Difficulty

This Restructuring Plan sets out the turnaround strategy for the Company for the five-year period subsequent to 31 March 2011 (FY2012 to FY2016). The Plan was drawn up following the Government's notification – and subsequent European Commission approval dated 15 November 2010 – of the provision of a €52 million Rescue Aid Loan to the Company. The strategy is set out over five years after a careful assessment by management of the shortest time required to restore the long-term viability of the Company, keeping in mind possible future operating conditions.

1. **Summary of significant accounting policies** - continued

1.1 Basis of preparation - continued

1.1.1 Assessment of going concern - continued

The survival of the Company is intrinsically linked to the ability of the airline to rapidly and successfully execute a range of cost and revenue initiatives This Restructuring Plan aims to restore the long-term viability of the Company by providing a challenging yet realistic way forward The Restructuring Plan shows that the existing level of losses can be turned around to breakeven levels by FY2014 and to profitability by FY2015 The Plan reflects the strategy to return the airline to a positive net cash flow position by the end of FY2014. This return to a positive net cash flow position will however require the Company to sell its main remaining property assets, which transaction will be a very important aspect in the management of funding requirements The funding raised will then be employed in the restructuring of the Company and supplemented by approved State Aid in the form of a capital injection The funding plan implied within the Restructuring Plan has been formally approved and fully supported by the Government, as the Company's principal shareholder

In support of this, the key actions proposed by the Company (many of which are already underway) are summarised as follows

- Significant downsizing of the head count by approximately 500 employees through the launch of Voluntary and Early Retirement Schemes
- Implementation of comprehensive change agenda of more than 160 projects covering all aspects of the airline
- Implementation of a more disaggregated and internet-based reservation/sales function in line with the successful model adopted by other carriers
- Realisation of market price levels in relation to ground handling and engineering services by targeting cost structures and pricing mechanisms for benchmarking to competitors
- Appointment of key executives with industry expertise – the Company has hired a new Chief Executive Officer, Chief Commercial Officer, Chief Financial Officer and Chief Officer Organisational Development. The Company has further engaged, on a temporary basis, an experienced airline restructuring agent, as Chief Restructuring Officer, and external resources to facilitate the restructuring process.

These initiatives are forecast to improve the financial performance significantly and return the Company to profitability within a three year period from 31 March 2011

1. **Summary of significant accounting policies** - continued

1.1 Basis of preparation - continued

1.1.1 Assessment of going concern - continued

Financing commitment

The Government, as the principal shareholder, has committed to the financing of the Restructuring Plan To this end the Rescue Aid Loan from the principal shareholder that was due for repayment in November 2011 has been extended for a further period to November 2012

Furthermore, the approved financing requirements as set out in Restructuring Plan are being actioned and the underlying financing process has been set into motion The principal steps in this process are the following

- Subsequent to 31 March 2011, a Promise of Sale Agreement to dispose of the principal property, constituting the remaining main asset owned by the Company, for an amount of €66.2 million has been entered into with Government A deposit of €20 million will be paid by Government in early 2012 The Company will retain a site earmarked for its future offices The entire property has been valued by a firm of independent professionally qualified valuers on behalf of the purchaser at €68.8 million

- Simultaneously, the Company has successfully negotiated fresh bank loans amounting to €30 million These facilities are secured on the Promise of Sale Agreement referred to above. Further facilities of €20 million will be required during the later part of the 5 year plan

- The disposal process of the Company's subsidiaries and other strategic investments, which have been earmarked for sale, has been initiated

- Government will make a fresh commercial loan of €52 million to the Company on the approval of the Restructuring Plan by the European Commission These funds will be used by the Company to pay back the Rescue Aid Loan in line with Rescue and Restructuring Guidelines The commercial loan will be converted to equity in the later part of the 5 year plan.

- The Company will allocate €78 million of fresh equity to Government on the approval of the Restructuring Plan by the European Commission The capital will be called up in tranches in due course in accordance with the program established in the Restructuring Plan

Key risk

Whilst the Directors express their confidence in the ability to turn the Company around, this depends on the Restructuring Plan being approved by the European Commission such that this will.

- Allow the Government as the principal shareholder to fund the Company with sufficient equity to be able to achieve the implementation of the Restructuring Plan,

- Maintain market compensation measures to an extent where the Company can continue operating as set out in the Restructuring Plan;

- Not place additional conditions or burdens on the Company that will substantially impair management's ability to implement the Restructuring Plan successfully.

1. **Summary of significant accounting policies** - continued

1.1 Basis of preparation - continued

1.1.1 Assessment of going concern - continued

Key risk - continued

The timeliness of the European Commission approval is also critical since the Company has entered into the restructuring period in November 2010 and subsequent to that, operations together with the restructuring itself, are being funded to date from own resources and the Rescue Aid Loan which has been fully utilised.

The Government of Malta has expressed its confidence in that the European Commission will approve the Restructuring Plan On this basis, and on the basis of the robustness of the Plan, the Directors are also of the view that approval will be forthcoming.

Whilst there can be no assurance that the European Commission will approve the Government's Restructuring Plan for the Company, the Government has given the Board the mandate to proceed with the implementation of the restructuring Without the implementation of all the facets of the Restructuring Plan, the Company cannot continue operating as a going concern Nevertheless, on the basis of the following considerations

(i) the current level of commitment shown by the Government of Malta, including approval of the implied funding requirements,
(ii) the financing arrangements already put into place,
(iii) the confidence that the Government of Malta has expressed in that the European Commission will approve to the Restructuring Plan; and
(iv) the underlying assumption that the Restructuring Plan can be implemented in a timely manner and in accordance with its terms

it is the view of the directors that there is a reasonable expectation that the Company and the Group are able to continue in operational existence for a period of at least 12 months from the end of the reporting period Accordingly, the directors continue to adopt the going concern basis in preparing the financial statements

1 1.2 Changes in accounting policy and disclosures

(a) Standards, interpretations and amendments to published standards effective during the current financial year

During the current financial year, the Group adopted new standards, amendments and interpretations to existing standards that are mandatory for the Group's accounting period beginning on 1 April 2010, principally IFRS 3 (Revised), 'Business combinations', together with consequential amendments to IAS 27, 'Consolidated and separate financial statements', and IAS 28, 'Investments in associates' The adoption of these revisions to the requirements of IFRSs as adopted by the EU did not result in substantial changes to the Group's accounting policies.

IFRS 3 (Revised), 'Business combinations', consequential amendments to IAS 27, 'Consolidated and separate financial statements', and IAS 28, 'Investment in associates' are effective prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009 As a consequence, no adjustments were necessary to any of the amounts previously recognised in the financial statements

1. Summary of significant accounting policies - continued

1.1 Basis of preparation - continued

1.1.2 Changes in accounting policy and disclosures - continued

(a) Standards, interpretations and amendments to published standards effective during the current financial year - continued

The revised standard continues to apply the acquisition method to business combinations but with some significant changes compared with IFRS 3 For example, there is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets All acquisition-related costs are expensed, while goodwill is now determined only at the acquisition date, and no longer also at subsequent increases in ownership interest.

IAS 27 (Revised) requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses The standard also specifies the accounting when control is lost Any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognised in profit or loss IAS 27 (Revised) has had no impact on the current period, as none of the non-controlling interests have a deficit balance, there have been no transactions whereby an interest in an entity is retained after the loss of control of that entity, and there have been no transactions with non-controlling interests

(b) Standards, interpretations and amendments to published standards that are not yet effective

Certain new standards, amendments and interpretations to existing standards have been published by the date of authorisation for issue of these financial statements but are mandatory for the Group's accounting periods beginning after 1 April 2010. The Group has not early adopted these revisions to the requirements of IFRSs as adopted by the EU and the Company's directors are of the opinion that, with the exception of IFRS 9, 'Financial instruments', there are no requirements that will have a possible significant impact on the Group's financial statements in the period of initial application

IFRS 9, 'Financial instruments', addresses the classification and measurement of financial assets, and replaces the multiple classification and measurement models in IAS 39 with a single model that has only two classification categories. amortised cost and fair value. Classification under IFRS 9 is driven by the reporting entity's business model for managing the financial assets and the contractual characteristics of the financial assets IFRS 9, 'Financial instruments', also addresses the classification and measurement of financial liabilities, and retains the majority of the requirements in IAS 39 in relation to financial liabilities. Subject to adoption by the EU, IFRS 9 is effective for financial periods beginning on, or after, 1 January 2015 The Group is considering the implications of the standard and its impact on the Group's financial results and position, together with the timing of its adoption taking cognisance of the endorsement process by the European Commission

1. Summary of significant accounting policies - continued

1.2 Consolidation

(a) Subsidiaries

Subsidiaries, which are those companies in which the Group, directly or indirectly, has an interest of more than one half of the voting rights or otherwise has power to govern the financial and operating policies are consolidated The existence and effect of potential voting rights that are presently exercisable or presently convertible are considered when assessing whether the Group controls another entity

Subsidiaries are fully consolidated from the date on which effective control is transferred to the Group and are no longer consolidated from the date that control ceases. The Group uses the acquisition method of accounting to account for business combinations The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement Acquisition-related costs are expensed as incurred Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in profit or loss Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses

Inter-Company transactions, balances and unrealised gains on transactions between Group companies are eliminated Unrealised losses are also eliminated Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group

In the Company's separate financial statements, investments in subsidiaries are accounted for by the cost method of accounting, i.e at cost less impairment. Provisions are recorded where, in the opinion of the directors, there is an impairment in value. Where there has been an impairment in the value of an investment, it is recognised as an expense in the period in which the diminution is identified The results of subsidiaries are reflected in the Company's separate financial statements only to the extent of dividends receivable On disposal of an investment, the difference between the net disposal proceeds and the carrying amount is charged or credited to profit or loss.

A listing of the Group's principal subsidiaries is set out in Note 39 1 to these financial statements.

1. **Summary of significant accounting policies** - continued

1.2 Consolidation - continued

(b) Transactions with non-controlling interests

The Group treats transactions with non-controlling interests, where the acquisition or disposal of partial interests in a subsidiary has no impact on the Group's ability to govern the subsidiary's financial and operating policies, as transactions with equity owners of the Group For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity Gains or losses on disposals to non-controlling interests are also recorded in equity

Previously transactions with non-controlling interests were treated as transactions with parties external to the Group Disposals therefore resulted in gains or losses in profit or loss and purchases resulted in the recognition of goodwill On disposal or partial disposal, a proportionate interest in reserves attributable to the subsidiary was reclassified to profit or loss or directly to retained earnings

When the Group ceases to have control or significant influence, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss

Previously, when the Group ceased to have control over an entity, the carrying amount of the investment at the date control is lost, became its cost for the purposes of subsequently accounting for the retained interests as associates, jointly controlled entity or financial assets.

(c) Associates

Associates are entities over which the Group generally has between 20% and 50% of the voting rights, or over which the Group exercises significant influence, but which it does not control In the consolidated financial statements, investments in associates are accounted for by the equity method of accounting and are initially recognised at cost The Group's investment in associates includes goodwill identified on acquisition, net of any accumulated impairment loss

The Group's share of its associates' post-acquisition profits or losses is recognised in profit or loss, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group

1. Summary of significant accounting policies - continued

1.2 Consolidation - continued

(c) Associates - continued

In the Company's separate financial statements, investments in associates are accounted for by the cost method of accounting, i e at cost less impairment Provisions are recorded where, in the opinion of the directors, there is an impairment in value Where there has been an impairment in the value of an investment, it is recognised as an expense in the period in which the diminution is identified The results of associates are reflected in the Company's separate financial statements only to the extent of dividends receivable On disposal of an investment, the difference between the net disposal proceeds and the carrying amount is charged or credited to profit or loss If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate Dilution gains and losses arising in investments in associates are recognised in profit or loss

A listing of the Group's principal associates is set out in Note 39 2 to these financial statements

1.3 Foreign currencies

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency') The consolidated financial statements are presented in euro, which is the Company's functional currency and the Group's presentation currency

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured Foreign exchange gains and losses resulting from the settlement of such transactions, and from the translation of monetary assets and liabilities denominated in foreign currencies, are recognised in profit or loss Such balances are translated at year-end exchange rates.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the income statement within 'finance income or cost' All other foreign exchange gains and losses are presented in the income statement within 'cost of sales' and 'administrative expenses'.

(c) Group companies

Income statements of foreign entities are translated into the Group's presentation currency at the average exchange rates for the year and statements of financial position are translated at the exchange rates ruling at year-end All resulting translation differences are recognised in other comprehensive income

Exchange differences arising from the translation of the net investment in foreign entities and of borrowings are taken to other comprehensive income On disposal of a foreign entity, such translation differences are recognised in profit or loss as part of the gain or loss on sale

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate

1 **Summary of significant accounting policies** - continued

1.4 Property, plant and equipment

Property, plant and equipment comprising office property, hotels and related assets and other assets, are initially recorded at historical cost. Land and buildings, are subsequently shown at fair value, based on periodic valuations by professional valuers, less subsequent depreciation for buildings Valuations are carried out on a regular basis such that the carrying amount of property does not differ materially from that which would be determined using fair values at the end of the reporting period Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset, and the net amount is restated to the revalued amount of the asset All other property, plant and equipment is subsequently stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items Borrowing costs which are incurred for the purpose of acquiring or constructing a qualifying asset are capitalised as part of its cost Borrowing costs are capitalised while acquisition or construction is actively underway. Capitalisation of borrowing costs is ceased once the asset is substantially complete and is suspended if the development of the asset is suspended

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. Major modifications and improvements to fixed assets are capitalised and depreciated over their estimated useful economic lives. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred

Increases in the carrying amount arising on revaluation of land and buildings are credited to other comprehensive income and shown as a revaluation reserve in shareholders' equity. Decreases that offset previous increases of the same asset are charged in other comprehensive income and debited against the revaluation reserve directly in equity, all other decreases are charged to profit or loss Each year the difference between depreciation based on the revalued carrying amount of the asset charged to profit or loss and depreciation based on the asset's original cost is transferred from the revaluation reserve to retained earnings.

Depreciation is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful operational lives, as follows

- Buildings held on a freehold basis are depreciated at 1% per annum Freehold land is not depreciated as it is deemed to have an indefinite economic life Properties held on long-term leases are amortised over the period of the respective leases

- Hotel land and buildings are mainly held on long-term leases and the costs thereof are amortised over the period of the respective leases.

- In the case of aircraft (including the related rotables, engines and major spares) used for the Group's own flight operations, residual values are taken as 17.5% of cost and estimated useful operational lives as 15 years.

- Aircraft and flight equipment in respect of leased out assets are depreciated over their estimated operational lives of 20 years, with residual values being taken as 10%

- The estimated useful lives of equipment, motor vehicles and other assets, held at hotels and otherwise, vary from 3 to 20 years, depending on their nature.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period

1. **Summary of significant accounting policies** - continued

1.4 Property, plant and equipment - continued

Property, plant and equipment is reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are Grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Property, plant and equipment that suffered an impairment is reviewed for possible reversal of the impairment at the end of each reporting period

Gains and losses on disposals of property, plant and equipment are determined by comparing proceeds with carrying amount and are recognised in profit or loss When revalued assets are disposed of, the amounts included in the revaluation reserve relating to the assets are transferred to retained earnings

1.5 Investment property

Property that is held for long-term rental yields or for capital appreciation or both, and that is not occupied by the Group is classified as investment property Investment property also includes property that is being constructed or developed for future use as investment property, when such identification is made Investment property principally comprises land and buildings.

Investment property is measured initially at its historical cost, including related transaction costs and borrowing costs. Historical cost includes expenditure that is directly attributable to the acquisition of the items Borrowing costs which are incurred for the purpose of acquiring or constructing a qualifying investment property are capitalised as part of its cost Borrowing costs are capitalised while acquisition or construction is actively underway Capitalisation of borrowing costs is ceased once the asset is substantially complete and is suspended if the development of the asset is suspended. After initial recognition, investment property is carried at fair value, representing open market value determined annually Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset If this information is not available, the Group uses alternative valuation methods such as recent prices on less active markets or discounted cash flow projections

These valuations are reviewed annually by a professional valuer Investment property that is being redeveloped for continuing use as investment property or for which the market has become less active continues to be measured at fair value Fair value measurement on property under construction is only applied if the fair value is considered to be reliably measurable The fair value of investment property reflects, among other things, rental income from current leases and assumptions about rental income from future leases in the light of current market conditions The fair value also reflects, on a similar basis, any cash outflows that could be expected in respect of the property.

Subsequent expenditure is capitalised to the asset's carrying amount only when it is probable that future economic benefits associated with the expenditure will flow to the Group and the cost of the item can be measured reliably All other repairs and maintenance costs are charged to profit or loss during the financial period in which they are incurred When part of an investment property is replaced, the carrying amount of the replaced part is derecognised.

1. **Summary of significant accounting policies** - continued

1.5 Investment property - continued

The fair value of investment property does not reflect future capital expenditure that will improve or enhance the property and does not reflect the related future benefits from this future expenditure other than those a rational market participant would take into account when determining the value of the property.

Changes in fair values are recognised in profit or loss Investment properties are derecognised either when they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal

If an investment property becomes owner-occupied, it is reclassified as property, plant and equipment Its fair value at the date of the reclassification becomes its cost for subsequent accounting purposes. When the Group decides to dispose of an investment property without development, the Group continues to treat the property as an investment property Similarly, if the Group begins to redevelop an existing investment property for continued future use as investment property, it remains an investment property during the redevelopment

If an item of property, plant and equipment becomes an investment property because its use has changed, any difference resulting between the carrying amount and the fair value of this item at the date of transfer is treated in the same way as a revaluation under IAS 16 Any resulting increase in the carrying amount of the property is recognised in profit or loss to the extent that it reverses a previous impairment loss, with any remaining increase recognised in other comprehensive income, directly to revaluation surplus within equity Any resulting decrease in the carrying amount of the property is initially charged to other comprehensive income against any previously recognised revaluation surplus; with any remaining decrease charged to profit or loss Upon the disposal of such investment property, any surplus previously recorded in equity is transferred to retained earnings; the transfer is not made through profit or loss

Where an investment property undergoes a change in use, evidenced by commencement of development with a view to sale, the property is transferred to inventories A property's deemed cost for subsequent accounting as inventories is its fair value at the date of change in use

1.6 Impairment of non-financial assets

Assets that have an indefinite useful life, are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units) Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date

1. **Summary of significant accounting policies** - continued

1.7 Financial assets

Classification

The Group classifies its financial assets in the following categories loans and receivables and available-for-sale The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition and re-evaluates this designation at every reporting date, in those circumstances where the Group is permitted to reclassify under the requirements of IAS 39.

(a) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market They are included in current assets, except for maturities greater than twelve months after the end of the reporting period These are classified as non-current assets

(b) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories Investments intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices are classified as available-for-sale assets They are included in non-current assets unless the asset matures or management intends to dispose of it within twelve months from the end of the reporting period

Recognition and measurement

The Group recognises a financial asset in its statement of financial position when it becomes a party to the contractual provisions of the instrument Regular way purchases and sales of financial assets are recognised on settlement date, which is the date on which an asset is delivered to or by the Group. Any change in fair value for the asset to be received is recognised between the trade date and settlement date in respect of assets which are carried at fair value in accordance with the measurement rules applicable to the respective financial assets

Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss.

Regular way purchases and sales of investments are recognised on trade date – the date on which the Group commits to purchase or sell the asset Available-for-sale financial assets are subsequently carried at fair value Loans and receivables are subsequently carried at amortised cost using the effective interest method Amortised cost is the initial measurement amount adjusted for the amortisation of any difference between the initial and maturity amounts using the effective interest method

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership or has not retained control of the asset

1. **Summary of significant accounting policies** - continued

1.7 Financial assets - continued

Changes in the fair value of monetary securities denominated in a foreign currency and classified as available-for-sale are analysed between translation differences resulting from changes in amortised cost of the asset and other changes in the carrying amount of the asset The translation differences on monetary assets are recognised in profit or loss, and translation difference on non-monetary assets are recognised in other comprehensive income The other changes in the fair value of monetary and non-monetary assets classified as available-for-sale are recognised in other comprehensive income

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques, in most cases by reference to the net asset backing of the investee

When assets classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in profit or loss within 'Investment and other related income' Dividends on available-for-sale equity instruments are recognised in profit or loss within 'Investment and other related income' when the Group's right to receive payment is established

Impairment

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or Group of financial assets is impaired A financial asset or a Group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or Group of financial assets that can be reliably estimated. The Group first assesses whether objective evidence of impairment exists. The criteria that the Group uses to determine that there is objective evidence of an impairment loss include

- significant financial difficulty of the issuer or obligor,
- a breach of contract, such as a default or delinquency in interest or principal payments,
- it becomes probable that the borrower will enter bankruptcy or other financial reorganisation.

(a) Assets carried at amortised cost

For financial assets carried at amortised cost, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate The asset's carrying amount is reduced and the amount of the loss is recognised in profit or loss. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in profit or loss.

1. Summary of significant accounting policies - continued

1.7 Financial assets - continued

(b) Assets classified as available for sale

In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator that the assets are impaired If objective evidence of impairment exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is reclassified from equity to profit or loss as a reclassification adjustment Impairment losses recognised in profit or loss on equity instruments are not reversed through profit or loss

1.8 Leased assets

Where a Group Company is the lessee and where the Group assumes substantially all the benefits and risks of ownership, leases of property, plant and equipment are classified as finance leases Finance leases are capitalised at the estimated present value of the underlying lease payments Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding The corresponding rental obligations, net of finance charges, are included in other long-term payables The interest element of the finance charge is charged to profit or loss over the lease period. The property, plant and equipment acquired under finance leasing contracts is depreciated over the useful life of the asset

Leases of assets under which all the risks and benefits of ownership are effectively retained by the lessor are classified as operating leases Payments made under operating leases are charged to profit or loss on a straight line basis over the period of the lease

1.9 Maintenance of aircraft

Costs for routine aircraft maintenance as well as repair costs are charged to profit or loss

Major non-routine airframe maintenance and engine overhauls incurred on owned aircraft are capitalised and written off over the useful economic life of the components incurred

In relation to leased aircraft governed by an operating lease agreement which states that the onus of major non-routine maintenance during the life of the lease rests with the lessee together with strict re-delivery conditions, the Company has a legal obligation to carry out maintenance on these aircraft Maintenance accruals are therefore set up for major non-routine maintenance and overhauls as well as costs estimated to be incurred on re-delivery of the aircraft to the lessor These costs are reviewed on an annual basis to ensure they reflect the estimated aircraft maintenance programme and are charged over the unexpired term of the lease

1.10 Inventories

Inventories are stated at the lower of cost and net realisable value Cost is determined by the weighted average method Cost is the invoiced value of goods and in general includes transport and handling costs Rotables, engines and major spares are accounted for as fixed assets and are depreciated on the same basis as the aircraft to which they relate Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

1. Summary of significant accounting policies - continued

1.11 Trade and other receivables

Trade receivables comprise amounts due from customers for services performed in the ordinary course of business If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets If not, they are presented as non-current assets

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment (note 1 7) The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in profit or loss When a receivable is uncollectible, it is written off against the allowance account for trade and other receivables Subsequent recoveries of amounts previously written off are credited against profit or loss

1.12 Cash and cash equivalents

Cash and cash equivalents are carried in the statement of financial position at face value In the statement of cash flows, cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term deposits with maturities of three months or less from the end of the reporting period and bank overdrafts The bank overdrafts are shown within borrowings in current liabilities in the statement of financial position

1.13 Financial liabilities

The Group recognises a financial liability in its statement of financial position when it becomes a party to the contractual provisions of the instrument The Group's financial liabilities are classified as financial liabilities which are not at fair value through profit or loss (classified as 'Other liabilities') under IAS 39 Financial liabilities not at fair value through profit or loss are recognised initially at fair value, being the fair value of consideration received, net of transaction costs that are directly attributable to the acquisition or the issue of the financial liability These liabilities are subsequently measured at amortised cost. The Group derecognises a financial liability from its statement of financial position when the obligation specified in the contract or arrangement is discharged, is cancelled or expires

1.14 Trade and other payables

Trade payables comprise obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer) If not, they are presented as non-current liabilities

Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method

1.15 Borrowings and borrowing costs

Borrowings are recognised initially at the fair value of proceeds received, net of transaction costs incurred Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in profit or loss over the period of the borrowings using the effective interest method

1. Summary of significant accounting policies - continued

1.15 Borrowings and borrowing costs - continued

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least twelve months after the end of the reporting period

Interest costs are charged against income without restriction No borrowing costs have been capitalised.

1.16 Deferred taxation

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill; the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss Deferred tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled

The principal temporary differences arise from depreciation on property, plant and equipment, revaluations of derivative contracts, provisions and tax losses carried forward, and in relation to acquisitions, on the difference between the fair values of the net assets acquired and their tax base Deferred tax assets relating to the carry forward of trading losses are recognised to the extent that it is probable that future taxable profit will be available against which the unused tax losses can be utilised Deferred tax assets relating to capital losses on investments in subsidiaries and associates are only recognised to the extent to which they are offset by deferred tax liabilities of a capital nature or to the extent to which they can be expected to materialise in the foreseeable future.

1.17 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated

Where the Group expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain

The Group recognises a provision for onerous contracts when the expected benefits to be derived from a contract are less than the unavoidable costs of meeting the obligations under the contract

1. **Summary of significant accounting policies** - continued

1.18 Revenue recognition - continued

Revenue is based on the invoiced value of carriage uplifted, aircraft leasing income, goods sold and services rendered, net of discounts, and exclusive of passenger and indirect taxes Revenue is recognised when the service has been provided or when the risk has passed to the customer Ticket sales are included under current liabilities as sales in advance until recognised as revenue once a passenger coupon or airfreight document has been used The gross sales value of any tickets remaining unused is taken to profit or loss as residual revenue to the extent to which no liability is expected to arise in relation thereto

Proceeds arising from the sale of fixed assets, including aircraft, are not included with revenue Other revenues earned by the Group are recognised on the following bases

Interest income – Interest income is recognised in profit or loss for all interest-bearing instruments as it accrues, on a time-proportion basis using the effective interest method, unless collectibility is in doubt

Dividend income – Dividend income is recognised when the right to receive payment is established

Rental income from investment property – Rental income is recognised in profit or loss, on a straight-line basis over the term of the lease, as it accrues unless collectability is in doubt.

1.19 Sale and leaseback transactions

Profits arising on the disposal of aircraft and other assets on a sale and leaseback basis are credited to profit or loss except in cases where such profits are considered to arise at the expense of incremental costs which would be incurred in future periods In such cases a portion of the profit, normally corresponding to the net incremental future costs, would be deferred and taken to profit or loss in future periods to match the related costs

1.20 Obligations under bonus mile programmes

Calculation of the obligations arising from bonus miles programmes is based on several estimates and assumptions Accumulated but as yet unused bonus miles are deferred using the deferred revenue method to the extent that they are likely to be used on the Group's flights The fair value of miles accumulated on the Group's own flights is recognised under deferred revenue Fair value is determined as the value for which the miles could be sold separately, i e the average yield, taking booking class and traffic region into account No provisions are recognised for miles that are expected to lapse. The quota of miles that have been allowed to lapse in the past is used to estimate the number of miles that will probably lapse subject to current expiry rules

1.21 Derivative financial instruments and hedging

Derivative financial instruments including forward foreign exchange contracts, interest rate linked collar arrangements, interest rate swap agreements, commodity options (combined written and purchased options together with other options) and other derivative financial instruments, are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged

1. **Summary of significant accounting policies** - continued

1.21 Derivative financial instruments and hedging - continued

All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative The full fair value of hedging derivatives is classified as a non-current asset or liability if the remaining maturity of the hedged item is more than twelve months, and as a current asset or liability if the remaining maturity of the hedged item is less than twelve months Trading derivatives are classified as a current asset or liability

On the date a derivative contract is entered into, the Group designates certain derivatives as a hedge of a future cash flow attributable to a recognised asset or liability or a forecast transaction (cash flow hedge) Hedge accounting is used for derivatives designated in this way provided certain criteria are met Under the requirements of IAS 39, the criteria for a derivative instrument to be accounted for as a cash flow hedge include

- formal documentation of the hedging instrument, hedging item, hedging objective, strategy and relationship is prepared before hedge accounting is applied,
- the hedge is documented showing that it is expected to be highly effective in offsetting the risk in the hedged item throughout the reporting period, and
- the hedge is effective on an ongoing basis

Accordingly, the Group documents at the inception of the transaction, the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions This process includes linking all derivatives designated as hedges to specific assets and liabilities or to specific forecast transactions The Group also documents its assessment, both at the hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in cash flows of hedged items

Changes in the fair value of derivatives that are designated and qualify as cash flow hedges and that prove to be highly effective in relation to the hedged risk, are recognised in the hedging reserve in equity In respect of option contracts, designated as hedging instruments, the Group splits fair value into the intrinsic value and time value components Changes in the intrinsic value of options are designated as the hedging instrument, while the remaining component of the option (its time value) is excluded from the hedging relationship Accordingly changes in the time value would be accounted for in profit or loss

Where the forecast transaction results in the recognition of a non-financial asset or of a non-financial liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability Otherwise amounts deferred in equity are transferred to profit or loss and classified as revenue or expense in the periods during which the hedged forecast transaction affects profit or loss

Certain derivative transactions, while providing effective economic hedges under the Group's risk management policies, do not qualify for hedge accounting under the specific rules in IAS 39 and are therefore treated as derivatives held for trading Changes in the fair value of any derivative instruments that do not qualify for hedge accounting under IAS 39 are recognised immediately in profit or loss.

1. Summary of significant accounting policies - continued

1.21 Derivative financial instruments and hedging - continued

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting under IAS 39, any cumulative gain or loss existing in equity at that time remains in equity and is recognised in profit or loss when the hedged forecast transaction affects profit or loss. However, if a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to profit or loss

The fair values of derivative instruments held for trading and hedging purposes are disclosed in Note 10 to the financial statements

1.22 Non-current assets (or disposal groups) held for sale and discontinued operations

Non-current assets (or disposal groups) are classified as assets held for sale and stated at the lower of carrying amount and fair value less costs to sell if their carrying amount is to be recovered principally through a sale transaction rather than through a continuing use, and a sale is considered highly probable These assets may be a component of the entity, a disposal group or an individual non-current asset

A discontinued operation is a component of an entity that either has been disposed of, or that is classified as held for sale, and

(a) represents a separate major line of business or geographical area of operations,
(b) is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations, or
(c) is a subsidiary acquired exclusively with a view to resale

2. Financial risk management

2.1 Financial risk factors

As an airline operating internationally, the Group's activities potentially expose it to a variety of financial risks. market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk The Group's overall risk management, covering risk exposures for all Group undertakings, focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance The Company's board of directors provides principles for overall Group risk management, as well as policies covering risks referred to above and specific areas such as investment of excess liquidity.

In order to manage exposures to risks arising from fluctuations in currency exchange rates and fluctuations in prices on the crude oil and fuel products markets, the Group makes use of derivative financial instruments These instruments mainly comprise foreign currency forward contracts and options together with fuel hedging instruments.

2. Financial risk management - continued

2.1 Financial risk factors - continued

(a) Market risk

(i) Foreign exchange risk

The general hedging policy guidelines regarding currency and fuel price risks are set by the board and the Company's finance department is responsible for implementation of these hedging policies The respective derivative transactions are concluded only with first rate counterparties

Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities which are denominated in a currency that is not the respective entity's functional currency The Group is exposed to foreign exchange arising from various currency exposures, primarily with respect to the US dollar and UK sterling With respect to the US dollar, the Group is in a net payer position from its operating business particularly in view of a significant portion of purchases denominated in this currency, including fuel, operating leases, maintenance and other related costs In relation to other currencies the Group is in a net surplus position which is attributable to a portion of Group's revenue which is denominated in these currencies UK sterling is considered to be the main risk exposure in this respect A subsidiary domiciled overseas (see Note 39 1) has a functional currency which is different from the euro This subsidiary is also subject to currency risk in respect of purchases and intra-Group financing denominated in euro, but these exposures are not deemed material in the context of the Group figures

The expected future cash flows in individual major currencies usually over the coming 12 months (2010· 24 months) are budgeted and analysed, and the Group hedges the respective net currency exposure in major currencies, within certain pre-established parameters, by entering into forward foreign exchange contracts These contracts represent commitments to purchase foreign currency amounts covering the net exposure at a pre-established exchange rate The Company also utilises foreign currency options when deemed necessary. In accordance with the requirements of IAS 39, the Group designates forecast transactions amounting to the net exposure in individual currencies as hedged items These forecast transactions, qualifying as highly probable, would typically include the Group's purchases of fuel, lease expenditure and other aircraft related operating costs These expenses are routinely denominated in US dollar, which currency accounts for a relatively minor portion of the Group's revenues Forecast transactions designated as hedged items could also include revenues denominated in UK sterling

As at 31 March 2011, the Group forecasts net receipts denominated in UK sterling amounting to €14 6 million (2010 €34 million) for the twelve months immediately after the end of the reporting period The Group also forecasts net payments denominated in US dollar amounting to €59.5 million (2010· €61.2 million) for the twelve months immediately after the end of the reporting period These exposures were hedged as at the end of the reporting period, in accordance with the policy parameters referred to previously, through the use of derivative contracts having a notional amount of €31 2 million (2010 €15 million) covering US dollar exposures, and €4 8 million (2010· nil) covering GBP exposures

2. Financial risk management - continued

2.1 Financial risk factors - continued

(a) Market risk - continued

(i) Foreign exchange risk - continued

The Group's main on balance sheet risk exposures reflecting the net carrying amount of receivables and payables denominated in foreign currencies at the end of the reporting periods were as follows

	Group		Company	
	2011	2010	**2011**	2010
	€000	€000	**€000**	€000
Net UK sterling liability position	**(7,711)**	(6,310)	**(7,711)**	(6,310)
Net US dollar liability position	**(34,038)**	(31,911)	**(34,331)**	(32,139)

If as at the end of the reporting period the euro had strengthened/weakened by 10% against the UK sterling and US dollar with all other variables held constant, pre-tax loss for the year would change as follows

	Group		Company	
	(+) 10%	(-) 10%	(+) 10%	(-) 10%
	€000	€000	€000	€000
UK sterling				
At 31 March 2011	701	(857)	701	(857)
At 31 March 2010	574	(701)	574	(701)
US dollar				
At 31 March 2011	3,095	(3,782)	3,121	(3,815)
At 31 March 2010	2,931	(3,581)	2,922	(3,571)

2. Financial risk management - continued

2.1 Financial risk factors - continued

(a) Market risk - continued

(i) Foreign exchange risk - continued

If as at 31 March 2011 the Euro had strengthened/weakened by 10% against the US dollar and UK Sterling with all other variables held constant, equity (prior to tax effects) as at the year-end would change as follows

	Group and Company	
	(+) 10%	(-) 10%
	€000	€000
At 31 March 2011	(3,981)	2,068

The amounts disclosed in the table above are attributable to changes in the fair values of hedging derivative financial instruments as a result of reasonable possible shifts in exchange rates at the year-end

(ii) Cash flow and fair value interest rate risk

The Group's interest rate risk principally arises from bank borrowings issued at variable rates (Note 22) and advances to related parties subject to floating interest rates which expose the Group to cash flow interest rate risk The Group's borrowings mainly consist of facilities subject to variable interest rates which are principally based on reference rates Management monitors the impact of changes in market interest rates on amounts reported in profit or loss in respect of these instruments Based on this analysis, management considers the potential impact on profit or loss of a defined interest rate shift that is reasonably possible at the end of the reporting period to be immaterial and accordingly the level of interest rate risk is contained The Group's operating cash flows are substantially independent of changes in market interest rates

Whenever deemed necessary, the Group uses interest rate swaps, as cash flow hedges of future variable interest payments, which have the economic effect of converting long-term borrowings from floating rate instruments to fixed rate loans Under the interest rate swaps, the Group agrees with the derivative counterparties to exchange at specified intervals (mainly quarterly or on a six monthly basis), the difference between fixed contract rates and variable rate interest amounts calculated by reference to the agreed notional principal amounts.

2. **Financial risk management** - contınued

2.1 Financial risk factors - continued

(a) Market nsk - contınued

(ııı) Pnce nsk

Durıng the fınancıal year ended 31 March 2011, fuel expenses amounted to €52 mıllıon (2010 €42 mıllıon) as dısclosed ın Note 26 2 to the fınancıal statements and accounted for approxımately 20% (2010 19%) of the total operatıng expenses of the Group from contınuıng operatıons Fluctuatıons ın crude oıl, jet fuel and other fuel product prıces may have a sıgnıfıcant effect on the Group's results. Dıfferent hedgıng ınstruments wıth regard to the crude oıl and fuel products markets are used to lımıt the fuel prıce nsk The Group's polıcy durıng the current and precedıng years ıs aımed at hedgıng, ın normal cırcumstances, a mınımum of 40% of the expected fuel expendıture of the ensuıng twelve months As at 31 March 2011, the notıonal amounts of the hedgıng derıvatıves outstandıng amounted to approxımately €4 mıllıon (2010 €11 mıllıon) ın vıew of the prevaılıng market and tradıng condıtıons (refer to Note 10)

Commodıty optıons used by the Group are contractual arrangements under whıch the wrıter (seller) grants the purchaser the rıght, but not the oblıgatıon, eıther to notıonally buy (a call optıon) or sell (a put optıon) the notıonal quantıty of a commodıty at a predetermıned prıce (strıke prıce) durıng a set perıod of tıme Such contracts are typıcally settled on a net basıs by comparıng the strıke prıce to the reference market prıce applıcable durıng the set perıod

Commodıty swap agreements are commıtments to exchange one set of cash flows based on fıxed contracted fuel prıces (determıned by reference to the contract's notıonal amount) for another set of cash flows determıned by varıable prıces. Alternatıvely, two sets of cash flows determıned by varıable prıces may be exchanged partıcularly when the two sets of varıable prıces are determıned by reference to dıfferent commodıty reference prıces

If as at 31 March 2011 the prıce of fuel products had strengthened/weakened by 10% wıth all other varıables held constant, equıty (prıor to tax effects) as at the year-end would change as follows

	Group and Company	
	(+) 10%	(-) 10%
	€000	€000
At 31 March 2011	(6,871)	6,871
At 31 March 2010	(4,852)	4,852

(b) Credıt rısk

Credıt rısk prıncıpally arıses from cash and cash equıvalents and credıt exposures to customers, ıncludıng outstandıng debtors and commıtted transactıons The Group's exposures to credıt rısk as at the end of the reportıng perıods are analysed as follows

2. **Financial risk management** - continued

2.1 **Financial risk factors** - continued

(b) Credit risk - continued

	Group		Company	
	2011	2010	**2011**	2010
Continuing operations:	**€000**	€000	**€000**	€000
Loans and receivables category:				
Cash and cash equivalents (Note 15)	**23,531**	9,180	**22,915**	7,179
Term placements with banks (Note 14)	**5,856**	5,964	**-**	-
Trade and other receivables	**36,435**	42,068	**35,381**	43,563
Loans to subsidiaries and associates (Notes 7 and 8)	**213**	259	**213**	696
	66,035	57,471	**58,509**	51,438
Financial instruments held for hedging				
Derivative financial instruments (Note 10)	**650**	2,996	**650**	2,996
	66,685	60,467	**59,159**	54,434
Discontinued operations:				
Loans and receivables category				
Cash and cash equivalents (Note 16)				
- Hotel operations	**151**	416	**-**	-
- Tour Operator business	**1,212**	-	**-**	-
Trade and other receivables (Note 16)				
- Hotel operations	**44**	167	**-**	-
- Tour Operator business	**1,039**	-	**-**	-
Loans to subsidiaries and associates (Note 7, 8 and 16)				
- Hotel operations	**-**	167	**4,323**	9,872
	2,446	750	**4,323**	9,872

The maximum exposure to credit risk at the reporting date in respect of the financial assets mentioned above is equivalent to their carrying amount as disclosed in the respective notes to the financial statements The Group has no significant past due or impaired financial assets with the exception of the amounts disclosed in respect of trade and other receivables together with loans to subsidiaries and associates The Group does not have any renegotiated financial assets which would otherwise be past due or impaired and it only holds collateral in respect of exposures relating to trade and other receivables

2. Financial risk management - continued

2.1 Financial risk factors - continued

(b) Credit risk - continued

Cash and cash equivalents and term placements with banks

Group undertakings principally bank with local and foreign financial institutions which have high quality credit standing or rating The Group's main foreign bank counterparties as at the end of the reporting periods have a satisfactory external credit rating, as determined by major rating agencies such as Fitch Exposures to foreign banking institutions as at 31 March 2011 amounted to approximately €4 4 million (2010· €5 7 million) Term placements with banks with contractual terms of more than three months mature within a period of thirty-four (2010 nineteen) months from the end of reporting period and are held principally with local bank counterparties. Hence credit risk in this respect is quite limited.

Trade and other receivables

The sale of passage and freight documents is largely processed through agencies that are usually linked to country specific clearing systems for the settlement of passage and freight sales. Other individual agents are checked for creditworthiness and where necessary special collateral is provided for in the respective service contract The respective credit risk concerning sales agents is relatively low because of the broad distribution

Receivables and liabilities between airlines, unless otherwise stipulated in the respective agreements, are settled on a bilateral basis or through a clearing house of the International Air Transport Association (IATA). All receivables and liabilities are set-off against one another at monthly intervals, which leads to a considerable reduction in the default risk In individual cases, special collateral is provided for in the respective service contract.

For all other service relationships, additional collateral is requested depending on the type and extent of the services rendered Credit references or historical data from a previous relationship, in particular referring to payment behaviour, are utilised to avoid non-performance

The Group manages credit limits and exposures actively in a practicable manner such that past due amounts receivable from customers are within controlled parameters. The credit quality of the Group's trade and other receivables, which are not impaired or past due financial assets, reflects the nature of these assets which are principally debts in respect of transactions with customers for whom there is no recent history of default Management does not expect any losses from non-performance by these customers. As at 31 March 2011, the Group holds collateral in the form of bank guarantees for the amount of €4,212,000 (2010. €2,675,000) as security in respect of trade receivables At 31 March 2011 and 2010, no trade or other receivables that would otherwise be past due or impaired have been renegotiated.

The Group's and Company's debtors include significant amounts due from subsidiaries and associates forming part of the Air Malta Group and related parties that are owned or controlled by the Government of Malta The Group's credit control function monitors intra-Group credit and related party exposures at individual entity level on a regular basis and ensures timely performance of these assets in the context of overall Group liquidity management The Group assesses the credit quality of these related parties taking into account financial position, performance and other factors and management does not expect any losses from non-performance or default, other than losses reflected within provisions for impairment.

2. Financial risk management - continued

2.1 Financial risk factors - continued

(b) Credit risk - continued

As at 31 March 2011, the Group's and Company's trade receivables amounting to €4,855,000 (2010: €4,431,000) and €3,536,000 (2010: €3,026,000) respectively were impaired and the amount of the provisions in this respect are equivalent to these amounts The individually impaired receivables mainly relate to a number of independent customers which are in unexpectedly difficult economic situations and which are accordingly not meeting repayment obligations The Group does not hold any significant collateral as security in respect of the impaired assets

The movement in provisions for impairment of trade receivables is analysed as follows:

	Group		Company	
	2011	2010	**2011**	2010
Continuing operations:	**€000**	€000	**€000**	€000
At beginning of year	**3,026**	2,803	**3,026**	2,803
Increase in provisions	**718**	396	**718**	396
Reversals of provisions which are no longer required	**(135)**	(168)	**(135)**	(168)
Other movements	**(73)**	(5)	**(73)**	(5)
At end of year	**3,536**	3,026	**3,536**	3,026
Discontinued operations:				
At beginning of year	**1,405**	1,498	-	-
Increase in provisions	**184**	82	-	-
Reversals of provisions which are no longer required	**(265)**	(173)	-	-
Other movements	**(5)**	(2)	-	-
At end of year	**1,319**	1,405	-	-
Total	**4,855**	4,431	-	-

Reversals of provisions for impairment arise in those situations where customers recover from unfavourable circumstances and accordingly start meeting repayment obligations The movements in these provisions are disclosed in Note 26 2 and are included in 'Administrative expenses' in the Group's income statement.

2 **Financial risk management** - continued

2 1 **Financial risk factors** - continued

(b) Credit risk - continued

As at 31 March 2011, trade receivables and amounts owed by related parties amounting to €1,795,000 and €258,000 (2010 €2,064,000 and €328,000) respectively were past due but not impaired These relate to a number of customers for whom there is no recent history of default and in respect of which the Group has obtained no significant collateral Categorisation of receivables as past due is determined by the Group on the basis of the nature of the credit terms in place and credit arrangements actually utilised in managing exposures with customers

The aging analysis of the past due trade receivables is as follows·

	2011 €000	2010 €000
Up to 30 days	**667**	1,090
30 to 60 days	**97**	9
60 to 90 days	**425**	311
90 to 120 days	**68**	130
Over 120 days	**538**	524
	1,795	2,064

The ageing analysis of the current year amounts owed by related parties is such that these amounts have been past due mainly for more than six months

As at 31 March 2011, the Company also had amounts receivable from associates amounting to €264,000 which were past due but not impaired Such amounts were mainly past due for less than one year

As at 31 March 2011, the Company had amounts receivable from subsidiaries amounting to €179,000 (2010 €2,182,000) which were past due but not impaired Such amounts were mainly past due for less than one year

The Group's other receivables principally comprise security deposits effected and payments on account Credit risk in this respect is managed accordingly, taking cognisance of the Group's operational arrangements with such contracting parties

Loans to subsidiaries and associates

The Group's and Company's loans referred to in the table on page 46 above consist of advances to subsidiaries and associates forming part of the Air Malta Group The Group's credit control function monitors intra-Group credit exposures and ensures timely performance in the context of overall Group liquidity management Management does not expect any losses from non-performance or default, except as disclosed below. Loans to subsidiaries and associates which are impaired are reflected in Notes 7 and 8 and the provisions for impairment in this respect are equivalent to the impaired assets The impaired assets consist of loans to entities which are in adverse trading and operational circumstances

2. **Financial risk management** - continued

2.1 Financial risk factors - continued

(b) Credit risk - continued

The movements in the provisions for impairment of loans to subsidiaries and associates are analysed as follows

	Company	
	2011	2010
	€000	€000
Provisions on loans to subsidiaries		
At beginning of year	**552**	3,532
Increase in provisions	**5,877**	-
Reversals of provisions which are no longer required in view of waiver of loans	**-**	(2,980)
At end of year	**6,429**	552

	Group		Company	
	2011	2010	**2011**	2010
	€000	€000	**€000**	€000
Provisions on loans to associates				
At beginning of year	**-**	93	**-**	93
Reversals of provisions which are no longer required	**-**	(93)	**-**	(93)
At end of year	**-**	-	**-**	-

Derivative financial instruments

Credit risk arising from derivative financial instruments lies in the insolvency of the contracting party and as a consequence, in the amount of the sum, on balance, of positive market values vis-à-vis the respective derivative counterparties Foreign exchange derivative transactions are concluded with first rate local banking institutions only, while fuel derivative contracts are entered into with foreign financial institutions which have high quality credit standing or rating The Group's main foreign derivative counterparties as at the end of the reporting periods have a satisfactory external credit rating, as determined by major rating agencies such as Fitch

2. Financial risk management - continued

2.1 Financial risk factors - continued

(c) Liquidity risk

The Group is exposed to liquidity risk in relation to meeting future obligations associated with its financial liabilities, which comprise principally borrowings (Note 22) and payables Prudent liquidity risk management includes maintaining sufficient cash and committed credit lines to ensure the availability of an adequate amount of funding to meet the Group's obligations Management monitors liquidity risk by reviewing expected Group cash flows, and ensures that liquid resources and facilities that are expected to be required over the coming year are in place

Based on the results of the Group's budgeting process, management usually prepares a liquidity plan covering the subsequent twelve month period that reflects the anticipated liquidity position over the period and ensures that pre-established net liquidity levels are met at all times during the period under review This process is performed and monitored by a central treasury function and the plan is reviewed on an ongoing basis

The overall liquidity requirements of the Air Malta Group involve maintaining available net liquidity equivalent to a number of weeks' cash outflows from operations depending on seasonality and expected volatility The risk is actively managed by taking cognisance of the matching of operational cash inflows and outflows including those arising from expected maturities of financial instruments, the Group's committed bank borrowing facilities and shareholder financing that it can access. In view of the Group's financial position as at 31 March 2011 and its operating results for the year then ended, the airline's liquidity management process has significantly influenced the Restructuring Plan approved by the Government of Malta and submitted for approval to the European Commission As outlined previously in Note 1 1.1, a number of financing arrangements have been projected in the Restructuring Plan and the key steps in implementing the financing process required through the five year period subsequent to 31 March 2011 include

- The Rescue Aid Loan from the principal shareholder, amounting to €52 million, that was due for repayment in November 2011 has been extended for a further period to November 2012

- A Promise of Sale Agreement to dispose of the principal property, constituting the remaining main asset owned by the Company, for an amount of €66 2 million has been entered into with Government in December 2011 with a deposit of €20 million which will be paid by Government in early 2012

- The Company has successfully negotiated fresh bank loans amounting to €30 million on the back of the Promise of Sale Agreement referred to above. Further facilities of €20 million will be required during the later part of the 5 year plan

- The disposal process of the Company's subsidiaries and other strategic investments, which have been earmarked for sale, has been initiated

- Government will make a fresh commercial loan of €52 million to the Company on the approval of the Restructuring Plan by the European Commission. These funds will be used by the Company to pay back the Rescue Aid Loan in line with Rescue and Restructuring Guidelines The commercial loan will be converted to equity in the later part of the 5 year plan

- The Company will allocate €78 million of fresh equity to Government on the approval of the Restructuring Plan by the European Commission The capital will be called up in tranches in due course in accordance with the program established in the Restructuring Plan

2. **Financial risk management** - continued

2.1 Financial risk factors - continued

(c) Liquidity risk - continued

The funding requirements and the arrangements necessary to put the funding at the disposal of the Company have been approved by the principal shareholder as outlined previously. The Group expects to meet the contractual cash outflows arising from financial liabilities disclosed below, extending beyond the subsequent twelve month period, through operating cash flows and in particular financing cash inflows as referred to previously

The tables below present the cash flows payable by the Group and the Company under non-derivative financial liabilities by remaining contractual maturities at the end of the reporting period The amounts disclosed in the tables are the contractual undiscounted cash flows. Balances due within twelve months equal their carrying balances, as the impact of discounting is not significant

Group

At 31 March 2011	**Within 3 months €000**	**3 - 6 months €000**	**6 - 12 months €000**	**1 - 2 years €000**	**2 - 5 years €000**	**Over 5 years €000**	**Total €000**
Continuing operations.							
Bank borrowings	1,496	2,751	3,608	4,132	-	-	11,987
Loan from shareholder	-	-	43,153	-	-	-	43,153
Trade and other payables	45,814	-	-	-	-	-	45,814
	47,310	2,751	46,761	4,132	-	-	100,954
Discontinued operations							
Bank borrowings	2,663	-	-	-	-	-	2,663
Trade and other payables	5,177	-	-	-	-	-	5,177
	7,840	-	-	-	-	-	7,840
Total	**55,150**	**2,751**	**46,761**	**4,132**	**-**	**-**	**108,794**
At 31 March 2010							
Continuing operations							
Bank borrowings	3,675	21,184	934	1,198	107	230	27,328
Trade and other payables	44,331	-	-	-	-	-	44,331
	48,006	21,184	934	1,198	107	230	71,659
Discontinued operations							
Bank borrowings	1,830	-	-	-	-	-	1,830
Trade and other payables	675	-	-	-	-	-	675
	2,505	-	-	-	-	-	2,505
Total	**50,511**	**21,184**	**934**	**1,198**	**107**	**230**	**74,164**

Subsequent to the end of the current financial reporting period, the term of the shareholder's loan was extended to 15 November 2012

2. **Financial risk management** - continued

2.1 **Financial risk factors** - continued

(c) Liquidity risk - continued

Company

	Within 3 months €000	3 - 6 months €000	6 - 12 months €000	1 - 2 years €000	2 - 5 years €000	Over 5 years €000	Total €000
At 31 March 2011							
Bank borrowings	1,496	2,751	3,608	4,132	-	-	11,987
Loan from shareholder	-	-	43,153	-	-	-	43,153
Trade and other payables	49,190	-	-	-	-	-	49,190
	50,686	**2,751**	**46,761**	**4,132**	**-**	**-**	**104,330**
At 31 March 2010							
Bank borrowings	3,143	21,175	916	1,162	-	-	26,396
Trade and other payables	52,391	-	-	-	-	-	52,391
	55,534	**21,175**	**916**	**1,162**	**-**	**-**	**78,787**

The Group's derivatives that will be settled on a gross basis consist principally of forward foreign exchange contracts (Note 10) The table below analyses the Group's derivative financial liabilities that will be settled on a gross basis into relevant maturity Groupings based on the remaining period at 31 March 2011 to the contractual maturity date The amounts disclosed in the table are the contractual undiscounted cash flows

Group and Company

	Within 3 months €000	3 - 6 months €000	6 - 12 months €000	Total €000
At 31 March 2011				
Foreign exchange derivatives				
- Outflows	(12,050)	(12,050)	(2,300)	(26,400)
- Inflows	11,549	11,549	2,261	25,359
	(501)	(501)	(39)	(1,041)

Group and Company

	Within 3 months €000	3 - 6 months €000	6 - 12 months €000	Total €000
At 31 March 2010				
Foreign exchange derivatives				
- Outflows	(1,800)	(2,425)	(10,775)	(15,000)
- Inflows	1,938	2,611	11,681	16,230
	138	186	906	1,230

2. Financial risk management - continued

2.1 Financial risk factors - continued

(c) Liquidity risk - continued

The Group's derivative financial liabilities as at 31 March 2011 which will be settled on a net basis are not deemed material for the purpose of disclosing the contractual undiscounted cash flows

2.2 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders, and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Group may issue new shares or sell assets to reduce debt

Consistent with others in the industry, the Group usually monitors capital on the basis of the gearing ratio This ratio is calculated as net debt divided by total capital Net debt is calculated as total borrowings (as shown in the consolidated statement of financial position) less cash and cash equivalents Total capital is calculated as equity as shown in the consolidated statement of financial position plus net debt. In view of the fact that the Group has negative activity on net liabilities at 31 March 2011, the Group's gearing ratio is not currently deemed to be a relevant benchmark for capital management The current and prior year adverse financial results have impacted the financial position of the Group in particular the equity levels.

As outlined in Note 1.1.1, on 30 November 2011, the Directors have approved the Restructuring Plan, and Government has taken ownership of the Restructuring Plan and communicated this to the European Commission This Restructuring Plan sets out the turnaround strategy for Air Malta for the five-year period FY2012 to FY2016. This strategy is set out over five years after a careful assessment by management of the shortest time required to restore the long-term viability and capital position of the Company, keeping in mind possible future operating conditions Included within the Restructuring Plan are long-term financing arrangements that will address the Capital position of the Company during the five year period In particular, apart from the improvement in trading performance and operating cash flows together with management of borrowings as reflected under the Liquidity risk management section above, the equity base of the Company will be strengthened though the following.

- Government will make a fresh commercial loan of €52 million to the Company on the approval of the Restructuring Plan by the European Commission These funds will be used by the Company to pay back the Rescue Aid Loan in line with Rescue and Restructuring Guidelines. The commercial loan will be converted to equity in the later part of the 5 year plan.

- The Company will allocate €78 million of fresh equity to Government on the approval of the Restructuring Plan by the European Commission The capital will be called up in tranches in due course in accordance with the program established in the Restructuring Plan

2. Financial risk management - continued

2.3 Fair values of financial instruments

At 31 March 2011 and 2010 the carrying amounts of cash at bank, receivables, payables, accrued expenses and short-term borrowings reflected in the financial statements are reasonable estimates of fair value in view of the nature of these instruments or the relatively short period of time between the origination of the instruments and their expected realisation

The fair value of non-current financial instruments for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments The carrying amount of the Group's non-current advances to related parties fairly approximates the estimated fair value of these assets based on discounted cash flows The fair value of the Group's non-current floating interest rate bank borrowings as at the end of the reporting periods is not significantly different from the carrying amounts

Information on the fair value of the Group's term placements with banks is disclosed in Note 14 The fair value of derivative financial instruments is determined in accordance with the Group's accounting policy disclosed in Note 1 21 Fair values are determined using forward exchange market rates at the end of the reporting period for forward foreign exchange contracts and using dealer quotes from counterparties or valuation techniques, including discounted cash flow models, for other derivative contracts (see Notes 10 and 20). The valuation techniques used are supported by observable market prices or rates since their variables include only data from observable markets

With effect from the financial year which commenced on 1 April 2010, the Group adopted the amendment to IFRS 7 for financial instruments that are measured in the statement of financial position at fair value This amendment requires disclosure of fair value measurements by level of the following fair value measurement hierarchy

- Quoted prices (unadjusted) in active markets for identical assets (level 1)
- Inputs other than quoted prices included within level 1 that are observable for the asset either directly i e. as prices, or indirectly i e derived from prices (level 2).
- Inputs for the asset that are not based on observable market data i e unobservable inputs (level 3)

At 31 March 2011, all the Group's derivative financial instruments disclosed in Note 10 are categorised as level 2 instruments, since these contracts are fair valued through valuation techniques utilising data solely from observable markets The fair value of all the Group's available-for-sale assets is approximated by the carrying amount of these assets and accordingly no fair value changes have been reflected The fair values utilised in this respect have been estimated on the basis of techniques utilising observable inputs categorised as level 2 inputs

3. Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and based on historical experience and other factors including expectations of future events that are believed to be reasonable under the circumstances

3. Critical accounting estimates and judgements - continued

In the opinion of the directors, the accounting estimates and judgements made in the course of preparing these financial statements are not difficult, subjective or complex to a degree which would warrant their description as critical in terms of the requirements of IAS 1.

As referred to in Notes 5 and 6 to the financial statements, the Group's land and buildings category of property, plant and equipment and investment property are fair valued on the basis of professional advice, which considers current market prices in an active market for the properties

4. Segment reporting

Subsequent to the adoption of the requirements of IFRS 8, 'Operating segments', the Group's management reviewed the disclosures required in this respect and determined that the Group effectively has one operating segment taking cognisance of the information utilised within the Group for the purposes of assessing performance

5. Property, plant and equipment

Group

	Land and buildings €000	Aircraft and flight equipment €000	Other assets €000	Total €000
At 1 April 2009				
Cost	54,857	25,456	22,311	102,624
Accumulated depreciation and impairment losses	(12,110)	(19,282)	(18,929)	(50,321)
Net book amount	42,747	6,174	3,382	52,303
Year ended 31 March 2010				
Opening net book amount	42,747	6,174	3,382	52,303
Revaluation surplus arising during the year (Note 19)	27,350	-	-	27,350
Additions	286	251	486	1,023
Reclassifications	(214)	(244)	458	-
Disposals	(134)	-	(480)	(614)
Depreciation charge	(1,255)	(870)	(1,143)	(3,268)
Depreciation released on disposals	89	-	311	400
Exchange differences	-	-	34	34
Other movements	14	-	-	14
Closing net book amount	68,883	5,311	3,048	77,242
At 31 March 2010				
Cost or valuation	69,141	25,677	22,754	117,572
Accumulated depreciation and impairment losses	(258)	(20,366)	(19,706)	(40,330)
Net book amount	68,883	5,311	3,048	77,242

5. Property, plant and equipment - continued

	Land and buildings €000	Aircraft and flight equipment €000	Other assets €000	Total €000
Year ended 31 March 2011				
Opening net book amount	68,883	5,311	3,048	77,242
Adjustment arising on revaluation (Note 19)	(13,482)	-	-	(13,482)
Additions	107	6,168	646	6,921
Reclassification to investment property	(468)	-	-	(468)
Transfer to assets classified as held for sale (Note 16)	-	-	(697)	(697)
Disposals	-	(12,612)	(895)	(13,507)
Depreciation charge	(1,202)	(629)	(888)	(2,719)
Depreciation released on disposals	-	2,439	791	3,230
Closing net book amount	**53,838**	**677**	**2,005**	**56,520**
At 31 March 2011				
Cost or valuation	53,838	19,233	20,862	93,933
Accumulated depreciation and impairment losses	-	(18,556)	(18,857)	(37,413)
Net book amount	**53,838**	**677**	**2,005**	**56,520**

The Group's land and buildings were revalued on 31 March 2010 by an independent professionally qualified valuer Valuations were made on the basis of open market value at that date taking cognisance of the specific location of the properties, the size of the sites and the availability of similar properties in the area At 31 March 2010, the book value of the properties had been adjusted to the revaluation and the resultant surplus, net of applicable deferred taxation, had been credited to the revaluation reserve in shareholders' equity (Note 19)

In view of the circumstances as outlined in Note 1 1 1, on 7 December 2011, the Company entered into an irrevocable Promise of Sale Agreement with the Government of Malta in respect of the principal elements of its land and buildings category The carrying amounts of the Group's land and buildings as at 31 March 2011 have been adjusted to take into account the sale prices contracted within the Promise of Sale Agreement, which prices are considered by the directors to reflect fair values as at 31 March 2011 A downward adjustment to the carrying amount of property, plant and equipment of €13.5 million was required in this respect, with related adjustments to the revaluation reserve and deferred taxation (Notes 19 and 23).

5. Property, plant and equipment - continued

The reclassifications to investment property during the current financial year relate to transfer upon change in use evidenced by end of owner-occupation or commencement of operating lease arrangements in this respect

In view of the Group's intentions to dispose of its tour operator business, property, plant and equipment attributable to this operation, have been transferred to assets classified as held for sale at 31 March 2011

Company

	Land and buildings €000	Aircraft and flight equipment €000	Other assets €000	Total €000
At 1 April 2009				
Cost	53,688	25,456	20,915	100,059
Accumulated depreciation and impairment losses	(11,974)	(19,282)	(17,926)	(49,182)
Net book amount	41,714	6,174	2,989	50,877
Year ended 31 March 2010				
Opening net book amount	41,714	6,174	2,989	50,877
Revaluation surplus arising during the year (Note 19)	27,350	-	-	27,350
Additions	286	251	445	982
Reclassifications	(214)	(244)	458	-
Disposals	(134)	-	(261)	(395)
Depreciation charge	(1,246)	(870)	(1,027)	(3,143)
Depreciation released on disposals	89	-	242	331
Other movements	14	-	-	14
Closing net book amount	67,859	5,311	2,846	76,016
At 31 March 2010				
Cost or valuation	67,972	25,463	21,557	114,992
Accumulated depreciation and impairment losses	(113)	(20,152)	(18,711)	(38,976)
Net book amount	67,859	5,311	2,846	76,016

5. **Property, plant and equipment** - continued

	Land and buildings €000	Aircraft and flight equipment €000	Other assets €000	Total €000
Year ended 31 March 2011				
Opening net book amount	67,859	5,311	2,846	76,016
Adjustment arising on revaluation (Note 19)	(13,482)	-	-	(13,482)
Additions	107	6,168	605	6,880
Reclassification to investment property (Note 6)	(468)	-	-	(468)
Disposals	-	(12,612)	(855)	(13,467)
Depreciation charge	(1,193)	(629)	(887)	(2,709)
Depreciation released on disposals	-	2,439	791	3,230
Closing net book amount	**52,823**	**677**	**2,500**	**56,000**
At 31 March 2011				
Cost or valuation	52,823	19,019	21,307	93,149
Accumulated depreciation and impairment losses	-	(18,342)	(18,807)	(37,149)
Net book amount	**52,823**	**677**	**2,500**	**56,000**

If the land and buildings were stated on the historical cost basis, the amounts would be as follows

	Group		**Company**	
	2011 €000	2010 €000	**2011 €000**	2010 €000
Cost	**54,378**	54,557	**53,209**	53,388
Accumulated depreciation	**(14,145)**	(12,975)	**(13,991)**	(12,830)
Net book amount	**40,233**	41,582	**39,218**	40,558

6. Investment property

	Group €000	Company €000
At 1 April 2009		
Cost	11,760	12,278
Fair value gains	8,236	8,236
Carrying amount	19,996	20,514
Year ended 31 March 2010		
Opening carrying amount	19,996	20,514
Other movements	(215)	(224)
Closing carrying amount	19,781	20,290
At 31 March 2010		
Cost	11,545	12,054
Fair value gains	8,236	8,236
Carrying amount	19,781	20,290
Year ended 31 March 2011		
Opening carrying amount	19,781	20,290
Reclassification from property, plant and equipment (Note 5)	468	468
Losses from changes in fair value	(4,426)	(4,426)
Other movements	(346)	(355)
Closing carrying amount	**15,477**	**15,977**
At 31 March 2011		
Cost	12,030	12,530
Fair value gains	3,447	3,447
Carrying amount	**15,477**	**15,977**

The Group's investment properties are fair valued annually on 31 March at fair value, comprising open market value, by an independent professionally qualified valuer Valuations were made on the basis of open market value taking cognisance of the specific location of the properties, the size of the sites and the availability of similar properties in the area

6. Investment property - continued

In view of the circumstances as outlined in Note 1 1.1, on 7 December 2011, the Company entered into an irrevocable Promise of Sale Agreement with the Government of Malta in respect of its investment property The carrying amounts of the Group's investment property as at 31 March 2011 have been adjusted to take into account the sale prices contracted within the Promise of Sale Agreement, which prices are considered by the directors to reflect fair values as at 31 March 2011 A downward adjustment to the carrying amount of investment property of €4 4 million was required in this respect, with related adjustments to the pre-tax results and deferred taxation (Note 23).

The following amounts have been recognised in profit or loss

	Group and Company	
	2011	2010
	€000	€000
Rental income from investment property	**600**	603

If the investment property was stated on the historical cost basis, the amounts would be as follows:

	Group		Company	
	2011	2010	**2011**	2010
	€	€	**€**	€
Cost	**12,755**	12,755	**13,604**	13,318
Accumulated depreciation	**(1,417)**	(1,210)	**(1,511)**	(1,264)
Net book amount	**11,338**	11,545	**12,093**	12,054

Investment property includes property leased out by the Group under operating leases with the following carrying amounts

	At 31 March	At 31 March	At 1 April
	2011	2010	2009
	€000	€000	€000
Carrying amounts	**15,460**	16,065	15,978

7. Investments in subsidiaries

Company

	Shares in subsidiaries €000	Loans to subsidiaries €000	Total €000
At 1 April 2009			
Cost	2,380	3,017	5,397
Provisions for impairment	(344)	(2,980)	(3,324)
Carrying amount	2,036	37	2,073
Year ended 31 March 2010			
Opening carrying amount	2,036	37	2,073
Additions	3,487	437	3,924
Repayment of loans	-	(37)	(37)
Loans written off	-	(2,980)	(2,980)
Movement in provisions for impairment	(1,417)	2,980	1,563
Closing carrying amount	4,106	437	4,543
At 31 March 2010			
Cost	5,867	437	6,304
Provisions for impairment	(1,761)	-	(1,761)
Carrying amount	4,106	437	4,543
Year ended 31 March 2011			
Opening carrying amount	4,106	437	4,543
Repayment of loans	-	(189)	(189)
Transfer to assets classified as held for sale (Note 16)	(2,243)	(248)	(2,491)
Closing carrying amount	**1,863**	**-**	**1,863**
At 31 March 2011			
Cost	2,207	-	2,207
Provisions for impairment	(344)	-	(344)
Carrying amount	**1,863**	**-**	**1,863**

At 31 March 2010, loans to subsidiaries were unsecured, repayable on demand and subject to a weighted average effective interest rate of 3 95% per annum

The net investments transferred to assets classified as held for sale relate to the Company's investments attributable to the Group's tour operator business, which the Group intends to dispose of

8. Investments in associates

Group

	Shares in associates €000	Loans to associates €000	Total €000
At 1 April 2009			
Cost	99	383	482
Share of undertakings' post acquisition profits and reserves	(26)	-	(26)
Provisions for impairment	-	(93)	(93)
Carrying amount	73	290	363
Year ended 31 March 2010			
Opening carrying amount	73	290	363
Repayment of loans	-	(124)	(124)
Share of results	121	-	121
Dividends received	(114)	-	(114)
Movements in provisions for impairment	-	93	93
Closing carrying amount	80	259	339
At 31 March 2010			
Cost	99	259	358
Share of undertakings' post acquisition profits and reserves	(19)	-	(19)
Carrying amount	80	259	339
Year ended 31 March 2011			
Opening carrying amount	80	259	339
Transfer to assets classified as held for sale (Note 16)	(87)	-	(87)
Repayment of loans	-	(46)	(46)
Share of results	658	-	658
Dividends received	(225)	-	(225)
Closing carrying amount	**426**	**213**	**639**
At 31 March 2011			
Cost	12	213	225
Share of undertakings' post acquisition profits and reserves	414	-	414
Carrying amount	**426**	**213**	**639**

During the current year, the Company disposed of its interest in Flight Catering Company Limited and accordingly this investment has been transferred to assets classified as held for sale

During the preceding financial year the Group disposed of its holdings in Sabratha Duty Free Company Limited, Stakes Holding Limited and Heritage Insurance Management (Malta) Limited These assets had been classified as assets held for sale as at 31 March 2009

8. Investments in associates - continued

The Group's share of results of its principal associate, which is unlisted, and its share of the respective assets and liabilities are as follows

	Assets €000	Liabilities €000	Revenues €000	Profit €000	Interest held %
2011					
World Aviation Group Limited	**2,233**	**1,381**	**3,789**	**260**	**50**
2010					
World Aviation Group Limited	2,579	1,581	3,696	366	50

In the consolidated financial statements the Group's share of results of the associates, disclosed in the tables above, is after tax.

Company

	Shares in associates €000	Loans to associates €000	Total €000
At 1 April 2009			
Cost	99	383	482
Provisions for impairment	-	(93)	(93)
Carrying amount	99	290	389
Year ended 31 March 2010			
Opening carrying amount	99	290	389
Repayment of loans	-	(124)	(124)
Movements in provisions for impairment	-	93	93
Closing carrying amount	99	259	358
At 31 March 2010			
Cost	99	259	358
Provisions for impairment	-	-	-
Carrying amount	99	259	358
Year ended 31 March 2011			
Opening carrying amount	99	259	358
Transfer to assets classified as held for sale (Note 16)	(87)	-	(87)
Repayment of loans	-	(46)	(46)
Closing carrying amount	**12**	**213**	**225**
At 31 March 2011			
Cost	12	213	225
Carrying amount	**12**	**213**	**225**

Loans to associates are unsecured and repayable on demand At 31 March 2011, these loans are subject to a weighted average effective interest rate of 1% (2010. 1%) per annum

9. Available-for-sale financial assets

Group

	Equity instruments €000	Government of Malta Treasury Bills €000	Quoted debt securities €000	Total €000
At 1 April 2009				
Amortised cost	1,308	1,987	354	3,649
Provisions for impairment	(459)	-	-	(459)
Carrying amount	849	1,987	354	3,190
Year ended 31 March 2010				
Opening carrying amount	849	1,987	354	3,190
Additions at cost	3,343	-	-	3,343
Disposals	(1,924)	(1,940)	(354)	(4,218)
Other movements	-	(47)	-	(47)
Closing carrying amount	2,268	-	-	2,268
At 31 March 2010				
Amortised cost	2,727	-	-	2,727
Provisions for impairment	(459)	-	-	(459)
Carrying amount	2,268	-	-	2,268
Year ended 31 March 2011				
Opening carrying amount	2,268	-	-	2,268
Additions at cost	1,091	-	504	1,595
Disposals	(1,839)	-	-	(1,839)
Increase in provision for impairment	(581)	-	-	(581)
Other movements	(8)	-	-	(8)
Closing carrying amount	**931**	-	**504**	**1,435**
At 31 March 2011				
Amortised cost	1,971	-	504	2,475
Provisions for impairment	(1,040)	-	-	(1,040)
Carrying amount	**931**	-	**504**	**1,435**

9. Available-for-sale financial assets - continued

Analysis of total available-for-sale financial assets:

	Equity instruments €000
At 31 March 2011	
Non-current	268
Current	1,167
	1,435
At 31 March 2010	
Non-current	849
Current	1,419
	2,268

The Group's non-current available for-sale investments comprise equity instruments in unquoted companies The Company's directors are of the opinion that the fair value of these instruments cannot be reliably determined, in view of the absence of an active market, comparable market transactions and alternative reliable estimates of fair value

The weighted average effective interest rates of quoted debt securities as at 31 March 2011 was 3 75% The fair value of the Group's quoted debt securities as at the end of the reporting period was not significantly different from the carrying amount

Company

	Equity instruments €000	Quoted debt securities €000	Total €000
At 1 April 2009			
Amortised cost and carrying amount	688	354	1,042
Year ended 31 March 2010			
Opening carrying amount	688	354	1,042
Disposals	-	(354)	(354)
Closing carrying amount	688	-	688
At 31 March 2010			
Amortised cost and carrying amount	688	-	688
Year ended 31 March 2011			
Opening carrying amount	688	-	688
Increase in provision for impairment	(581)	-	(581)
Closing carrying amount	**107**	-	**107**
At 31 March 2011			
Amortised cost and carrying amount	688	-	688
Provisions for impairment	(581)	-	(581)
Carrying amount	**107**	-	**107**

9. Available-for-sale financial assets - continued

Analysis of total available-for-sale financial assets

	Equity instruments €000
At 31 March 2011	
Non-current	**107**
At 31 March 2010	
Non-current	688

10. Derivative financial instruments

The fair values of derivative financial instruments held at the end of the reporting period are set out in the following table

	Group and Company Fair values Assets €000	Liabilities €000
At 31 March 2011		
Derivatives held for hedging (cash flow hedges)		
Foreign exchange derivatives		
- currency forwards	235	(788)
Fuel price hedging derivatives		
- combined options	140	-
- commodity swaps	275	(7)
	415	(7)
Total derivative assets/(liabilities) – Current	**650**	**(795)**
At 31 March 2010		
Derivatives held for hedging (cash flow hedges)		
Foreign exchange derivatives		
- currency forwards	1,243	-
Fuel price hedging derivatives		
- combined options	1,753	-
Total derivative assets – Current	2,996	-

10. Derivative financial instruments - continued

The currency forward contracts outstanding as at 31 March 2011 have the following contract terms

	Fair value - assets €000
Forward sale of EUR31 2 million against USD (at average contracted rate of EUR1 USD1 3634)	(760)
Forward sale of GBP4 8 million against EUR (at average contracted rate of EUR1 GBP0 8436)	207
	(553)

These contracts mature within a period of seven to twelve months from the end of the reporting period and within the same period of time the forecast transactions designated as items being hedged by these contracts are expected to affect profit or loss

The terms and approximate notional amounts of the hedging commodity derivatives outstanding as at 31 March 2011 are as follows.

Combined bought call options and written call options at higher strike

Contract cover	Notional amount	Strike prices	Fair value - assets €000
Two month period to 31 May 2011	USD1,086,000	$95.10/115 00	140

Commodity swap agreements

Contract cover	Notional amount	Settlement terms	Fair value - assets/ (liabilities) €000
Two month period to 31 May 2011	USD1,077,000	Pay-fixed ($94.37), receive-floating	183
Three month period to 30 June 2011	USD746,000	Pay-fixed ($105), receive-floating	59
Three month period to 30 June 2011	USD783,000	Pay-fixed ($110 3), receive-floating	33
Five month period to 31 August 2011	USD2,582,000	Pay-fixed ($116 98), receive-floating	(7)
			268

These fuel hedging derivative contracts would typically have monthly exercise or settlement dates and upon monthly net cash settlements, amounts recognised in equity in respect of these contracts would be released to profit or loss as the forecast hedged transactions would simultaneously affect the results of the Group

The terms and conditions of the derivative instruments outstanding as at 31 March 2010 are disclosed in the consolidated financial statements of the preceding financial year.

11. Other receivables

	Group and Company	
	2011	2010
	€000	€000
Non-current:		
Security deposits arising from operating lease agreements	**4,658**	4,526
Other long-term deposits and receivables	**280**	379
	4,938	4,905

Security deposits, amounting to €4,658,000 (2010 €4,526,000), will be refunded to the Company on termination of the Company's fleet and engine lease periods up to March 2020

'Other long-term deposits and receivables' are principally receivable within five years (2010 five years) from the end of the reporting period

12. Inventories

	Group and Company	
	2011	2010
	€000	€000
Aircraft engineering spares	**1,579**	1,630
Other stocks	**132**	202
	1,711	1,832

13. Trade receivables

	Group		Company	
	2011	2010	**2011**	2010
	€000	€000	**€000**	€000
Trade receivables – gross	**25,285**	28,962	**25,340**	27,013
Less: Provisions for impairment of trade receivables	**(3,536)**	(4,431)	**(3,536)**	(3,026)
Trade receivables – net	**21,749**	24,531	**21,804**	23,987

14. Term placements with banks

These term placements comprise bank deposits with contractual terms of three months or more The placements mature within thirty-four (2010 nineteen) months from the end of the reporting period Interest receivable is presented within 'Finance income' (Note 30). The weighted average effective interest rate on these assets as at 31 March 2011 was 2 38% (2010: 3.93%) The fair value of the Group's term bank placements as at that date was not significantly different from the carrying amount

	Group	
	2011	2010
	€000	€000
Maturity of deposits with banks		
- within one year	**4,617**	3,664
- between one and two years	**1,239**	2,300
	5,856	5,964

15. Cash and cash equivalents

For the purposes of the statements of cash flows, the year-end cash and cash equivalents comprise the following

	Group		Company	
	2011	2010	**2011**	2010
	€000	€000	**€000**	€000
Attributable to continuing operations·				
Cash at bank and in hand	**23,531**	9,180	**22,915**	7,179
Bank overdrafts (Note 22)	**(845)**	(2,437)	**(845)**	(1,913)
	22,686	6,743	**22,070**	5,266
Attributable to discontinued operations				
Cash at bank and in hand	**1,363**	416	-	-
Bank overdrafts (Note 16)	**(827)**	-	-	-
	536	416	-	-
Total cash and cash equivalents	**23,222**	7,159	**22,070**	5,266

The Group's bank balances reflected in the table above are call accounts and deposits with contractual terms of three months or less Bank and cash balances include an amount of €934,000 (2010· €1,336,000) that is held in overseas bank accounts subject to currency restrictions which lead to delays in remittance to Malta

16 Assets classified as held for sale and discontinued operations

16.1 Amounts presented in the income statement

	Group		Company	
	2011	2010	**2011**	2010
	€000	€000	**€000**	€000
(Loss)/profit after tax of discontinued operations				
Hotel segment (see Note 16 1 1)	**(545)**	5,888	-	-
Tour operator segment (see Note 16 1.1)	**(1,238)**	(2,332)	-	-
Post-tax dividend income receivable from assets classified as held for sale – attributable to discontinued operations (see Note 16 1.2)	-	-	-	3,569
Post-tax gain/(loss) recognised on disposal of assets (see Note 16.1 2)	**221**	24	**221**	(1,242)
Movement in provisions on subsidiaries classified as held for sale (see Note 16.1.3)	-	-	**(10,730)**	(2,917)
(Loss)/profit for the year from discontinued operations	**(1,562)**	3,580	**(10,509)**	(590)

16 1.1 During the current year the Group resolved to dispose of its tour operator business, which comprises Holiday Malta Company Limited, based in the United Kingdom, and its subsidiary undertakings In prior years, the Group had also publicly announced its intention to discontinue its hotel operations Hal Ferh Company Limited, which formed part of the Group's hotel operations was disposed in the prior year The subsidiaries comprising the tour operator and hotel are reported in these consolidated financial statements as discontinued operations in accordance with the requirements of IFRS 5 'Non-current assets held for sale and discontinued operations' An analysis of the result of the discontinued operations is as follows

Hotel operations

	2011	2010
	€000	€000
Revenue	**1,567**	1,811
Operating costs	**(2,032)**	(2,618)
Gain on disposal of property, plant and equipment (Note 37)	-	8,202
Operating (loss)/profit	**(465)**	7,395
Finance costs	**(80)**	(136)
(Loss)/profit before tax of discontinued operations	**(545)**	7,259
Tax	-	(1,371)
(Loss)/profit after tax of discontinued operations	**(545)**	5,888
Operating cash flows	**(468)**	(2,089)
Investing cash flows	**(21)**	10,206
Financing cash flows	**6**	(1,684)
Total cash flows	**(483)**	6,433

16. Assets classified as held for sale and discontinued operations - continued

16.1 Amounts presented in the income statement - continued

Expenses by nature

	2011 €000	2010 €000
Food beverage and other direct costs	**321**	346
Employee benefit expense (Note 27)	**1,170**	1,142
Heat, light and power	**207**	190
Net movement in provisions for impairment of trade receivables (included in 'Administrative expenses')	**34**	-
Other expenses	**300**	940
Total cost of sales, selling and distribution costs and administrative expenses	**2,032**	2,618

Tour operator business

	2011 €000	2010 €000
Revenue	**18,934**	21,955
Operating costs	**(20,098)**	(24,287)
Operating loss	**(1,164)**	(2,332)
Finance income	**4**	216
Finance costs	**(127)**	(212)
Loss before tax of discontinued operations	**(1,287)**	(2,328)
Tax	**49**	(4)
Loss after tax of discontinued operations	**(1,238)**	(2,332)
Operating cash flows	**(267)**	(4,527)
Investing cash flows	**(18)**	108
Financing cash flows	**(57)**	3,446
Total cash flows	**(342)**	(973)

16. Assets classified as held for sale and discontinued operations - continued

16.1 Amounts presented in the income statement - continued

Expenses by nature

	2011 €000	2010 €000
Other flight related costs	**5,910**	8,896
Depreciation of property, plant and equipment	**99**	114
Employee benefit expense (Note 27)	**1,484**	1,661
Marketing and advertising costs	**786**	801
Net movement in provisions for impairment of trade receivables (included in 'Administrative expenses')	**(284)**	69
Other expenses	**12,103**	12,746
Total cost of sales, selling and distribution costs and administrative expenses	**20,098**	24,287

16.1.2 During the current financial year, the Group disposed of its interest in Flight Catering Company Limited, which was an associate of the Group The carrying amount of this investment was reclassified to assets classified as held for sale during the current year The resulting gain on disposal is reflected in the table below

	Group 2011 €000	Company 2011 €000
Net assets disposed of/cost of shares	87	87
Proceeds on disposal	(308)	(308)
Post-tax gain on disposal	**(221)**	**(221)**

During the preceding financial year, the Group disposed of its interest in Holiday Malta Gmbh and Hal-Ferh Company Limited, which were Group entities, and of its interest in Sabratha Duty Free Limited, Stakes Company Limited and Heritage Insurance Management (Malta) Limited, which were associates of the Group The carrying amount of these investments had been classified within assets classified as held for sale The resulting gain on disposal is reflected in the table below

	Group 2010 €000	Company 2010 €000
Net assets disposed of/cost of shares	2,142	3,178
Proceeds on disposal	(3,530)	(3,300)
Pre-tax gain on disposal	(1,388)	(122)
Deferred taxation (Note 23)	1,364	1,364
Post-tax (gain)/loss on disposal	**(24)**	**1,242**

16. Assets classified as held for sale and discontinued operations - continued

16.1 Amounts presented in the income statement - continued

Prior to disposal, Hal Ferh Company Limited distributed a net dividend of €3,569,000 to the parent Company:

	€000
Dividend income from asset classified as held for sale	
Gross dividend	(4,057)
Tax	488
	(3,569)

16 1 3 During the year the following movements in respect of provisions for impairment on subsidiaries classified as held for sale were registered

	2011 €000	2010 €000
	10,730	2,917

16.2 Amounts presented in the statement of financial position

16 2 1 **Group**

	2011 €000	2010 €000
Assets classified as held for sale:		
Hotel assets (see Note 16 2 2)	**5,017**	5,462
Tour Operator assets (see Note 16 2 2)	**2,897**	-
	7,914	5,462
Liabilities directly associated with assets classified as held for sale:		
Hotel liabilities (see Note 16.2 2)	**2,546**	2,505
Tour Operator liabilities (see Note 16 2 2)	**5,294**	-
	7,840	2,505

16. Assets classified as held for sale and discontinued operations - continued

16.2 Amounts presented in the statement of financial position

16 2 2 The non-current assets, other assets and liabilities attributable to the tour operator and hotel businesses are presented as held for sale as follows

	2011 €000	2010 €000
Hotel operations		
Assets classified as held for sale:		
- Property, plant and equipment	**4,780**	4,760
- Other current assets	**237**	702
	5,017	5,462
Liabilities directly associated with assets classified as held for sale:		
- Bank borrowings	**1,836**	1,830
- Trade and other payables	**710**	675
	2,546	2,505

	2011 €000	2010 €000
Tour operator business		
Assets classified as held for sale:		
- Property, plant and equipment	**584**	-
- Trade and other receivables	**1,101**	-
- Cash balances	**1,212**	-
	2,897	-
Liabilities directly associated with assets classified as held for sale:		
- Bank borrowings	**827**	-
- Trade and other payables	**4,467**	-
	5,294	-

16. Assets classified as held for sale and discontinued operations - continued

16.2 Amounts presented in the statement of financial position - continued

16 2 3 Company

Assets classified as held for sale:

	Shares in subsidiaries €000	Loans to subsidiaries €000	Shares in associates €000	Total €000
Year ended 31 March 2011				
Opening carrying amount	-	9,872	-	9,872
Additions	-	80	-	80
Reclassified from Investments in subsidiaries	2,243	248	-	2,491
Reclassified from Investments in associates	-	-	87	87
Increase in provisions for impairment	(2,243)	(5,877)	-	(8,120)
Disposals	-	-	(87)	(87)
Closing carrying amount	**-**	**4,323**	**-**	**4,323**
Year ended 31 March 2010				
Opening carrying amount	2,696	11,809	485	14,990
Additions	-	682	-	682
Repayment of loans	-	(2,619)	-	(2,619)
Disposals	(2,696)	-	(485)	(3,181)
Closing carrying amount	**-**	**9,872**	**-**	**9,872**

Provisions for impairment reported within the carrying amounts above are analysed as follows:

	Shares in subsidiaries €000	Loans to subsidiaries €000	Total €000
Year ended 31 March 2011			
At beginning of year	(2,763)	(552)	(3,315)
Reclassified from Investments in subsidiaries	(1,417)	-	(1,417)
Increase in provisions for impairment	(2,243)	(5,877)	(8,120)
At end of year	**(6,423)**	**(6,429)**	**(12,852)**

16. Assets classified as held for sale and discontinued operations - continued

16.2 Amounts presented in the statement of financial position - continued

	Shares in subsidiaries €000	Loans to subsidiaries €000	Shares in associates €000	Total €000
Year ended 31 March 2010				
At beginning of year	(2,763)	(552)	(163)	(3,478)
Reversal of provision upon disposal	-	-	163	163
At end of year	(2,763)	(552)	-	(3,315)

At 31 March 2011, loans to subsidiaries amounting to €248,000 are unsecured, repayable on demand and subject to a weighted average effective interest rate of 3.95% per annum. All other loans to subsidiaries are unsecured, repayable on demand and interest-free

17. Share capital

	Group and Company	
	2011	2010
	€000	€000
Authorised		
35,000,000 (2010 35,000,000) ordinary shares of €2 329373 each	**81,528**	81,528
Issued and fully paid		
11,115,478 (2010 11,115,478) ordinary shares of €2 329373 each	**25,892**	25,892

18. Share premium

	Group and Company	
	2011	2010
	€000	€000
At beginning and end of year	**42,762**	42,762

19. Revaluation reserve

The reserve represents the revaluation adjustments arising from the fair valuation of the land and buildings component to property, plant and equipment The movements in the revaluation reserve are analysed as follows·

	Group and Company	
	2011	2010
	€000	€000
At beginning of year	**17,778**	-
Adjustments to surplus arising on revaluation	**(13,482)**	27,350
Deferred income tax on adjustments to surplus (Note 23)	**4,719**	(9,572)
Reversal of deferred income tax arising on revaluation (Note 23)	**4,853**	-
At end of year	**13,868**	17,778

The tax impact relating to this component of other comprehensive income is presented in the above table

The revaluation reserve is non-distributable.

20. Hedging reserve

Group and Company

The fair values of cash flow hedges are recorded in the hedging reserve, in a separate category of equity, as shown below·

	Currency forwards €000	Fuel options and swaps €000	Total €000
At 1 April 2010			
Gross amounts of gains	1,243	1,648	2,891
Deferred income tax	(435)	(577)	(1,012)
	808	1,071	1,879
Movements in year ended 31 March 2011			
Net gains from changes in fair value	43	641	684
Deferred income tax	(209)	(96)	(305)
	(166)	545	379
Reclassified to profit or loss as a reclassification adjustment	(1,839)	(1,923)	(3,762)
Deferred income tax	644	673	1,317
	(1,195)	(1,250)	(2,445)
At 31 March 2011			
Gross amounts of (losses)/gains	**(553)**	**366**	**(187)**

20. Hedging reserve – continued

	Currency forwards €000	Fuel options and swaps €000	Total €000
At 1 April 2009			
Gross amounts of gains/(losses)	6,098	(514)	5,584
Deferred income tax	(2,134)	180	(1,954)
	3,964	(334)	3,630
Movements in year ended 31 March 2010			
Net (losses)/gains from changes in fair value	(1,112)	6,879	5,767
Deferred income tax	389	(2,408)	(2,019)
	(723)	4,471	3,748
Reclassified to profit or loss as a reclassification adjustment	(3,743)	(4,717)	(8,460)
Deferred income tax	1,310	1,651	2,961
	(2,433)	(3,066)	(5,499)
At 31 March 2010			
Gross amounts of gains	1,243	1,648	2,891
Deferred income tax	(435)	(577)	(1,012)
	808	1,071	1,879

The tax impacts relating to this component of other comprehensive income are presented in the above tables

The net fair value gains as at 31 March 2011 on open forward foreign exchange contracts which hedge anticipated future foreign currency transactions will be reclassified from the hedging reserve to profit or loss as a reclassification adjustment when the forecast transactions occur, at various dates up to one year from the end of the reporting period

The net fair value gains as at the end of the reporting period on outstanding commodity derivatives will be reclassified from the hedging reserve to profit or loss as a reclassification adjustment in the periods in which the hedged forecast transactions affect profit or loss This would occur in the months covered by the terms of the contracts, according to the incidence of exercise or settlement dates, for a period of twelve months following the end of the reporting period

21. Other reserve

Group

The other reserve arose on consolidation following the acquisition of minority interests in subsidiaries

	2011 €000	2010 €000
At beginning and end of year	**(3,497)**	(3,497)

22. Borrowings

	Group		Company	
	2011 €000	2010 €000	**2011 €000**	2010 €000
Current				
Bank overdrafts	**845**	2,437	**845**	1,913
Bank loans	**7,142**	23,136	**7,142**	23,104
Borrowings from ultimate shareholder	**41,000**	-	**41,000**	-
	48,987	25,573	**48,987**	25,017
Non-current				
Bank loans	**4,000**	1,488	**4,000**	1,161
Total borrowings	**52,987**	27,061	**52,987**	26,178

During the course of the year, the Government of Malta, under the terms of Act XVIII of 2010 entitled 'An Act to authorise and regulate the raising of loans for the purposes of entering into re-lending agreements with Air Malta Plc', has consented, following the approval of the European Commission, to the request made by the Company, under the European Community Guidelines on State Aid for Rescuing and Restructuring Firms in Difficulty (2004/C 244/02), to be granted a loan of €52,000,000 to enable the Company to meet its short-term liquidity requirements and enable it to continue its operations until the Restructuring Plan has been put into place As at the reporting date, €41,000,000 worth of drawdowns have been made, with the remaining balance of €11,000,000 drawn after year-end

The loan which carries interest of 6.49% is to be repaid in full with interest by not later than 6 months from the first drawdown date On 12 May 2011, the shareholder, under the terms of the said Act, granted the Company a further extension of 6 months from the original repayment date A further extension was granted by the lender on 11 November 2011 to extend the repayment of the loan to 15 November 2012.

At 31 March 2011, banking facilities of the Group and Company for an amount of €13,976,000 are secured by general and special hypothecs on immovable property held by a subsidiary Bank loans taken out by subsidiaries are secured by charges over their assets and are also supported by guarantees from the holding Company (also refer to borrowings presented in Note 16) The Group's and Company's bank borrowings are subject to floating interest rates

22. Borrowings - continued

The weighted average effective interest rates for borrowings at the end of the reporting period are as follows

	Group		Company	
	2011	2010	**2011**	2010
	%	%	**%**	%
Bank overdrafts	**4.72**	3 79	**4.72**	3 14
Bank loans	**5.95**	3 70	**5.95**	4 02
Borrowings from ultimate shareholder	**6.49**	-	**6.49**	-

Maturity of non-current borrowings

	Group		Company	
	2011	2010	**2011**	2010
	€000	€000	**€000**	€000
Between one and two years	**4,000**	1,488	**4,000**	1,161
	4,000	1,488	**4,000**	1,161

23. Deferred taxation

Deferred income taxes are calculated on all temporary differences under the liability method and are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled based on tax rates (and tax laws) that have been enacted by the end of the reporting period The principal tax rate used is 35% (2010 35%)

Group

The movement on the deferred tax account is as follows

	Deferred tax assets			Deferred tax liabilities			
	Provisions €000	Unabsorbed tax losses carried forward €000	Unabsorbed capital losses carried forward €000	Remeasurement of derivative instruments €000	Fair valuation of investment property €000	Revaluation of property, plant and equipment €000	Net €000
Balance at 1 April 2010	205	13,466	-	(1,011)	(2,883)	(9,572)	205
Credited/(charged) to profit or loss	(19)	(13,466)	-	-	2,883	-	(10,602)
Credited/(debited) to other comprehensive income in equity	-	-	-	1,011	-	9,572	10,583
Balance at 31 March 2011	**186**	-	-	-	-	-	**186**

23. Deferred taxation - continued

The deferred tax liability attributable to the revaluation of property arising during the preceding year has been reversed in the current financial year due to the Promise of Sale Agreement covering the majority of the revalued property referred to in Notes 5 and 6, whereby the disposal is not likely to have tax implications for the Company This has necessitated the reversal of an equivalent deferred tax asset arising from unabsorbed tax losses, as the recognised asset was inextricably linked to the liability attributable to the revaluation of property

Included in the Group's deferred tax assets as at 31 March 2011 is a balance of €62,000 (2010: Nil) relating to discontinued operations

	Deferred tax assets			Deferred tax liabilities			
	Provisions €000	Unabsorbed tax losses carried forward €000	Unabsorbed capital losses carried forward €000	Remeasurement of derivative instruments €000	Fair valuation of investment property €000	Revaluation of property, plant and equipment €000	Net €000
Balance at 1 April 2009	193	1,954	1,364	(1,954)	(2,883)	-	(1,326)
Credited/(charged) to profit or loss	12	11,512	(1,364)	-	-	-	10,160
Credited/(debited) to other comprehensive income in equity	-	-	-	943	-	(9,572)	(8,629)
Balance at 31 March 2010	**205**	**13,466**	-	**(1,011)**	**(2,883)**	**(9,572)**	**205**

The recognised deferred tax assets and liabilities are expected to be recovered or settled principally after more than twelve months.

Deferred tax assets are recognised to the extent that realisation of the related tax benefit through future taxable profits is probable. At 31 March 2011 and 2010, the Group had the following unutilised tax credits and deductible temporary differences in respect of which deferred taxation has not been recognised

	2011 €000	2010 €000
Unutilised tax credits arising from:		
Unabsorbed tax losses and capital allowances	**145,948**	111,971
Unabsorbed capital losses	**45,597**	46,818
Deductible temporary differences arising principally from non-current assets and provisions	**53,061**	13,253

Accordingly, the Group has a potential deferred tax asset amounting to €85,962,000 (2010: €60,215,000) which has not been recognised in these financial statements Whereas tax losses and capital losses have no expiry date and may be carried forward indefinitely, unabsorbed capital allowances are forfeited upon cessation of the trade Capital losses may be offset solely against future capital gains

23. Deferred taxation - continued

Company

The movement on the deferred tax account is as follows

	Deferred tax assets		Deferred tax liabilities			
	Unabsorbed tax losses carried forward €000	Unabsorbed capital losses carried forward €000	Remeasurement of derivative instruments €000	Fair valuation of investment property €000	Revaluation of property plant and equipment €000	Net €000
Balance at 1 April 2010	13,466	-	(1,011)	(2,883)	(9,572)	-
Credited/(charged) to profit or loss	(13,466)	-	-	2,883	-	(10,583)
Credited/(debited) to other comprehensive income in equity	-	-	1,011	-	9,572	10,583
Balance at 31 March 2011	-	-	-	-	-	-

	Deferred tax assets		Deferred tax liabilities			
	Unabsorbed tax losses carried forward €000	Unabsorbed capital losses carried forward €000	Remeasurement of derivative instruments €000	Fair valuation of investment property €000	Revaluation of property plant and equipment €000	Net €000
Balance at 1 April 2009	1,954	1,364	(1,954)	(2,883)	-	(1,519)
Credited/(charged) to profit or loss	11,512	(1,364)	-	-	-	10,148
Credited/ (debited) to other comprehensive income in equity	-	-	943	-	(9,572)	(8,629)
Balance at 31 March 2010	**13,466**	-	**(1,011)**	**(2,883)**	**(9,572)**	-

24. Provisions in respect of maintenance costs

Group and Company

Provisions in respect of maintenance costs are calculated to allow for unclaimable costs expected to be incurred by the Company in maintaining aircraft under operating leases throughout the unexpired period of the lease and in providing for any compensation to meet re-delivery conditions upon termination of the lease

The amount of the provisions at 31 March 2011 and 2010 represent the excess of amounts charged to profit or loss over the actual costs incurred

	2011	2010
	€000	€000
Year ended 31 March		
At beginning of year	**28,576**	25,051
Charged to profit or loss·		
- Additional provisions, including effects of unwinding non-current provisions	**13,437**	12,787
Used during year	**(5,721)**	(9,262)
At end of year	**36,292**	28,576

Analysis of total provisions

	2011	2010
	€000	€000
At 31 March		
Non-current	**32,885**	26,086
Current	**3,407**	2,490
	36,292	28,576

Through its aircraft lease agreements, the Company entered into an arrangement with the lessors to pay in advance maintenance reserves so as to meet maintenance and re-delivery lease conditions. As at 31 March 2011, these reserves which are reflected with the provisions disclosed above, amounted to €39,265,000 (2010· €30,995,000) Furthermore, the Company has agreed to provide to the lessor irrevocable letters of credit as security to cover costs related to maintenance of engines At 31 March 2011, the amounts in this respect amounted to €35,477,000 (2010 €29,320,000) (Note 36).

25. Other provisions

Group and Company

	€000
At 1 April 2009	420
Used during year	(2)
At 31 March 2010	418
Used during year	-
At 31 March 2011	**418**

The above principally represent provisions in relation to potential liabilities attributable to the affairs of previously held investments of the Group These provisions are classified as current liabilities.

26. Information on operating results

26.1 Revenue and Other operating income from continuing operations

With the exception of leasing income, income from airline activities is principally derived from flights to and from Malta The Group's revenue from other business activities is also derived from Malta

	Group	
	2011	2010
	€000	€000
Revenue on airline activities	**190,123**	193,116
Aircraft leasing revenue	**1,896**	-
Ground related and other revenue	**10,011**	9,271
	202,030	202,387

Other operating income principally comprises gains on disposal of engines realised through sale and leaseback arrangements

26. Information on operating results

26.2 Expenses by nature

	Group		Company	
	2011	2010	**2011**	2010
	€000	€000	**€000**	€000
Aircraft fuel and oils	**52,466**	42,061	**52,466**	42,061
Aircraft operating lease rentals	**30,971**	28,258	**30,971**	28,258
Aircraft maintenance	**19,757**	20,627	**19,757**	20,627
Other flight related costs	**47,637**	45,588	**53,547**	54,485
Restructuring costs (Note 26 3)	**31,700**	-	**31,700**	-
Marketing, distribution and representation costs	**16,945**	18,856	**16,945**	18,856
Depreciation of property, plant and equipment (Note 5)	**2,719**	3,268	**2,709**	3,143
Employee benefit expense (Note 27)	**46,937**	46,749	**46,715**	47,548
Net movement in provisions for impairment of trade receivables (included in 'Administrative expenses')	**510**	223	**510**	223
Exchange differences	**1,359**	958	**1,362**	953
Other expenses	**16,969**	17,939	**18,198**	18,331
Total cost of sales, selling and distribution costs and administrative expenses	**267,970**	224,527	**274,880**	234,485

The amounts disclosed in the table above relate solely to continuing operations

26.3 Restructuring costs

	Cost of sales €'000	Selling and distribution costs €'000	Administrative expenses €'000	Total €'000
Costs related to				
Voluntary redundancy and early retirement schemes	19,125	4,719	4,356	28,200
Professional and related fees	-	-	3,500	3,500
	19,125	4,719	7,856	31,700

The Company has reflected the estimated impact on its financial results of restructuring costs, primarily in respect of voluntary and early retirement schemes, which the Board approved in principle prior to 31 March 2011 (refer to Note 1.1.1), and professional fees incurred in the initial stages of implementation of the Restructuring Plan As at 31 March 2011, the Company was subject to a restriction on its ability to withdraw the applicability of the voluntary and early retirement schemes in view of the existing circumstances, particularly the actions approved by the Board and the Company's principal shareholder which have been included within the plans submitted to the European Commission. The estimated impact of the voluntary and early retirement schemes (€28 2 million) has been reflected as a current provision in the statement of financial position

The Company has, subsequent to the end of the reporting period, resolved to commence a number of projects which had been earmarked as part of the restructuring process Estimated costs related to these projects amount to approximately to €15.2 million, but such expenses have not been reflected in the provision for restructuring costs as at 31 March 2011 in view of the timing of the decisions relating to such projects

26. Information on operating results - continued

26.4 Auditors' fees

Fees charged by auditors for services rendered during the financial periods ended 31 March 2011 and 2010 relate to the following

	Group	
	2011	2010
	€000	€000
Audit services – annual statutory		
- Parent Company auditors		
- Company	**100**	100
- subsidiaries	**90**	76
Other services		
- Parent Company auditors Company		
- other assurance services	**66**	57
- tax advisory and compliance services	**7**	15
- other non-audit services	**19**	307

Fees for audit services are approved by the Audit Committee, having been reviewed for cost effectiveness The Committee also reviews and approves the nature and extent of non-audit services to ensure that independence is maintained

Other assurance services include consultation concerning financial accounting and reporting standards, internal controls reviews and attest services

Taxation services include compliance services such as tax return preparation, along with advisory services such as consultation on tax matters, tax advice relating to transactions, and other tax planning and advice

Other non-audit services primarily include advisory services related to transaction support

The figures included in the table above also reflect amounts relating to the Group's discontinued operations.

27. Employee benefit expense

	Group		Company	
	2011	2010	**2011**	2010
	€000	€000	**€000**	€000
Wages and salaries	**46,912**	46,804	**44,324**	45,045
Social security costs	**2,679**	2,748	**2,391**	2,503
	49,591	49,552	**46,715**	47,548

Employee benefit expense included in the Group's figures above relating to discontinued operations amount to €2,654,000 (2010 €2,803,000)

After the end of the reporting period, the Group incurred staff termination costs amounting to €179,000 as a result of the cessation of operations of a subsidiary

27. Employee benefit expense - continued

Average number of persons employed during the year:

	Group		Company	
	2011	2010	**2011**	2010
By category				
Direct	**642**	691	**557**	570
Indirect	**593**	626	**591**	624
Administrative	**184**	195	**156**	162
	1,419	1,512	**1,304**	1,356

Group figures in respect of employee numbers, disclosed in the table above, include 109 (2010: 123) employees attributable to discontinued operations.

28. Investment and other related income

	Group		Company	
	2011	2010	**2011**	2010
	€000	€000	**€000**	€000
Gross dividends receivable from investments in subsidiaries	**-**	-	**-**	2,000
Gross dividends receivable from investments in associates	**-**	-	**225**	114
Income from other financial assets	**26**	42	**33**	12
Provision for impairment on available-for-sale investment	**(581)**	-	**(581)**	-
	(555)	42	**(323)**	2,126

29. Results of subsidiaries and associates

	Group		Company	
	2011	2010	**2011**	2010
	€000	€000	**€000**	€000
Provisions against associates	**-**	-	**-**	93
Share of results of associates and related amounts	**655**	214	**-**	-
	655	214	**-**	93

29. Results of subsidiaries and associates - continued

The figures included in the table above are analysed as follows

	Group		Company	
	2011	2010	**2011**	2010
	€000	€000	**€000**	€000
Movement in provisions for impairment in respect of associates	**-**	(93)	**-**	(93)
Share of results of associates	**(655)**	(121)	**-**	-
	(655)	(214)	**-**	(93)

30. Finance income

	Group		Company	
	2011	2010	**2011**	2010
	€000	€000	**€000**	€000
Interest receivable and similar income from subsidiaries	**-**	-	**11**	193
Interest receivable and similar income from associates	**3**	43	**2**	43
Interest receivable from bank deposits	**182**	186	**22**	71
Exchange differences on bank deposits	**(14)**	(127)	**(17)**	(127)
	171	102	**18**	180

Company figures disclosed above in respect of interest receivable and similar income from subsidiaries include amounts of €11,000 (2010 €192,000) relating to discontinued operations. No interest income earned by the Group was attributable to these discontinued operations.

31. Finance costs

	Group		Company	
	2011	2010	**2011**	2010
	€000	€000	**€000**	€000
Interest payable on bank loans and overdrafts	**952**	1,000	**952**	1,000
Interest payable to subsidiaries	**-**	-	**10**	7
Interest payable to shareholder (Note 22)	**476**	-	**476**	-
Bank charges and similar expenses, including exchange differences on borrowings	**254**	795	**254**	795
	1,682	1,795	**1,692**	1,802

31. Finance costs - continued

Company figures disclosed above in respect of interest payable to subsidiaries do not include amounts relating to discontinued operations Interest costs incurred by the Group, mainly arising from bank financing, attributable to these discontinued operations is disclosed in Note 16 to the financial statements

32. Taxation

	Group		Company	
	2011	2010	**2011**	2010
	€000	€000	**€000**	€000
Current taxation				
Current tax expense	**340**	1,458	-	488
Deferred taxation				
Deferred tax charge/(credit)	**10,602**	(10,160)	**10,583**	(10,148)
	10,942	(8,702)	**10,583**	(9,660)
Attributable to				
Continuing operations (reflected on face of income statement)				
- current taxation	**408**	82	-	-
- deferred taxation (Note 23)	**10,583**	(11,524)	**10,583**	(11,512)
	10,991	(11,442)	**10,583**	(11,512)
Discontinued operations				
- current taxation	**(68)**	1,376	-	488
- deferred taxation (Note 23)	**19**	1,364	-	1,364
	(49)	2,740	-	1,852
	10,942	(8,702)	**10,583**	(9,660)

32. Taxation - continued

The tax on the Group's and Company's results before tax differs from the theoretical amount that would arise using the basic tax rate applicable as follows

	Group		Company	
	2011	2010	**2011**	2010
	€000	€000	**€000**	€000
Loss before tax from continuing operations	**(65,741)**	(23,042)	**(67,762)**	(22,552)
(Loss)/profit before tax from discontinued operations (Note 16)	**(1,611)**	6,319	**(10,509)**	1,262
Loss before tax for the year	**(67,352)**	(16,723)	**(78,271)**	(21,290)
Tax on loss before tax at the statutory rate of 35%	**(23,573)**	(5,853)	**(27,395)**	(7,451)
Tax effect of.				
Deferred tax asset in respect of unutilised tax losses arising in prior years recognised in current year	**-**	(4,882)	**-**	(4,882)
Deferred tax asset in respect of unutilised tax losses and unabsorbed capital allowances arising during the current year not recognised	**13,080**	2,442	**12,637**	1,325
Adjustment to deferred tax asset in respect of unutilised tax losses recognised in prior financial periods	**10,583**	-	**10,583**	-
Unrecognised temporary differences and other movements, mainly attributable to tangible non-current assets and provisions	**10,932**	795	**14,917**	1,740
Income effectively taxed at reduced rates	**(80)**	(1,204)	**(159)**	(392)
Tax charge/(credit) in the accounts	**10,942**	(8,702)	**10,583**	(9,660)

33. Directors' emoluments

	Group and Company	
	2011	2010
	€000	€000
Emoluments of directors of Air Malta p.l.c.:		
Total fees and other emoluments charged in these financial statements	**64**	34
Benefits in kind as computed for Income Tax purposes	**2**	4
	66	38

33. Directors' emoluments - continued

Insurance premium of €159,000 (2010 €179,000) has been paid during the year in respect of professional indemnity cover relating to the liability of the directors of Air Malta p l c and other officers.

In addition to the above emoluments, fees amounting to €61,000 (2010· €51,000) were earned by other officers, not directors of Air Malta p l c , in their capacity as directors appointed by Air Malta p l.c on the boards of Group and associated companies

34. Cash used in operations

Reconciliation of operating loss to cash used in operations

	Group		Company	
	2011	2010	**2011**	2010
	€000	€000	**€000**	€000
Operating loss from continuing operations	**(64,330)**	(21,605)	**(65,765)**	(23,149)
Operating (loss)/profit from discontinued operations (Note 16)	**(1,629)**	5,064	**221**	-
Operating loss for the year	**(65,959)**	(16,541)	**(65,544)**	(23,149)
Adjustments for.				
Depreciation of property, plant and equipment	**2,811**	3,268	**2,709**	3,143
Gains on disposal of assets classified as held for sale	**-**	-	**(221)**	122
Gains on disposal of tangible non-current assets	**(4,257)**	(8,202)	**(4,296)**	-
Net movement in provisions for impairment of trade receivables	**464**	132	**680**	223
Losses from changes in fair value of investment property	**4,426**	-	**4,426**	-
Provision for restructuring costs	**28,200**	-	**28,200**	-
Movement in provisions in respect of maintenance costs	**13,437**	12,787	**13,437**	12,787
Effects of exchange rate movements	**(96)**	(195)	**-**	-
Other movements related to investment property	**346**	201	**355**	210
Changes in working capital				
Inventories	**196**	(286)	**121**	(281)
Trade and other receivables	**3,534**	6,423	**4,162**	4,119
Trade and other payables	**4,180**	(1,654)	**3,548**	2,603
Provisions used during year	**(5,721)**	(9,262)	**(5,721)**	(9,262)
Cash used in operations	**(18,439)**	(13,329)	**(18,144)**	(9,485)

35. Commitments

Capital and other commitments

	Group and Company	
	2011	2010
	€000	€000
Capital expenditure in respect of property, plant and equipment		
- Authorised and contracted for	**8**	352
Other commitments	**36,291**	42,217
	36,299	42,569

Other commitments arise from agreements with related and other parties entered into by the Group principally in respect of the temporary emphyteusis on the property, outsourcing of the IT and other related functions, together with the provision of commercial business improvement consultancy services The commitments as at 31 March 2011 which are attributable to the temporary emphyteusis, which property is covered by the Promise of Sale Agreement referred to in Note 1.1.1, amount to €19,927,000 (primarily included within "Later than five years" in table below)

The future expected payments under these contractual arrangements are as follows

	Group and Company	
	2011	2010
	€000	€000
Not later than one year	**5,545**	5,692
Later than one year and not later than five years	**9,557**	13,849
Later than five years	**21,189**	22,676
	36,291	42,217

Operating lease commitments – where a Group undertaking is the lessee

The future minimum lease payment obligations under non-cancellable aircraft and engine operating leases are as follows

	Group and Company	
	2011	2010
	€000	€000
Not later than one year	**28,329**	27,283
Later than one year and not later than five years	**114,588**	112,291
Later than five years	**34,549**	63,461
	177,466	203,035

35. Commitments - continued

Operating lease commitments – where a Group undertaking is the lessor

The future minimum lease payments receivable under non-cancellable aircraft and engine operating leases are as follows:

	Group and Company	
	2011	2010
	€000	€000
Not later than one year	**2,043**	-
Later than one year and not later than five years	**4,136**	-
	6,179	-

36. Contingencies

The Group's contingent liabilities as at 31 March include

	2011	2010
	€000	€000
Bank guarantees, documentary credits and other indemnities (refer to Note 24)	**36,617**	30,373

As at the end of the reporting period, the Company has contingent liabilities amounting to €1,795,000 (2010 €1,795,000) in respect of guarantees given to secure the banking facilities of subsidiaries

At 31 March 2010, the Company had also undertaken to provide financial support to a number of subsidiaries so as to enable these entities to meet their liabilities as they fall due and to continue as a going concern The subsidiaries' losses for the period ended 31 March 2010 amounted to €3,161,000, and as at 31 March 2010 their total liabilities exceeded their total assets by €9,620,000 As at 31 March 2011, no such undertakings were provided by the Company The net liabilities of the subsidiaries are included within the consolidated financial statements of the Company

37. Related party transactions

All companies forming part of the Air Malta Group are considered by the directors to be related parties since these companies are all ultimately owned by Air Malta p l c. Trading transactions between these companies would typically include service charges, Group interest charges and other such items which are normally encountered in a Group context

In the ordinary course of its operations, the Group carries out business with the Government of Malta, government departments, public sector corporations and other entities owned or controlled by the Government. The Government of Malta ultimately controls the Company by virtue of its 98% shareholding and is accordingly represented on the board of directors

37. Related party transactions - continued

In the opinion of the directors, disclosure of related party transactions, which are generally carried out on commercial terms and conditions, is only necessary when the transactions effected have a material impact on the operating results and financial position of the Group The aggregate invoiced amounts in respect of a number of transaction types carried out with related parties are not considered material and accordingly they do not have a significant effect on these financial statements

Except for transactions disclosed or referred to previously, principally borrowings from the principal shareholder (Note 22), the following significant operating transactions, which were carried out with the respective categories of related parties, have a material effect on the operating results and financial position of the Group

	Group		Company	
	2011	2010	**2011**	2010
	€000	€000	**€000**	€000
Government and other entities controlled by Government.				
- Sales of services	**2,401**	3,711	**2,312**	3,274
- Purchases of materials and services	**41,097**	33,536	**40,833**	33,300
	43,498	37,247	**43,145**	36,574
Subsidiaries				
- Sales of services	-	-	**5,910**	8,359
- Purchases of services	-	-	**4,371**	3,742
	-	-	**10,281**	12,101
Associates				
- Sales of services	**1,320**	818	**1,320**	818
- Purchases of services	**3,190**	2,606	**2,990**	2,327
	4,510	3,424	**4,310**	3,145
Key management personnel				
- Sales of services	**9**	14	**9**	14

On 7 December 2011, the Company entered into an irrevocable Promise of Sale Agreement with the Government in relation to the disposal of the Company's main property for the amount of €66 2 million (refer to Notes 5 and 6)

During the preceding financial year, the Group surrendered temporary emphyteutical concessions entered into with the Government of Malta and simultaneously disposed of its shares in the Group entity that held these concessions to a third party. The impact of the connected transactions with the Government of Malta on the Group's financial results for the year ended 31 March 2010 comprised a Group post-tax gain of €1,308,000

Year-end balances with related parties, arising principally from the transactions referred to previously, are reflected in the statement of financial position.

37. **Related party transactions** - continued

Expenditure amounting to €848,000 (2010 €634,000) has been recharged by the parent Company to associates and other related parties.

Remuneration and other benefits payable to key management personnel are disclosed in Note 33 to these financial statements.

Interest receivable from related parties and interest payable to related parties are disclosed in Notes 30 and 31 respectively

38. **Statutory information**

Air Malta p l c. is a public limited liability Company and is incorporated in Malta

39. **The Air Malta Group**

Subsidiaries and associates within the Group as at 31 March 2011 and 2010 were the following

39.1 Subsidiaries

	Group % holding		**Company % holding**		**Country of incorporation**
	2011	2010	**2011**	2010	
Air Malta p l c Air Malta Buildings, Head Office, Luqa	**N/A**	N/A	**N/A**	N/A	Malta
Holiday Malta Company Limited Air Malta House, 314/316 Upper Richmond Road, Putney, London	**100**	100	**100**	100	United Kingdom
Malta Air Charter Company Limited Air Malta Buildings, Vjal l-Avjazzjoni, Luqa (in liquidation)	-	100	-	100	Malta
Holiday Malta Transport Company Limited Air Malta House, 314/316 Upper Richmond Road, Putney, London (held by Holiday Malta Company Limited)	**100**	100	-	-	United Kingdom
The Holiday Travel Club Company Limited Air Malta House, 314/316 Upper Richmond Road, Putney, London (held by Holiday Malta Company Limited)	**100**	100	-	-	United Kingdom
Holiday Malta (Russia) Limited Air Malta Buildings, Vjal l-Avjazzjoni, Luqa (held by Holiday Malta Company Limited)	**100**	100	-	-	Malta

39. The Air Malta Group - continued

	Group % holding 2011	Group % holding 2010	Company % holding 2011	Company % holding 2010	Country of incorporation
Holiday Malta (Italia) S.r l Corso Martiri della Liberta, 188 95131 Catania, Sicily (held by Holiday Malta Company Limited) (in liquidation)	**100**	100	-	-	Italy
Holiday Malta (Hellas) Tourism EPE 91, Alexandras Ave, 11474 Athens (held by Holiday Malta Company Limited)	**100**	100	-	-	Greece
The Holiday Travel Club Transport Company Limited Air Malta House, 314/316 Upper Richmond Road, Putney, London (held by The Holiday Travel Club Company Limited)	**100**	100	-	-	United Kingdom
Travel 2000 S r.l Corso Martiri della Liberta, 184 95131 Catania, Sicily (held by Holiday Malta (Italia) S r l) (in liquidation)	**100**	100	-	-	Italy
Selmun Palace Hotel Company Limited Air Malta Buildings, Vjal l-Avjazzjoni, Luqa	**100**	100	**100**	100	Malta
Airport Services Company Limited Air Malta Buildings, Vjal l-Avjazzjoni, Luqa (in liquidation)	**100**	100	**100**	100	Malta
Osprey Insurance Brokers Company Ltd Air Malta Buildings, Vjal l-Avjazzjoni, Luqa	**100**	100	**100**	100	Malta
Shield Insurance Company Limited Air Malta Buildings, Vjal l-Avjazzjoni, Luqa	**100**	100	**100**	100	Malta

39. The Air Malta Group - continued

39.2 Associates

	Group % holding 2011	Group % holding 2010	Company % holding 2011	Company % holding 2010	Country of incorporation
AZZURRAair S p A. Viale Papa Giovanni XXIII, 48 24121 Bergamo (in liquidation)	**49**	49	**49**	49	Italy
Cottonera Properties Co Ltd. c/o Malta Investment Management Co. Ltd Trade Centre, San Gwann Industrial Estate, San Gwann (in liquidation)	**49**	49	**49**	49	Malta
Flight Catering Company Limited 22, Europa Centre, Floriana	**-**	30	**-**	30	Malta
World Aviation Group Limited Floor 1, Aviation Centre, Luqa	**50**	50	**50**	50	Malta