AIR MALTA plc

Annual Report and Consolidated Financial Statements
31 March 2006

Company Registration Number: C 2685

Directors' report

The directors present their report and the audited financial statements of Air Malta plc for the year ended 31 March 2006.

Principal activities

The principal activity of the Air Malta group, as exercised by the holding company, is the undertaking of airline operations. Ancillary activities of the group include among other things ground handling operations, airport retailing, insurance, tourism related activity, the provision of tourist accommodation, and other investments. During the current financial year, the group disposed of airport retailing and other activities; and pursued in its efforts to dispose of or discontinue its hotel activities. There are also a number of subsidiary and associated undertakings.

Change in accounting reference date

During the previous financial year, the directors of the company had agreed to change the accounting reference date from 31 July to 31 March. Accordingly the comparative financial information in these financial statements reflects the figures for the eight month period from 1 August 2004 to 31 March 2005.

Review of the business and results

General

The year under review has been a very difficult one with fuel costs soaring to unprecedented levels while operating revenue registered a decrease.

The airline carried 1.86 million passengers throughout its network, representing a 2.4% (46,000) decrease in passengers carried over the same period previous year. The biggest decline occurred during the last quarter of the year with 30,000 fewer passengers being carried as compared to the corresponding period in the previous year, partly explained by the shift in the incidence of the Easter period. Competition on the Malta route was extremely tough with an over supply of seats and very aggressive pricing.

At the same time the airline was faced with fuel costs at record levels, costs which, were it not for beneficial hedging contracts, would have been significantly higher. The efficiencies and improvements in the cost base as identified in the rescue plan have largely been achieved, and in some cases bettered, with the exception of fuel.

In fact, it is encouraging to report that non-fuel unit costs during the year were 9% lower than what was expected two years ago. This resulted from cost savings from all airline operations, most notably on maintenance where costs were further reduced with the rollover of the new fleet. Payroll costs were down and further savings were registered on outstation expenditures. Given the continued increase in the cost of fuel, further cost savings will be required.

Financial Results

The profit and loss accounts of the group and company are set out on page 12.

The change in accounting period effected during the previous year detracts from comparability, and for this reason further information is included in this year's financial statements to disclose separately the financial results for the year ended 31 March 2005 (see note 5 to the financial statements).

Directors' report – continued

Review of the business and results - continued

During the financial year ended 31 March 2006, Air Malta's group turnover amounted to Lm117,530,000 (Lm115,573,000 in the year ended 31 March 2005). A loss before tax from continuing operations for the twelve month period to 31 March 2006 of Lm8,292,000 was recorded by the group, compared to a loss of Lm1,503,000 reported for the eight month period to 31 March 2005.

Results from discontinued operations – relating to those operations that have either been disposed of in the current year (Air Supplies and Catering Company Limited and Sterling Travel & Tourism Limited) or for which a decision has been taken to discontinue (the hotel segment) – contributed a net income of Lm846,000 after taking account of the profit on disposal of the respective subsidiaries as compared to a loss of Lm824,000 during the eight month period to 31 March 2005.

The airline's turnover in the financial year amounted to Lm99,201,000, compared to Lm101,876,000 in the year ended 31 March 2005. The airline made an operating loss of Lm6,353,000 in the current financial year, compared to an operating loss of Lm5,705,000 in the comparable period last year.

The deterioration in the operating results of the airline, and correspondingly the Group, have been primarily impacted by the significant increases in fuel costs amounting to a net Lm5 million. Without these increases the operating result being reported would have shown a marked improvement, reflecting the positive measures that have been undertaken to strengthen the airline's operational base.

The company continues to seek further efficiencies and improvements in the airline's cost base in line with the rescue plan. The fleet continues to be modernised and the aircraft replacement programme has continued during the course of the financial year, with an additional two aircraft delivered prior to the balance sheet date, replacing two aircraft from the old fleet that were redelivered. The replacement exercise should be completed in the coming year with the last two aircraft being redelivered and replaced with three new aircraft bringing the fleet up to 14 aircraft in the next twelve months, 11 based in Malta and 3 based overseas. The new aircraft offer a better product, cheaper operating and maintenance costs and the benefit of cost efficiencies arising from operating a common range of aircraft. Maintenance costs have decreased by Lm3.4 million during the year under review as compared to the corresponding period in the previous year. Other cost improvements included in direct operating costs include ground handling expenses at foreign airports reducing by Lm600,000, aircraft rentals lower by Lm1 million, commissions decreasing by Lm500,000 and insurance costs decreasing by Lm300,000.

Payroll costs, being one of the airline's principal cost components after fuel costs, have decreased by 5.6% as compared to the corresponding period in the previous year. This decrease reflects the reduction in staff numbers and overtime costs, which reduced by Lm100,000. The Voluntary Redundancy Scheme announced since the end of the financial year is expected to yield further payroll savings to derive the full benefits of the staff reorganisation of the Group. This scheme shall be a once-only scheme and shall not be repeated in the foreseeable future.

The gains experienced through the cost rationalisation programme were not repeated on the revenue side. The decrease in the number of passengers carried, coupled with the continued pressure on yields, contributed to the decline in airline turnover. This was particularly felt on the UK routes due to the impact of the additional capacity brought by competing airlines. However, these adverse factors were offset by strong performances on the Belgian, German and French routes. The UK based charter operation continues to achieve revenue growth. Management has proceeded with its plans to implement a Revenue Management System, which should enable the airline to enhance its yields and manage effectively its fare structure. Following a period of training and calibration the Revenue Management System started to produce positive results in the second half of this financial year.

Directors' report – continued

Review of the business and results - continued

During the year under review, the company continued its disposal programme of the Avro RJ aircraft. One RJ70 was sold during the current financial year and, at the time of approving the issue of these financial statements, the remaining three RJ70's and two RJ85's had been leased out. The outcome on this programme has been largely in line with the group's expectations, resulting in a minor release in provisions set up in earlier years of Lm180,000. This release has been countered by further impairment losses of Lm73,000 recorded on RJ spare engines on the basis of the expected resale value upon termination of the leases of the RJ fleet.

The financial results for the year ended 31 March 2006 include a charge of Lm3.1 million in respect of the out of court settlement with the bankruptcy liquidator of AZZURRAair S.p.A. The company has always conducted its affairs with AZZURRAair S.p.A. in a prudent manner in compliance with applicable laws. However, to avoid negative commercial and public perception implications that may have been brought about through claims that the Liquidator may have felt compelled to make, irrespective of the chances of success, the company after taking appropriate legal advice made the commercial decision to settle with the Liquidator.

Focus on core operations

In line with the stated policy that the group is to focus on its core airline business, during the year under review, the group disposed of its interest in Air Supplies and Catering Company Limited and Sterling Travel & Tourism Limited for a consideration of Lm2.8 million resulting in a gain on disposal of Lm1.7 million.

It is anticipated that the disposal of the hotel segment will commence in the forthcoming financial year with the completion of the disposal of Tigne Development Co. Limited. This transaction is expected to contribute positively to the group's cash flows and its results.

Future prospects

The cost efficiency and improvement programme will continue in conjunction with a drive to improve the revenue streams. In particular the implementation of the revenue management system is proving to be a more important tool in maintaining yields in the first quarter of the current financial year. This will be combined with the strategic drive to increase direct sales through improved online services, a new call centre and focussed marketing. Initiatives such as the outsourcing of the airline's IT function, the consolidation of the call centre functions and the in-flight entertainment marketing agreement are also creating a new model to reduce the airline's cost structure, introduce flexibility in the costs while providing employment alternatives to our staff. However, difficult trading conditions are expected to persist with fuel prices expected to remain high and increasing competition bringing further pressures on yields and profitability.

The company's beneficial fuel hedging contracts have now expired and those that are now available in the market are not as attractive. The company manages its fuel price risk through its Fuel Hedging Committee acting under a policy approved by the Board which sets overall parameters. The company ensures that a minimum of 40% of the airline's fuel uplift is hedged before the start of the financial year. The current hedges cover approximately 63% of fuel purchases for the next financial year. However, if the price of fuel remains at its current level the airline's fuel bill will be at least Lm8 million higher than that for the year ended 31 March 2006.

As well as the threat of higher fuel prices, the airline also faces the, as yet undefined, consequences of further traffic moving to lower-fare competition. The directors believe that the company has the means to react in a commercially appropriate manner, principally through further rationalisation and restructuring, and are proceeding on the assumption that the necessary action will be taken as and when it is needed.

Directors' report – continued

Review of the business and results - continued

The company is confident that it has the necessary liquid means to meet the challenges of the immediate future. As at the balance sheet date the group had Lm18.2 million in cash and bank balances as against Lm20.2 million in bank borrowings, of which Lm18.4 million is represented by bank loans falling due after more than one year. Furthermore, these liquid resources are expected to be further augmented by the inflows arising from the sale of Tigne Development Co. Limited expected to be completed in the forthcoming year.

The position of the Group and the threats it faces demand, even more than before, the continued support of all stakeholders in Air Malta plc, who have already demonstrated their understanding of the needs of the Company. The Board remains confident that their support will continue to be forthcoming; and that Air Malta will deal with the challenges it faces successfully however great these challenges may be.

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 an equitable return for the shareholders whilst upholding the values of fairness, transparency, accountability and responsibility.

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

The Board of Directors

Pursuant to the Company's Articles of Association, the administration and management of the Company shall be 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 Members as nearly as may be in proportion to the shares held by such Members. All Directors may be removed from their post by the shareholder appointing them, by 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 is currently chaired by Mr Lawrence Zammit and comprises six non-executive Directors including the Chairman. The Board regards the Directors as 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.

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. After each Board meeting, minutes that faithfully record attendance and decisions taken are made available to all Directors prior to the subsequent Board meeting.

Directors' report – continued

Corporate Governance Statement – continued

The roles of Chairman and CEO are separate roles which are undertaken by separate people. The Chairman is responsible for leading the Board, facilitating Board discussions and managing the Board's relationship with the shareholder and Chief Officers. 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.

Responsibilities of the Board of Directors

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 judgment 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;
- ensure compliance with applicable laws and regulations;
- develop a succession policy for the future composition of the Board of Directors, appoints the Company's Chief Executive Officer, participates in the appointment of senior management and establishes a succession plan for senior management;
- exercise accountability to shareholders and be responsible to relevant stakeholders.

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 others are understood and met.

Remuneration

The Board believes that due to the fact that the Board is entirely composed of non-executive Directors, there is no scope in forming a separate Remuneration Committee. The Directors' remuneration is fixed by the shareholders. Directors' remuneration is disclosed in Note 13 to the Financial Statements. The Board determines the remuneration and performance related bonuses of the CEO, the Chief Officers and other senior management of the Company.

Directors' report – continued

Corporate Governance Statement – continued

Committees established by the Board

Audit Committee

The Audit Committee meets regularly 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 primarily assists the Board in fulfilling its fiduciary responsibilities to provide oversight with respect to:

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

The Audit Committee is made up of four non-executive Directors and is chaired by Mr. Paul Bonello. There were no changes in the composition of the Committee during the year. The Chairman of the Company, any Director, the CEO, the external auditors, the Chief Officer Internal Audit and any other Chief Officer or employee of the Company may be requested to attend part of or all of an Audit Committee meeting as maybe decided by the Audit Committee.

Internal Audit

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

The Company promotes the independence of the function as a whole and allows internal audit to form objective judgment. 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.

Corporate Management Board

The CEO leads the Corporate Management Board ("CMB") and it reports directly to the Board. The Committee is made up of all the Chief Officers of the Company which convenes on a weekly basis and concentrates mainly on:

- 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
- implementing corporate strategy and making recommendations on significant corporate strategic initiatives.

Directors' report – continued

Corporate Governance Statement – continued

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 CRC. The CRC (Central Representation Council) is the Central Industrial Democracy Body which 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, the Chief Officer Human Resources and any other Chief Officer, General Manager or employee as required depending on the agenda to be discussed. The Works Council meetings are chaired by the Chairman of the Company and it convenes regularly at least once every two months.

Investments Committee

The key objectives and responsibilities of the Investments 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 balance sheet can be developed through Treasury activities. This includes ensuring that the structure of the Company's Balance Sheet is appropriate in terms of; funding mix and gearing, capital adequacy and financial risk management policy.

The Investment 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 Officer Finance. The Committee reports directly to the Chairman and the Board.

Fuel Hedging Committee

Hedging is risk limitation. Air Malta's hedging policy is dictated by the need to mitigate the risks resulting from excessively high fuel prices. The principal objective of the Company's hedging activities is to protect the operating results from sudden and significant increases in Jet fuel prices, while seeking to ensure that we are not competitively disadvantaged in a serious way in the event of a substantial fall in prices. Hedging by Air Malta is not done for speculative reasons but solely to reduce or eliminate uncertainty.

The Fuel Hedging Committee is chaired by the Chief Officer Finance. The members who constitute the Committee comprise of a Board Director, other senior management and an external consultant. Meetings are held regularly and the Chief Officer Finance reports regularly to the Board any decisions and actions taken by the Committee.

Directors' report – continued

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 Corporate Management Board meetings;
- 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;
- an Audit Committee which approves audit plans and considers significant control matters raised by the internal and external auditors together with management;
- an internal audit function which reviews key financial/operational processes and controls which reports directly to the Audit Committee; and
- information systems are developed to support the Company's long-term objectives.

The Board confirms that the above processes were in place throughout the year under review and up to the date of approval of the financial statements 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.

Dividends

The directors do not recommend the payment of a dividend.

Directors

The directors of the holding company who held office during the period were:

Lawrence Zammit – Chairman
Raymond Arpa – resigned from office with effect from 22 April 2005
Paul Bonello
Joe Fenech Conti
Eucharist Mizzi
Noel Radmilli
Michael Soler

Directors' report – continued

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

Lawrence Zammit Chairman	Paul Bonello Director

Registered office
Head Office
Luqa
Malta

3 August 2006

Statement of directors' responsibilities in respect of the financial statements

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

In preparing the financial statements, the directors are responsible for ensuring that:

- appropriate accounting policies have been consistently applied and supported by reasonable and prudent judgements and estimates;
- the financial statements have been drawn up in accordance with International Financial Reporting Standards;
- the financial statements are prepared on the going concern basis unless it is inappropriate to presume that the company and the group will continue in business as a going concern.

The directors are also responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and the group and to enable them to ensure that the financial statements comply with the Companies Act, 1995. They are also responsible for safeguarding the assets of the company and the group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Report of the auditors

To the Members of Air Malta plc

We have audited the financial statements on pages 12 to 73. As described in the statement of directors' responsibilities on page 10, these financial statements are the responsibility of the company's directors. Our responsibility is to form an independent opinion, based on our audit, on these financial statements and to report our opinion to you.

We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the directors, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion the financial statements give a true and fair view of the state of affairs of the company and group as at 31 March 2006 and of the results, the changes in equity and the cash flows for the period then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the Maltese Companies Act, 1995.

PRICEWATERHOUSECOOPERS

167 Merchants Street
Valletta
Malta

3 August 2006

Profit and loss accounts

	Notes	Group Year ended 31 March 2006 Lm000	Group Period from 1 August 2004 to 31 March 2005 Lm000	Company Year ended 31 March 2006 Lm000	Company Period from 1 August 2004 to 31 March 2005 Lm000
Continuing operations:					
Turnover	2	**117,530**	71,613	**99,201**	63,397
Cost of sales		**(108,602)**	(66,192)	**(93,588)**	(60,070)
Gross profit		**8,928**	5,421	**5,613**	3,327
Selling and distribution costs		**(7,491)**	(5,168)	**(7,237)**	(5,023)
Administrative expenses		**(7,185)**	(4,501)	**(4,729)**	(3,123)
Other operating items		**112**	181	**-**	-
Operating loss	5	**(5,636)**	(4,067)	**(6,353)**	(4,819)
Airline activities		***(6,857)***	*(4,689)*	***(6,772)***	*(4,977)*
Aircraft leasing		***419***	*158*	***419***	*158*
Group companies		***802***	*464*	***-***	*-*
Operating loss from continuing operations	5	***(5,636)***	*(4,067)*	***(6,353)***	*(4,819)*
Investment income	7	**256**	3,393	**989**	3,991
Results of group and associated undertakings	8	**(2,375)**	(175)	**(2,794)**	(1,014)
Interest receivable	9	**627**	458	**819**	602
Interest payable	10	**(1,271)**	(785)	**(1,350)**	(837)
Net gains/(losses) on aircraft and engine transactions	11	**107**	(327)	**107**	(327)
Loss before tax		**(8,292)**	(1,503)	**(8,582)**	(2,404)
Tax (expense)/income	12	**(148)**	611	**(71)**	246
Loss for the period from continuing operations		**(8,440)**	(892)	**(8,653)**	(2,158)
Discontinued operations:					
Profit/(loss) for the period from discontinued operations	3	**846**	(824)	**1,778**	-
Loss for the financial period		**(7,594)**	(1,716)	**(6,875)**	(2,158)
Attributable to:					
Equity holders of the company		**(7,594)**	(1,781)	**(6,875)**	(2,158)
Minority interest		**-**	65	**-**	-
		(7,594)	(1,716)	**(6,875)**	(2,158)
Earnings per share for loss from continuing operations attributable to the equity holders of the company during the period (expressed in Lm per share)	14	**(0.76)**	(0.08)		
Earnings per share for profit/(loss) from discontinued operations attributable to the equity holders of the company during the period (expressed in Lm per share)	14	**0.08**	(0.07)		

Balance sheets

		As at 31 March			
		Group		Company	
	Notes	**2006**	2005	**2006**	2005
		Lm000	Lm000	**Lm000**	Lm000
ASSETS					
Fixed assets					
Intangible assets	15	**191**	194	**-**	-
Tangible assets					
Property, plant and equipment	16	**31,644**	32,778	**26,805**	27,869
Investment property	17	**1,728**	1,789	**4,050**	4,110
		33,372	34,567	**30,855**	31,979
Financial assets					
Investments in group undertakings	18	**-**	-	**1,077**	1,003
Investments in associated undertakings	19	**2,412**	2,012	**988**	729
Other financial investments					
- available-for-sale	20	**198**	201	**198**	201
		2,610	2,213	**2,263**	1,933
Total fixed assets		**36,173**	36,974	**33,118**	33,912
Other non-current assets					
Deferred taxation	28	**2,078**	1,791	**2,418**	2,178
Other debtors	24	**2,691**	2,701	**2,691**	2,701
Derivative financial instruments	25	**387**	10	**387**	10
		5,156	4,502	**5,496**	4,889
Total non-current assets		**41,329**	41,476	**38,614**	38,801
Current assets					
Debtors					
Trade debtors	23	**12,589**	14,566	**11,369**	13,460
Amounts owed by group undertakings		**-**	-	**1,128**	1,461
Amounts owed by associated undertakings		**217**	92	**120**	-
Derivative financial instruments	25	**1,195**	2,637	**1,195**	2,637
Current taxation		**-**	771	**255**	1,233
Other debtors		**2,968**	2,525	**2,417**	1,749
Prepayments		**2,940**	2,513	**2,469**	2,010
		19,909	23,104	**18,953**	22,550
Other current assets					
Stocks	22	**1,134**	1,199	**1,066**	1,132
Cash at bank and in hand		**18,159**	23,633	**12,806**	17,951
		19,293	24,832	**13,872**	19,083
Non-current assets classified as held for sale	3	**6,144**	8,180	**10,172**	10,087
Total current assets		**45,346**	56,116	**42,997**	51,720
Total assets		**86,675**	97,592	**81,611**	90,521

Balance sheets - continued

		As at 31 March			
		Group		**Company**	
	Notes	**2006**	2005	**2006**	2005
		Lm000	Lm000	**Lm000**	Lm000
EQUITY AND LIABILITIES					
Capital and reserves attributable to equity holders of the company					
Called up issued share capital	31	**11,115**	11,115	**11,115**	11,115
Share premium	32	**18,358**	18,358	**18,358**	18,358
Revaluation reserve	33	**-**	-	**-**	-
Hedging reserve	34	**864**	1,203	**864**	1,203
Other reserve	35	**(1,501)**	-	**-**	-
Profit and loss account		**(15,040)**	(7,648)	**(14,364)**	(7,489)
		13,796	23,028	**15,973**	23,187
Minority interest		**-**	223	**-**	-
Total equity		**13,796**	23,251	**15,973**	23,187
Provisions for liabilities and charges: non-current amounts	30	**1,939**	4,037	**1,939**	4,037
Creditors: amounts falling due after more than one year					
Interest-bearing borrowings	26	**18,419**	12,440	**18,262**	12,201
Derivative financial instruments	25	**-**	92	**-**	92
Other liabilities	27	**1,723**	1,039	**-**	-
		20,142	13,571	**18,262**	12,293
Total non-current liabilities		**22,081**	17,608	**20,201**	16,330
Provisions for liabilities and charges: current amounts					
Provisions in respect of maintenance costs	29	**683**	3,259	**683**	3,259
Other provisions	30	**2,278**	4,124	**2,278**	4,124
		2,961	7,383	**2,961**	7,383
Creditors: amounts falling due within one year					
Interest-bearing borrowings	26	**1,759**	2,903	**1,312**	2,373
Trade creditors		**17,415**	18,707	**14,504**	15,773
Amounts owed to group undertakings		**-**	-	**2,749**	2,876
Amounts owed to associated undertakings		**570**	422	**569**	422
Sales in advance		**15,958**	14,421	**14,094**	12,824
Derivative financial instruments	25	**283**	682	**283**	682
Current taxation		**95**	-	**-**	-
Indirect taxes and social security		**816**	611	**760**	567
Other creditors		**553**	945	**357**	646
Accruals and deferred income		**8,154**	7,665	**7,848**	7,458
		45,603	46,356	**42,476**	43,621
Liabilities directly associated with non-current assets classified as held for sale	3	**2,234**	2,994	**-**	-
Total current liabilities		**50,798**	56,733	**45,437**	51,004
Total liabilities		**72,879**	74,341	**65,638**	67,334
Total equity and liabilities		**86,675**	97,592	**81,611**	90,521

The financial statements on pages 12 to 73 were authorised for issue by the board on 3 August 2006 and were signed on its behalf by:

Lawrence Zammit
Chairman

Paul Bonello
Director

Statements of changes in equity

		Attributable to equity holders of the company							
Group	Notes	Share capital Lm000	Share premium Lm000	Revaluation reserve Lm000	Hedging reserve Lm000	Other reserve Lm000	Profit and loss account Lm000	Minority interest Lm000	Total equity Lm000
Balance at 1 August 2004		11,115	18,358	2,419	942	466	(5,690)	130	27,740
Fair value gains on available-for-sale investments, net of deferred tax	*33*	-	-	*1,031*	-	-	-	-	*1,031*
Amounts released on realisation of investments	*33*	-	-	*(3,450)*	-	-	-	-	*(3,450)*
Cash flow hedges, net of deferred tax	*34*	-	-	-	*261*	-	-	-	*261*
Currency translation differences		-	-	-	-	-	*(177)*	-	*(177)*
Capital reserve arising on acquisition of minority interest in group undertakings	*35*	-	-	-	-	*(466)*	-	-	*(466)*
Other movements		-	-	-	-	-	-	*28*	*28*
Net (expense)/income recognised directly in equity		-	-	*(2,419)*	*261*	*(466)*	*(177)*	*28*	*(2,773)*
Loss for the financial period		-	-	-	-	-	(1,781)	65	(1,716)
Total recognised (expense)/ income for 2005		-	-	(2,419)	261	(466)	(1,958)	93	(4,489)
Balance at 31 March 2005		11,115	18,358	-	1,203	-	(7,648)	223	23,251
Balance at 1 April 2005		11,115	18,358	-	1,203	-	(7,648)	223	23,251
Cash flow hedges, net of deferred tax	*34*	-	-	-	*(339)*	-	-	-	*(339)*
Currency translation differences		-	-	-	-	-	*202*	-	*202*
Adjustment to equity arising on acquisition of minority interest in group undertakings	*35*	-	-	-	-	*(1,501)*	-	*(223)*	*(1,724)*
Net (expense)/ income recognised directly in equity		-	-	-	*(339)*	*(1,501)*	*202*	*(223)*	*(1,861)*
Loss for the financial year		-	-	-	-	-	(7,594)	-	(7,594)
Total recognised expense for 2006					(339)	(1,501)	(7,392)	(223)	(9,455)
Balance at 31 March 2006		**11,115**	**18,358**	**-**	**864**	**(1,501)**	**(15,040)**	**-**	**13,796**

Statements of changes in equity - continued

Company	Notes	Share capital Lm000	Share premium Lm000	Revaluation reserve Lm000	Hedging reserve Lm000	Profit and loss account Lm000	Total equity Lm000
Balance at 1 August 2004		11,115	18,358	2,419	942	(5,331)	27,503
Fair value gains on available-for-sale investments, net of deferred tax	*33*	-	-	*1,031*	-	-	*1,031*
Amounts released on realisation of investments	*33*	-	-	*(3,450)*	-	-	*(3,450)*
Cash flow hedges, net of deferred tax	*34*	-	-	-	*261*	-	*261*
Net (expense)/income recognised directly in equity		-	-	*(2,419)*	*261*	-	*(2,158)*
Loss for the financial period		-	-	-	-	(2,158)	(2,158)
Total recognised (expense)/income for 2005		-	-	(2,419)	261	(2,158)	(4,316)
Balance at 31 March 2005		11,115	18,358	-	1,203	(7,489)	23,187
Balance at 1 April 2005		11,115	18,358	-	1,203	(7,489)	23,187
Cash flow hedges, net of deferred tax	*34*	-	-	-	*(339)*	-	*(339)*
Net expense recognised directly in equity					*(339)*	-	*(339)*
Loss for the financial year		-	-	-	-	(6,875)	(6,875)
Total recognised expense for 2006		-	-	-	(339)	(6,875)	(7,214)
Balance at 31 March 2006		**11,115**	**18,358**	**-**	**864**	**(14,364)**	**15,973**

Cash flow statements

	Notes	Group Year ended 31 March 2006 Lm000	Group Period from 1 August 2004 to 31 March 2005 Lm000	Company Year ended 31 March 2006 Lm000	Company Period from 1 August 2004 to 31 March 2005 Lm000
Operating activities					
Cash used in operations	37	**(2,096)**	(5,873)	**(3,414)**	(3,602)
Interest paid and similar charges		**(1,188)**	(616)	**(1,108)**	(580)
Investment and other income		**790**	497	**869**	632
Dividends received from group undertakings		**-**	-	**546**	-
Dividends received from associated undertakings		**160**	63	**160**	63
Net tax (recovered)/paid		**671**	(108)	**939**	(201)
Net cash used in operating activities		**(1,663)**	(6,037)	**(2,008)**	(3,688)
Investing activities					
Purchases of tangible fixed assets		**(821)**	(726)	**(697)**	(620)
Net outcome on sale of tangible fixed assets		**(24)**	27	**(24)**	4
Maintenance incurred on leased aircraft		**(6,664)**	(5,114)	**(6,664)**	(5,114)
Purchases of financial assets		**-**	(3,559)	**-**	(5,276)
Proceeds from disposal of financial assets		**-**	9,238	**-**	9,238
Acquisition of group undertaking, net of cash acquired		**-**	(858)	**-**	-
Acquisition of minority interest in group undertakings		**(1,724)**	-	**-**	-
Proceeds from disposal of group undertakings, net of cash disposed of		**2,604**	-	**2,821**	-
Acquisition of associated undertakings		**(238)**	-	**(279)**	-
Proceeds from disposal of associated undertakings		**193**	-	**193**	-
Loans to group undertakings		**-**	-	**(1,353)**	-
Loan repayments received from group and associated undertakings		**-**	1,012	**60**	1,012
Other outflows in respect of associated undertaking		**(2,194)**	-	**(2,194)**	-
Net cash (used in)/generated from investing activities		**(8,868)**	20	**(8,137)**	(756)
Financing activities					
New loans taken out		**9,773**	2,000	**9,398**	2,000
Repayments of bank loans		**(5,187)**	(1,479)	**(4,845)**	(797)
Dividends paid to minority shareholders		**-**	(125)	**-**	-
Net cash generated from financing activities		**4,586**	396	**4,553**	1,203
Movement in cash and cash equivalents		**(5,945)**	(5,621)	**(5,592)**	(3,241)
Cash and cash equivalents at beginning of period		**21,960**	27,581	**17,086**	20,327
Cash and cash equivalents at end of period	38	**16,015**	21,960	**11,494**	17,086

The net cash flows attributable to the group's discontinued operations, included in the amounts reflected above, are disclosed in Note 3 to the financial statements.

Accounting policies

The principal accounting policies adopted in the preparation of these financial statements are set out below.

(a) Basis of accounting

The consolidated financial statements include the financial statements of Air Malta plc and its subsidiary undertakings. These are prepared in accordance with International Financial Reporting Standards (IFRSs) and comply with the Companies Act, 1995. The consolidated financial statements are prepared under the historical cost convention as modified to include the fair valuation of available-for-sale investments and derivative financial instruments.

The preparation of financial statements in conformity with IFRSs requires the use of certain accounting estimates and assumptions that affect the reported amounts of assets and liabilities, and the reported amounts of revenues and expenses during the reporting period. It also requires directors to exercise their judgement in the process of applying the company's accounting policies (see note 1 – Critical accounting estimates and judgements).

By virtue of a directors' resolution dated 24 June 2004, the directors of the company had agreed to change the accounting reference date from 31 July to 31 March. Accordingly the comparative financial information in these financial statements reflects the figures for the eight month period from 1 August 2004 to 31 March 2005.

Standards, interpretations and amendments to published standards effect in 2005

In 2006, the group adopted new standards, amendments and interpretations to existing standards that are mandatory for the group's accounting period beginning on 1 April 2005. The adoption of these revisions to the requirements of IFRS's did not result in substantial changes to the group's accounting policies with the exception of the adoption of IFRS 3, IAS 38 (revised) and IAS 36 (revised), which have resulted in a change in the accounting policy for goodwill in the consolidated financial statements.

Until 31 March 2005, goodwill was amortised on a straight-line basis over its estimated useful life of 5 years and was assessed for an indication of impairment at each balance sheet date. In accordance with the requirements of IFRS 3, the group ceased the amortisation of goodwill as from 1 April 2005 and accumulated amortisation as at 31 March 2005 has been eliminated with a corresponding decrease in the cost of goodwill. From the year ended 31 March 2006 onwards, goodwill is tested annually for impairment, as well as when there are indications of impairment. IFRS 3 requires prospective application.

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, that are mandatory for the company's accounting periods beginning on or after 1 January 2006 or later periods. The company has not early adopted these revisions to the requirements of IFRSs and the company's directors are of the opinion that there are no requirements that will have a possible significant impact on the company's financial statements in the period of initial application.

(b) Consolidation

(1) Group undertakings

Group (or subsidiary) undertakings, 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 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 purchase method of accounting is used to account for the acquisition of subsidiaries by the group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the net assets of the subsidiary acquired is recorded as goodwill (refer to note (f) for the accounting policy on goodwill). All intercompany transactions and balances between group companies are eliminated. Unrealised losses are also eliminated but considered an impairment indicator of the assets transferred. Where necessary, accounting policies of subsidiaries have been changed to ensure consistency with the policies adopted by the group. Separate disclosure is made of minority interests.

A listing of the group's principal subsidiaries is set out on pages 74 and 75.

(2) Transactions and minority interests

The company applies the economic entity model to accounting for transactions with minority shareholders. Under the economic entity model, minorities are deemed to be equity participants and transactions with equity participants are equity transactions. Accordingly, on acquisition of an interest in subsidiary undertakings from minority shareholders, assets and liabilities are not restated and the difference between the purchase price and the book value of the minority interest is recorded in equity. Also gains or losses on partial disposals are recorded in equity.

(3) Associated undertakings

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.

Investments in associated undertakings are accounted for by the equity method of accounting and are initially recognised at cost. Under this method the company's share of the post-acquisition profits or losses of associates is recognised in the profit and loss account and its share of post-acquisition movements are adjusted against the cost of the investment. The group's investment in associates includes goodwill (net of accumulated amortisation) on acquisition.

Equity accounting, therefore, involves recognising in the profit and loss account the share of the group's share of the associates' profit or loss for the year. The interest in the associated undertaking is carried in the balance sheet at an amount that reflects the share of the net assets of the associated undertakings. When the group's share of losses in an associate equals or exceeds its interest in the associate, the group does not recognise further losses, unless the group has incurred obligations or made payments on behalf of the associates.

(3) Associated undertakings - continued

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.

A listing of the group's principal associates is set out on pages 75 and 76.

(c) Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

(d) Foreign currencies

(1) 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 Maltese liri, which is the company's functional and presentation currency.

(2) Transaction and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. 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 the profit and loss account. Such balances are translated at year end exchange rates.

Changes in the fair value of monetary securities denominated in foreign currency classified as available for sale are analysed between translation differences resulting from changes in the amortised cost of the security, and other changes in the carrying amount of the security. Translation differences are recognised in profit or loss, and other changes in carrying amount are recognised in equity.

Translation differences on non-monetary financial assets and liabilities are reported as part of the fair value gain or loss. Translation differences on non-monetary financial assets such as equities classified as available for sale are, included in the fair value reserve in equity.

(3) Group companies

Profit and loss accounts of foreign entities are translated into the group's reporting currency at the weighted average exchange rates for the year and balance sheets are translated at the exchange rates ruling at period/year end. Exchange differences arising from the translation of the net investment in foreign entities and of borrowings are taken to shareholders' equity. On disposal of a foreign entity, such exchange differences are recognised in the profit and loss account 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.

(e) Tangible fixed assets – property, plant and equipment

Property, plant and equipment comprising aircraft and flight equipment, hotels and related assets, office land and buildings, retail and other, are stated at historical cost less depreciation. Depreciation is calculated on the straight line method to write off the cost of each asset to its residual value over its estimated useful operational life as described below.

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%.

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

The cost of 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. The cost of properties held on long-term leases are amortised over the period of the respective leases.

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.

Major modifications and improvements to fixed assets are capitalised and depreciated over their estimated useful economic lives.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

If the recoverable amount of property, plant and equipment falls below its carrying amount and the diminution in value is likely to be permanent, the carrying amount is reduced to the recoverable amount. Any impairment loss is recognised as an expense in the profit and loss account. Gains and losses on disposals are determined by comparing proceeds with carrying amount.

(f) Tangible fixed assets – investment property

Investment property, principally comprising office buildings, is held for long-term rental yields and is not occupied by the group. The group adopts the cost model under IAS 40 – Investment property, whereby investment property is stated in the balance sheet at cost less accumulated depreciation and impairment losses. Maintenance expenses and repairs are recognised as an expense. Subsequent expenditure that increases the value of property is capitalised if it extends the useful life. The capitalised costs of buildings are amortised over 100 years at most, in accordance with their useful lives. If the recoverable amount of land and buildings falls below its carrying amount and the diminution in value is likely to be permanent, the carrying amount is reduced to the recoverable amount. Any impairment loss is recognised as an investment expense in the profit and loss account. Realised gains and losses on the sale of investment property are credited or charged to the profit and loss account.

(g) Intangible assets

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired subsidiary/associated undertaking at the date of acquisition. Goodwill on acquisition of subsidiaries is included in intangible assets. Goodwill on acquisitions of associates is included in investments in associates. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amounts of goodwill relating to the entity sold.

(h) Impairment of long lived assets

Property, plant and equipment and other non-current assets, including goodwill and intangible assets are reviewed for impairment losses as required by the accounting policies above or 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 carrying amount of the asset exceeds its recoverable amount which is the higher of an asset's net selling price and value in use. For the purposes of assessing impairment, assets are grouped at the lowest level for which there are separately identifiable cash flows.

(i) Other financial investments

The group classifies its investments 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.

(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 12 months after the balance sheet date. 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. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date. Regular purchases and sales of investments are recognised on trade-date – the date on which the group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets are subsequently carried at fair value. Loans and receivables are carried at amortised cost using the effective interest method.

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 security and other changes in the carrying amount of the security. The translation differences are recognised in profit or loss, and other changes in carrying amount are recognised in equity. Changes in the fair value of other monetary securities classified as available for sale and non-monetary securities classified as available for sale are recognised in equity.

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the profit and loss account. Interest on available-for-sale securities calculated using the effective interest method is recognised in the profit and loss account. Dividends on available-for-sale equity instruments are recognised in the profit and loss account when the group's right to receive payments is established.

The group assesses at each balance sheet date whether there is objective evidence that a financial asset is impaired. If any such evidence 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 removed from equity and recognised in the profit and loss account.

(j) 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 the profit and loss account 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 the profit and loss account on a straight line basis over the period of the lease.

(k) Maintenance of aircraft

Costs for routine aircraft maintenance as well as repair costs are charged to the profit and loss account as incurred.

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 to the profit and loss account based on hours flown.

(l) Stocks

Stocks are stated at the lower of cost and net realisable value. In general, cost is determined on a weighted average basis and 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.

(m) Debtors

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of
trade receivables is established when there is objective evidence that the group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the profit and loss account.

(n) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash in hand, deposits held at call with banks, net of bank overdrafts. In the balance sheet, bank overdrafts are included in borrowings in current liabilities.

(o) Borrowings

Borrowings are recognised initially at fair value, 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 the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

(p) 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 values for financial reporting purposes.

The principal temporary differences arise from depreciation on property, plant and equipment, revaluations of certain non-current assets and 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.

Tax rates enacted or substantively enacted by the balance sheet date are used to determine deferred income tax.

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.

(q) Provisions

Provisions are recognised when the group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate of the amount can be made.

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.

(r) Revenue recognition

Turnover 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. Ticket sales are included under current liabilities as sales in advance until matched to uplift coupons. The gross sales value of any tickets remaining unused is taken to the profit and loss account as residual revenue to the extent to which no liability is expected to arise in relation thereto.

In previous years, the estimate of such residual revenue was determined by reference to the tickets remaining unused for over 24 months. During the current year this period has been reduced to 18 months in accordance with the company’s experience and generally accepted practice within the airline industry. The impact of this change in accounting estimate on the current year’s financial results is reflected in revenue which has increased by an amount of Lm1,176,000.

(r) Revenue recognition - continued

Proceeds arising from the sale of fixed assets, including aircraft, are not included with turnover. Other revenues earned by the group are recognised on the following bases:

Interest income – as it accrues, unless collectibility is in doubt.
Dividend income – when the shareholder's right to receive payment is established.

(s) Sale and leaseback transactions

Profits arising on the disposal of aircraft and other assets on a sale and leaseback basis are credited to the profit and loss account 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 the profit and loss account in future periods to match the related costs.

(t) Borrowing costs

Interest costs are taken to the profit and loss account.

(u) 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.

The fair value of forward foreign exchange contracts is determined using forward exchange market rates at the balance sheet date. Fair values of interest rate linked derivative agreements and commodity options are mainly based on dealer quotes obtained at the balance sheet date from the group's counterparties. The fair value of interest rate swaps is mainly based on the present value of the estimated future cash flows. Other techniques, such as option pricing models and estimated discounted value of future cash flows, are used to determine fair value for the remaining derivatives.

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 12 months, and as a current asset or liability if the remaining maturity of the hedged item is less than 12 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.

(u) Derivative financial instruments and hedging - continued

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 the profit and loss account. 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 the profit and loss account and classified as revenue or expense in the periods during which the hedged forecast transaction affects the profit and loss account.

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 the profit and loss account.

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 the profit and loss account when the hedged forecast transaction affects the profit and loss account. 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 the profit and loss account.

The fair values of derivative instruments held for trading and hedging purposes are disclosed in Note 25 to the financial statements.

(v) 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 recovered principally through a sale transaction rather than through a continuing use. 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.

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

The Group adopted IFRS 5 from 1 April 2005 in accordance with the standard's provisions. The non-current assets (or disposal groups) held for sale were previously neither classified nor presented as current assets or liabilities. Such non-current assets (or disposal groups) were not previously measured differently from other assets and liabilities. Upon adoption of the requirements of this standard, no adjustments were necessary to the carrying amounts of assets and liabilities, but the carrying amounts were reclassified and presented as held for sale.

(w) Comparatives

Where necessary, comparative figures have been adjusted to conform with changes in presentation in the current year.

Notes to the financial statements

1. 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.

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 (revised).

However the directors would like to draw attention to those items where estimates and assumptions utilised have a certain degree of risk of causing material adjustments to the carrying amounts within the next financial year. In this respect, these items principally comprise the company's provisions on onerous contracts (refer to Note 11).

2. Segment information

	Airline activities Lm000	Retail and other activities Lm000	**Total Lm000**
Year ended 31 March 2006			
Total gross segment sales	119,416	935	**120,351**
Less: inter-segment sales	(1,958)	(863)	**(2,821)**
Turnover	117,458	72	**117,530**
Segment result - Operating loss from continuing operations	(6,438)	802	**(5,636)**
Investment income			**256**
Results of associated undertakings	(2,475)	100	**(2,375)**
Interest receivable			**627**
Interest payable			**(1,271)**
Net gains on aircraft and engine transactions	107		**107**
Loss before tax			**(8,292)**
Tax on loss			**(148)**
Loss for the year from continuing operations			**(8,440)**
Segment assets	72,245	5,980	**78,225**
Elimination of group balances			**(4,685)**
Associates	1,841	571	**2,412**
Unallocated assets			**4,579**
Non-current assets classified as held for sale (Note 3)			**6,144**
Total assets			**86,675**
Segment liabilities	(53,096)	(4,370)	**(57,466)**
Elimination of group balances			**4,685**
Unallocated liabilities			**(17,864)**
Liabilities directly associated with non-current assets classified as held for sale (Note 3)			**(2,234)**
Total liabilities			**(72,879)**
Capital expenditure	664	10	**674**
Depreciation	1,751	206	**1,957**
Reversal of impairment charges (Note 16)	(259)	-	**(259)**
Provisions for impairment of trade debtors	383	(41)	**342**

Information on the segment results from discontinued operations in respect of the hotel operations, which were previously reported as a distinct segment, and in respect of certain operations, which were reported within the 'Retail and other activities' segment in prior years, is presented in Note 3 to the financial statements. Assets classified as held for sale and liabilities directly associated with these assets, attributable to discontinued operations, are analysed in Note 3. Comparative financial information has been re-presented on this basis.

2. Segment information - continued

	Airline activities Lm000	Retail and other activities Lm000	**Total Lm000**
Period ended 31 March 2005			
Total gross segment sales	74,595	598	**75,193**
Less: inter-segment sales	(3,037)	(543)	**(3,580)**
Turnover	71,558	55	**71,613**
Segment result - Operating loss from continuing operations	(4,531)	464	**(4,067)**
Investment income			**3,393**
Results of associated undertakings	(361)	186	**(175)**
Interest receivable			**458**
Interest payable			**(785)**
Net losses on aircraft and engine transactions	(327)		**(327)**
Loss before tax			**(1,503)**
Tax on loss			**611**
Loss for the year from continuing operations			**(892)**
Segment assets	80,033	5,435	**85,468**
Elimination of group balances			**(3,602)**
Associates	1,451	561	**2,012**
Unallocated assets			**5,534**
Non-current assets classified as held for sale (Note 3)			**8,180**
Total assets			**97,592**
Segment liabilities	(56,247)	(2,447)	**(58,694)**
Elimination of group balances			**3,602**
Unallocated liabilities			**(16,255)**
Liabilities directly associated with non-current assets classified as held for sale (Note 3)			**(2,994)**
Total liabilities			**(74,341)**
Capital expenditure	684	10	**694**
Depreciation	1,753	24	**1,777**
Amortisation	60	-	**60**
Impairment charges (Note 16)	602	-	**602**
Provisions for impairment of trade debtors	68	4	**72**

2. Segment information - continued

Segment revenue and operating loss include transfers between business segments, which transfers are eliminated on consolidation. Segment assets include all operating assets used by a segment and consist principally of property, plant and equipment, stocks, debtors and operating cash, but exclude items such as current taxation, deferred taxation and investments. Segment assets attributable to discontinued operations are separately analysed in Note 3 to the accounts.

Segment liabilities include all operating liabilities and consist principally of trade creditors and accrued liabilities, but exclude borrowings and current taxation. Segment liabilities directly associated with assets classified as held for sale are disclosed in Note 3. Capital expenditure comprises additions to property, plant and equipment and investment property.

With the exception of leasing income, income from airline activities is principally derived from flights to and from Malta. The group's turnover from other business segments is also derived from Malta.

	Year ended 31 March 2006 Lm000	Period from 1 August 2004 to 31 March 2005 Lm000
Turnover on airline activities by route area reflecting the group's operational regions, as follows:		
Northern and Central Europe including UK	**85,190**	57,682
Mediterranean basin and Middle East	**28,356**	10,774
	113,546	68,456
Aircraft leasing revenue (Mediterranean basin)	**524**	560
Ground related & other revenue (Malta)	**3,388**	2,542
	117,458	71,558

Residual revenues included in the figures disclosed above amount to Lm3,075,000 (2005: Lm1,477,000)

3. Discontinued operations

	Group		**Company**	
	Year ended 31 March 2006 Lm000	Period from 1 August 2004 to 31 March 2005 Lm000	**Year ended 31 March 2006 Lm000**	Period from 1 August 2004 to 31 March 2005 Lm000
Loss after tax from discontinued operations:				
Hotel segment (see Note a)	**(860)**	(772)	**-**	-
Retailing and others (see Note b)	**-**	(52)	**-**	-
Gain recognised on the disposal of assets or disposal group constituting the discontinued operations (see Note c)	**1,706**	-	**1,778**	-
Profit/(loss) for the period from discontinued operations	**846**	(824)	**1,778**	-

3. Discontinued operations - continued

Group

	31 March 2006 Lm000	31 March 2005 Lm000
Non-current assets classified as held for sale:		
Hotel segment (see Note a)	**6,144**	6,394
Retailing and others (see Note b)	**-**	1,786
	6,144	8,180
Liabilities directly associated with non-current assets classified as held for sale:		
Hotel segment (see Note a)	**2,234**	2,323
Retailing and others (see Note b)	**-**	671
	2,234	2,994

Company

Non-current assets classified as held for sale:

	Shares in group undertakings Lm000	Loans to group undertakings Lm000	Total Lm000
Period ended 31 March 2005			
Reclassification from 'Investments in group undertakings' (Note 18)	3,379	6,708	10,087
Closing carrying amount	3,379	6,708	10,087
Year ended 31 March 2006			
Opening carrying amount	3,379	6,708	10,087
Additions	-	1,093	1,093
Disposals	(1,008)	-	(1,008)
Closing carrying amount	**2,371**	**7,801**	**10,172**
At 31 March 2006 and 2005			
Provisions for impairment reported within carrying amounts disclosed above	**(1,186)**	**(237)**	**(1,423)**

3. Discontinued operations - continued

(a) During the preceding financial period, the group publicly announced its intention to discontinue the operations of its hotel segment. The subsidiaries comprising this segment are reported in these consolidated financial statements as a discontinued operation in accordance with the requirements of IFRS 5. An analysis of the result of the discontinued operations is as follows:

	Year ended 31 March 2006 Lm000	Period from 1 August 2004 to 31 March 2005 Lm000
Sales	**2,857**	2,289
Operating costs	**(3,706)**	(2,987)
Operating loss – Segment result from discontinued operations	**(849)**	(698)
Finance costs	**(97)**	(73)
Loss before tax	**(946)**	(771)
Tax	**86**	(1)
Loss after tax from discontinued operations	**(860)**	(772)
Operating cash flows	**(411)**	(142)
Investing cash flows	**(40)**	490
Financing cash flows	**127**	(570)
Total cash flows	**(324)**	(222)

Operating costs disclosed above mainly comprise staff costs and other direct hotel expenditure.

The disposal of hotel interests commenced with an offer for sale of Tigne Development Company Limited. The bids received are now being adjudicated and the disposal is expected to be concluded during the financial year ending 31 March 2007. The operations at Hal Ferh Company Limited have been discontinued and it is expected that the group will proceed with the disposal of its interest in this company within the next financial year. Accordingly the assets and liabilities of these two companies have been presented as held for sale. In respect of Selmun Palace Hotel Company Limited, the Group intends to secure a long term agreement with third parties for the management and operation of the company's business and its assets. Therefore the assets and liabilities of this company have not been included within non-current assets and liabilities held for sale.

	31 March 2006 Lm000	31 March 2005 Lm000
Non-current assets classified as held for sale:		
Disposal group held for sale:		
- Property, plant and equipment	**5,529**	5,529
- Other non-current assets (deferred taxation)	**416**	330
- Other current assets	**199**	535
	6,144	6,394
Liabilities directly associated with non-current assets classified as held for sale:		
Interest-bearing bank borrowings	**1,688**	1,684
Trade and other payables	**546**	639
	2,234	2,323

3. Discontinued operations - continued

(b) During the preceding financial period, the group also announced its plans to dispose of its controlling shareholdings in two subsidiaries, Air Supplies and Catering Company Limited and Sterling Travel & Tourism Limited. These subsidiaries, which have actually been disposed of during the current financial year, were previously reported within the 'Retail and other activities' segment. These activities are accordingly disclosed in these consolidated financial statements as discontinued operations in accordance with the requirements of IFRS 5. The assets and liabilities related to these companies as at 31 March 2005 have been presented as held for sale. An analysis of the result of discontinued operations is as follows:

	Period from 1 August 2004 to 31 March 2005 Lm000
Sales	3,749
Operating costs	(3,810)
Operating result – Segment result from discontinued operations	(61)
Net finance income	5
Loss before tax	(56)
Tax	4
Loss after tax from discontinued operations	(52)
Operating cash flows	(405)
Investing cash flows	18
Total cash flows	(387)

	31 March 2005 Lm000
Non-current assets classified as held for sale:	
Disposal group held for sale:	
- Property, plant and equipment	95
- Other non-current assets (deferred taxation)	136
- Other current assets	
Stocks	433
Trade and other receivables	827
Cash and cash equivalents	295
	1,786
Liabilities directly associated with non-current assets classified as held for sale:	
Interest-bearing bank borrowings	79
Trade and other payables	592
	671

3. **Discontinued operations** - continued

Operating costs disclosed above principally comprise cost of goods sold and staff costs. The result recognised on the disposal of assets or disposal group constituting these discontinued operations during the current financial year is disclosed in Note c below.

(c) During the financial year, the Group disposed of its interests as disclosed above, with the resulting gain on disposal:

	Group Year ended 31 March 2006 Lm000	**Company Year ended 31 March 2006 Lm000**
Net assets disposed of/cost of shares	1,115	1,043
Proceeds on disposal	(2,821)	(2,821)
Profit on disposal	(1,706)	(1,778)

4. Expenses by nature

	Group		**Company**	
	Year ended 31 March 2006 Lm000	Period from 1 August 2004 to 31 March 2005 Lm000	**Year ended 31 March 2006 Lm000**	Period from 1 August 2004 to 31 March 2005 Lm000
Aircraft fuel and oils	**21,597**	11,027	**21,597**	10,976
Aircraft operating lease rentals	**12,473**	8,725	**12,473**	8,606
Aircraft maintenance	**9,258**	7,005	**9,258**	7,005
Other flight related costs	**26,410**	16,740	**26,410**	16,716
Marketing, distribution and representation costs	**5,784**	2,947	**4,590**	2,778
Depreciation	**1,852**	1,742	**1,772**	1,688
Staff costs (Note 6)	**23,312**	15,607	**22,065**	15,045
Increase in provisions for impairment of trade debtors	**361**	68	**215**	68
Exchange differences	**153**	513	**146**	385
Other expenses	**22,078**	11,487	**7,028**	4,949
Total cost of sales, selling and distribution costs and administrative expenses	**123,278**	75,861	**105,554**	68,216

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

4. Expenses by nature - continued

Auditors' remuneration

	Group	
	Year ended 31 March 2006 Lm000	Period from 1 August 2004 to 31 March 2005 Lm000
Audit services – statutory		
- Parent company auditors	**36**	38
- Other auditors of other group undertakings	**49**	50
Other services		
- Parent company auditors		
- other assurance services	**16**	14
- tax and other services	**15**	38
- Other auditors of other group undertakings		
- tax and other services	**15**	14

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, and advisory services such as consultation on tax matters, tax advice relating to transactions, and other tax planning and advice. Other 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. In addition to the amounts disclosed in the table above, fees amounting to Lm6,000 (2005: Lm40,000) have been paid to the parent company auditors in respect of secondment of staff to the company's internal audit function. These staff members reported directly to the company's Head Internal Audit and the Audit Committee accordingly. As from June 2005 the parent company's internal audit function has been staffed solely by recruited full timers, and accordingly the secondment arrangement ceased.

5. Analysis of operating loss from continuing operations

Group	**Year ended 31 March 2006 Lm000**	Year ended 31 March 2005 Lm000	Period from 1 August 2004 to 31 March 2005 Lm000
Turnover	**117,530**	115,573	71,613
Cost of sales	**(108,602)**	(105,072)	(66,192)
Gross profit	**8,928**	10,501	5,421
Selling and distribution costs	**(7,491)**	(8,117)	(5,168)
Administrative expenses	**(7,185)**	(7,059)	(4,501)
Other operating items	**112**	390	181
Operating loss	**(5,636)**	(4,285)	(4,067)

Company	**Year ended 31 March 2006 Lm000**	Year ended 31 March 2005 Lm000	Period from 1 August 2004 to 31 March 2005 Lm000
Turnover	**99,201**	101,876	63,397
Cost of sales	**(93,588)**	(94,919)	(60,070)
Gross profit	**5,613**	6,957	3,327
Selling and distribution costs	**(7,237)**	(7,935)	(5,023)
Administrative expenses	**(4,729)**	(4,727)	(3,123)
Operating loss	**(6,353)**	(5,705)	(4,819)

6. Staff costs

	Group		**Company**	
	Year ended 31 March 2006 Lm000	Period from 1 August 2004 to 31 March 2005 Lm000	**Year ended 31 March 2006 Lm000**	Period from 1 August 2004 to 31 March 2005 Lm000
Wages and salaries	**23,503**	16,446	**20,712**	14,085
Social security costs	**1,637**	1,147	**1,353**	960
	25,140	17,593	**22,065**	15,045

Included in staff costs for the current financial year are termination benefits amounting to Lm136,000 (2005: Lm248,000). Staff costs included in the group's figures above relating to discontinued operations amount to Lm1,834,000 (2005: Lm2,012,000).

6. **Staff costs** - continued

Average number of persons employed during the year:-

By class of business:

	Group		Company	
	Year ended 31 March 2006	Period from 1 August 2004 to 31 March 2005	**Year ended 31 March 2006**	Period from 1 August 2004 to 31 March 2005
Airline activities, including aircraft leasing	**1,863**	1,854	**1,758**	1,824
Hotels	**304**	334	**-**	-
Retail and other activities	**6**	121	**-**	-
	2,173	2,309	**1,758**	1,824

By category:

	Group		Company	
	Year ended 31 March 2006	Period from 1 August 2004 to 31 March 2005	**Year ended 31 March 2006**	Period from 1 August 2004 to 31 March 2005
Direct	**945**	966	**653**	678
Indirect	**884**	928	**868**	886
Administrative	**344**	415	**237**	260
	2,173	2,309	**1,758**	1,824

Group figures in respect of employee numbers, disclosed in the tables above, include 304 (2004: 448) employees attributable to discontinued operations.

7. **Investment income**

	Group		Company	
	Year ended 31 March 2006 Lm000	Period from 1 August 2004 to 31 March 2005 Lm000	**Year ended 31 March 2006 Lm000**	Period from 1 August 2004 to 31 March 2005 Lm000
Income from shares in group undertakings	**-**	-	**578**	524
Income from shares in associated undertakings	**-**	-	**192**	74
Income from disposal of associated undertaking	**93**	-	**169**	-
Income from disposal of other financial assets (Note 33)	**-**	3,340	**-**	3,340
Income from other financial assets	**163**	53	**50**	53
	256	3,393	**989**	3,991

8. Results of group and associated undertakings

	Group		Company	
	Year ended 31 March 2006 Lm000	Period from 1 August 2004 to 31 March 2005 Lm000	**Year ended 31 March 2006 Lm000**	Period from 1 August 2004 to 31 March 2005 Lm000
Provisions against group and associated undertakings	**-**	-	**(2,794)**	(1,014)
Share of results and other losses of associated undertakings	**(2,375)**	(175)	**-**	-
	(2,375)	(175)	**(2,794)**	(1,014)

The figures disclosed in the table above include provisions amounting to Lm2,794,000 (2005: Lm454,000) in respect of AZZURRAair S.p.A. analysed as follows:

	Group and Company	
	Year ended 31 March 2006 Lm000	Period from 1 August 2004 to 31 March 2005 Lm000
Losses arising in respect of guarantees, other commitments and expenses	**2,794**	240
Movements arising on defaults of aircraft lease obligations with regards to maintenance and redelivery	**-**	214
	2,794	454

Air Malta plc remains consistent in its opinion that it has always conducted its affairs with AZZURRAair S.p.A, in a prudent manner in compliance with applicable laws. This notwithstanding Air Malta plc consented to an all-inclusive out-of-court settlement with the bankruptcy liquidator of AZZURRAair S.p.A. in December 2005, in consideration of the payment of Euro7 million, without admission of liability. In return and as a result of this agreement, Air Malta and related parties are safe-guarded from the risk of any possible clawback actions as well as any other civil claims for costs or damages which the Liquidator might otherwise have been compelled to bring forward, irrespective of chances of success, given the high public profile of the AZZURRAair S.p.A. bankruptcy. Any such latter action would have resulted in lengthy proceedings, which may have also had negative commercial and public perception implications, even in the context of an eventual outcome which would have vindicated Air Malta's position. Accordingly the company decided, after taking appropriate legal advice, to conclude with the liquidator.

8. Results of group and associated undertakings - continued

The provisions unutilised at the financial year end are reflected in the group and company balance sheets as disclosed in Note 30 to the financial statements. The movements in the provisions are analysed as follows:

	Group and Company	
	Year ended 31 March 2006 Lm000	Period from 1 August 2004 to 31 March 2005 Lm000
Included with other provisions (Note 30)	**(259)**	454

9. Interest receivable

	Group		Company	
	Year ended 31 March 2006 Lm000	Period from 1 August 2004 to 31 March 2005 Lm000	**Year ended 31 March 2006 Lm000**	Period from 1 August 2004 to 31 March 2005 Lm000
Interest receivable and similar income from group undertakings	**-**	-	**340**	219
Interest receivable and similar income from associated undertakings	**31**	29	**31**	24
Interest receivable from bank deposits	**596**	429	**448**	359
	627	458	**819**	602

Company figures disclosed above in respect of interest receivable and similar income from group undertakings include amounts of Lm306,000 (2005: Lm187,000) attributable to discontinued operations. Interest income earned by the group in respect of these discontinued operations is disclosed in Note 3 to the financial statements.

10. Interest payable

	Group		Company	
	Year ended 31 March 2006 Lm000	Period from 1 August 2004 to 31 March 2005 Lm000	**Year ended 31 March 2006 Lm000**	Period from 1 August 2004 to 31 March 2005 Lm000
Interest payable on bank loans and overdrafts	**632**	437	**605**	409
Interest payable to group undertakings	**-**	-	**108**	75
Interest payable to associated undertakings	**23**	11	**23**	11
Effects of unwinding non-current provisions	**180**	247	**180**	247
Bank charges and similar expenses, including exchange differences on financing activities	**436**	90	**434**	95
	1,271	785	**1,350**	837

Company figures disclosed above in respect of interest payable to group undertakings include amounts of Lm2,000 (2005: Lm9,000) attributable to discontinued operations. Interest costs, mainly arising from bank financing, incurred by the group in respect of these discontinued operations is disclosed in Note 3 to the financial statements.

11. Net gains/(losses) on aircraft and engine transactions

	Group		Company	
	Year ended 31 March 2006 Lm000	Period from 1 August 2004 to 31 March 2005 Lm000	**Year ended 31 March 2006 Lm000**	Period from 1 August 2004 to 31 March 2005 Lm000
Decrease in provisions on onerous contracts (Note 30)	**180**	365	**180**	365
Impairment, depreciation charges and other expenses in respect of aircraft and flight equipment	**(73)**	(692)	**(73)**	(692)
	107	(327)	**107**	(327)

Provisions on onerous contracts have been made to reflect the extent to which future lease commitments on the AVRO RJ aircraft were expected to exceed the income estimated to be generated therefrom, account also being taken of all relevant costs. Future operating lease rental commitments payable on the aircraft, which have not been provided for on the basis of current assumptions on remarketing, total Lm3,040,000 (2005: Lm4,300,000).

During the current financial year, the company incurred further charges in respect of the AVRO RJ rotables and spare engines amounting to Lm73,000 (2005: impairment losses and depreciation charges of Lm692,000).

12. Tax expense/(income)

	Group		Company	
	Year ended 31 March 2006 Lm000	Period from 1 August 2004 to 31 March 2005 Lm000	**Year ended 31 March 2006 Lm000**	Period from 1 August 2004 to 31 March 2005 Lm000
Current taxation	**195**	(308)	**71**	3
Deferred taxation	**(133)**	(306)	**-**	(249)
Tax charge/(credit)	**62**	(614)	**71**	(246)
Attributable to:				
Continuing operations (reflected on face of profit and loss account)				
- current taxation	**195**	(305)		
- deferred taxation (Note 28)	**(47)**	(306)		
Discontinued operations				
- current taxation (Note 3)	**-**	(3)		
- deferred taxation (Note 3)	**(86)**	-		
	62	(614)		

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 as follows:

	Group		Company	
	Year ended 31 March 2006 Lm000	Period from 1 August 2004 to 31 March 2005 Lm000	**Year ended 31 March 2006 Lm000**	Period from 1 August 2004 to 31 March 2005 Lm000
Loss before tax from continuing operations	**(8,292)**	(1,503)	**(8,582)**	(2,404)
Profit/(loss) before tax from discontinued operations (Note 3)	**760**	(827)	**1,778**	-
Loss before tax for the period	**(7,532)**	(2,330)	**(6,804)**	(2,404)
Tax on loss before tax at the statutory rate of 35%	**(2,636)**	(816)	**(2,381)**	(841)
Deferred tax asset in respect of unutilised tax losses and unabsorbed capital allowances not recognised	**2,317**	2,538	**2,365**	2,401
Unrecognised temporary differences and other movements, mainly attributable to tangible fixed assets and provisions on onerous contracts	**1,302**	(819)	**830**	(631)
Overprovision in respect of prior years	**-**	(406)	**-**	-
Income effectively taxed at reduced rates	**(921)**	(1,111)	**(743)**	(1,175)
Tax charge/(credit)	**62**	(614)	**71**	(246)

13. Directors' emoluments

	Group		Company	
	Year ended 31 March 2006 Lm000	Period from 1 August 2004 to 31 March 2005 Lm000	**Year ended 31 March 2006 Lm000**	Period from 1 August 2004 to 31 March 2005 Lm000
Emoluments of directors of Air Malta plc:				
Total fees and other emoluments charged in these financial statements	**15**	11	**15**	11
Benefits in kind as computed for Income Tax purposes	**1**	2	**1**	2
	16	13	**16**	13

Insurance premia of Lm129,500 (2005: Lm95,000) have been paid during the year in respect of professional indemnity cover in favour of the directors of Air Malta plc and other officers.

In addition to the above emoluments, fees amounting to Lm19,000 (2005: Lm21,000) were earned by other officers (mainly officers of the group), not directors of Air Malta plc, in their capacity as directors appointed by Air Malta plc on the boards of group and associated companies.

14. Earnings per share

Earnings per share is calculated by dividing the result attributable to the equity holders of Air Malta plc by the weighted average number of ordinary shares in issue during the year.

	Group	
	Year ended 31 March 2006	Period from 1 August 2004 to 31 March 2005
Net loss from continuing operations attributable to the equity holders of the company (in Lm000)	**(8,440)**	(892)
Net profit/(loss) from discontinued operations attributable to the equity holders of the company (in Lm000)	**846**	(824)
Net result attributable to the equity holders of the company (in Lm000)	**(7,594)**	(1,716)
Weighted average number of ordinary shares in issue (in thousands)	**11,115**	11,115
Earnings per share for loss from continuing operations	**(Lm0.76)**	(Lm0.08)
Earnings per share for profit/(loss) from discontinued operations	**Lm0.08**	(Lm0.07)

15. Intangible assets

	Group Goodwill Lm000
At 1 August 2004	
Cost	451
Accumulated amortisation	(197)
Net book amount	254
Period ended 31 March 2005	
Opening net book amount	254
Amortisation charge (included in 'Administrative expenses')	(60)
Closing net book amount	194
At 31 March 2005	
Cost	451
Accumulated amortisation	(257)
Net book amount	194

In 2006, the Group adopted IFRS 3 and simultaneously applied IAS 36 (revised 2004) and IAS 38 (revised 2004). Until 31 March 2005, goodwill was amortised on a straight line basis over its estimated useful life of 5 years and was assessed for an indication of impairment at each balance sheet date. In accordance with the requirements of IFRS 3, the group ceased the amortisation of goodwill as from 1 April 2005 and accumulated amortisation as at 31 March 2005 has been eliminated with a corresponding decrease in the cost of goodwill.

	Group Goodwill Lm000
Year ended 31 March 2006	
Opening carrying amount	194
Exchange differences	(3)
Closing carrying amount	**191**
At 31 March 2006	
Cost and carrying amount	**191**

16. Property, plant and equipment

Group	Office land & buildings Lm000	Aircraft & flight equipment - own use Lm000	Aircraft & flight equipment - leased out Lm000	Hotels & related assets Lm000	Retail and other Lm000	Total Lm000
At 1 August 2004						
Cost	27,884	9,739	9,553	16,133	13,414	76,723
Accumulated depreciation and impairment charges	(3,089)	(5,787)	(8,480)	(8,442)	(11,021)	(36,819)
Net book amount	24,795	3,952	1,073	7,691	2,393	39,904
Period ended 31 March 2005						
Opening net book amount	24,795	3,952	1,073	7,691	2,393	39,904
Additions	39	388	-	32	247	706
Fair value adjustment on acquisition of minority interest	-	-	-	523	-	523
Disposals	-	-	-	(26)	(106)	(132)
Impairment charges	-	-	(602)	(14)	(56)	(672)
Reclassification to non-current assets held for sale (Note 3)	-	-	-	(5,529)	(95)	(5,624)
Depreciation charge	(376)	(663)	(99)	(239)	(658)	(2,035)
Depreciation released on disposals	-	-	-	26	80	106
Exchange differences	-	-	-	-	2	2
Closing net book amount	24,458	3,677	372	2,464	1,807	32,778
At 31 March 2005						
Cost	27,923	10,127	9,553	4,813	12,517	64,933
Accumulated depreciation and impairment charges	(3,465)	(6,450)	(9,181)	(2,349)	(10,710)	(32,155)
Net book amount	24,458	3,677	372	2,464	1,807	32,778

16. Property, plant and equipment - continued

	Office land & buildings Lm000	Aircraft & flight equipment - own use Lm000	Aircraft & flight equipment - leased out Lm000	Hotels & related assets Lm000	Retail and other Lm000	Total Lm000
Year ended 31 March 2006						
Opening net book amount	24,458	3,677	372	2,464	1,807	32,778
Additions	30	329	-	43	419	821
Disposals	-	-	(680)	(7)	(118)	(805)
Reversal of impairment charges	-	-	259	-	-	259
Depreciation charge	(482)	(584)	(8)	(115)	(707)	(1,896)
Depreciation released on disposals	-	-	363	7	117	487
Closing net book amount	**24,006**	**3,422**	**306**	**2,392**	**1,518**	**31,644**
At 31 March 2006						
Cost	27,953	10,456	8,873	4,849	12,818	64,949
Accumulated depreciation and impairment charges	(3,947)	(7,034)	(8,567)	(2,457)	(11,300)	(33,305)
Net book amount	**24,006**	**3,422**	**306**	**2,392**	**1,518**	**31,644**

16. Property, plant and equipment - continued

Company	Office land & buildings Lm000	Aircraft & flight equipment - own use Lm000	Aircraft & flight equipment - leased out Lm000	Other Lm000	Total Lm000
At 1 August 2004					
Cost	25,546	9,739	3,331	11,361	49,977
Accumulated depreciation and impairment charges	(3,075)	(5,786)	(2,258)	(9,337)	(20,456)
Net book amount	22,471	3,953	1,073	2,024	29,521
Period ended 31 March 2005					
Opening net book amount	22,471	3,953	1,073	2,024	29,521
Additions	39	388	-	173	600
Disposals	-	-	-	(47)	(47)
Impairment charges	-	-	(602)	-	(602)
Depreciation charge	(365)	(663)	(99)	(521)	(1,648)
Depreciation released on disposals	-	-	-	45	45
Closing net book amount	22,145	3,678	372	1,674	27,869
At 31 March 2005					
Cost	25,585	10,127	3,331	11,487	50,530
Accumulated depreciation and impairment charges	(3,440)	(6,449)	(2,959)	(9,813)	(22,661)
Net book amount	22,145	3,678	372	1,674	27,869
Year ended 31 March 2006					
Opening net book amount	22,145	3,678	372	1,674	27,869
Additions	12	329	-	356	697
Disposals	-	-	(680)	(118)	(798)
Reversal of impairment charges	-	-	259	-	259
Depreciation charge	(482)	(584)	(18)	(628)	(1,712)
Depreciation released on disposals	-	-	373	117	490
Closing net book amount	**21,675**	**3,423**	**306**	**1,401**	**26,805**
At 31 March 2006					
Cost	25,597	10,456	2,651	11,725	50,429
Accumulated depreciation and impairment charges	(3,922)	(7,033)	(2,345)	(10,324)	(23,624)
Net book amount	**21,675**	**3,423**	**306**	**1,401**	**26,805**

The impairment charges recognised during the preceding financial year in the profit and loss account (included in ‘Cost of sales’) and disclosed in the tables above arose as a consequence of the directors’ assessment of the recoverable amount of aircraft and flight equipment in view of the unlikely use of certain assets for operational purposes. These assets have been written down to their estimated recoverable amounts, determined at the individual asset level and representing net selling price, assessed by reference to market prices for equivalent assets. During the current financial year, these impairment charges have been partially reversed on the basis of the market value for equivalent assets. This reversal has been credited to the profit and loss account (included within ‘Cost of sales’).

17. Investment property

	Group Lm000	Company Lm000
At 1 August 2004		
Cost	1,822	4,154
Accumulated depreciation	(13)	(24)
Net book amount	1,809	4,130
Period ended 31 March 2005		
Opening net book amount	1,809	4,130
Additions	20	20
Depreciation charge	(40)	(40)
Closing net book amount	1,789	4,110
At 31 March 2005		
Cost	1,842	4,174
Accumulated depreciation	(53)	(64)
Net book amount	1,789	4,110
Year ended 31 March 2006		
Opening net book amount	1,789	4,110
Depreciation charge	(61)	(60)
Closing net book amount	**1,728**	**4,050**
At 31 March 2006		
Cost	1,842	4,174
Accumulated depreciation	(114)	(124)
Net book amount	**1,728**	**4,050**

In the opinion of the directors, the market value of the investment property as at the balance sheet dates was not significantly different to its carrying amount.

The following amounts have been recognised in the profit and loss account:

	Group and Company	
	2006 Lm000	2005 Lm000
Rental income from investment property	**153**	244

18. Investments in group undertakings

Company	Shares in group undertakings Lm000	Loans to group undertakings Lm000	Total Lm000
At 1 August 2004			
Cost	5,171	8,286	13,457
Provisions for impairment	(260)	(3,261)	(3,521)
Net book amount	4,911	5,025	9,936
Period ended 31 March 2005			
Opening net book amount	4,911	5,025	9,936
Additions	847	870	1,717
Dividends received (vide Note below)	(140)	-	(140)
Movement in provisions	(1,512)	1,089	(423)
Reclassification to non-current assets held for sale (Note 3)	(3,379)	(6,708)	(10,087)
Closing net book amount	727	276	1,003
At 31 March 2005			
Cost	1,313	2,211	3,524
Provisions for impairment	(586)	(1,935)	(2,521)
Net book amount	727	276	1,003
Year ended 31 March 2006			
Opening net book amount	727	276	1,003
Additions	-	260	260
Disposals	(126)	-	(126)
Repayment of loans	-	(60)	(60)
Closing net book amount	**601**	**476**	**1,077**
At 31 March 2006			
Cost	1,187	2,411	3,598
Provisions for impairment	(586)	(1,935)	(2,521)
Net book amount	**601**	**476**	**1,077**

During the financial year ended 31 March 2005, dividends received from a subsidiary undertaking amounting to Lm140,000, had been accounted for as a recovery of the cost of the company's investment in this group undertaking.

Loans to group undertakings are unsecured and repayable on demand. At 31 March 2006, loans to group undertakings amounting to Lm1,105,000 (2005: Lm965,000) are subject to a fixed interest rate of 4% (2005: 4.5%) per annum.

19. Investments in associated undertakings

Group	Shares in associated undertakings Lm000	Loans to associated undertakings Lm000	Total Lm000
At 1 August 2004			
Cost	977	1,025	2,002
Share of undertakings' profits and reserves	804	-	804
Provisions for impairment	-	(973)	(973)
Carrying amount	1,781	52	1,833
Period ended 31 March 2005			
Opening carrying amount	1,781	52	1,833
Additions	-	1,065	1,065
Repayment of loans	-	(1,012)	(1,012)
Movement in provisions	(32)	(105)	(137)
Share of results	326	-	326
Net dividends received from associated undertakings	(63)	-	(63)
Closing carrying amount	2,012	-	2,012
At 31 March 2005			
Cost	977	1,078	2,055
Share of undertakings' profits and reserves	1,067	-	1,067
Provisions for impairment	(32)	(1,078)	(1,110)
Carrying amount	2,012	-	2,012
Year ended 31 March 2006			
Opening carrying amount	2,012	-	2,012
Additions	238	-	238
Disposals	(97)	-	(97)
Share of results	419	-	419
Net dividends received from associated undertakings	(160)	-	(160)
Closing carrying amount	**2,412**	**-**	**2,412**
At 31 March 2006			
Cost	1,195	1,078	2,273
Share of undertakings' profits and reserves	1,249	-	1,249
Provisions for impairment	(32)	(1,078)	(1,110)
Carrying amount	**2,412**	**-**	**2,412**

19. Investments in associated undertakings - continued

The group's share of results of its principal associates, all of which are unlisted, and its share of the assets and liabilities are shown as follows:

	Assets Lm000	Liabilities Lm000	Revenues Lm000	Profit/ (loss) Lm000	Interest held %
2005					
Lufthansa Technik (Malta) Limited	727	574	1,309	(15)	49
Malpro Limited	1,120	772	185	74	50
Mediterranean Aviation Company Limited	3,411	2,231	2,539	152	25
Sabratha Duty Free Company Limited	512	453	762	96	50
World Aviation Systems Limited	180	141	56	(1)	50
	5,950	4,171	4,851	306	
2006					
Lufthansa Technik (Malta) Limited	1,154	624	1,458	77	25
Malpro Limited	1,198	762	198	89	50
Mediterranean Aviation Company Limited	3,691	2,314	3,263	210	25
Sabratha Duty Free Company Limited	662	536	875	11	50
World Aviation Systems Limited	166	114	79	32	50
	6,871	4,350	5,873	419	

In the financial statements for the current financial year, the group's share of results of the associated undertakings, disclosed in the tables above, is after tax. The comparative figures in this respect have been re-presented on the basis outlined above. Accordingly, the group's share of tax of associated undertakings for the financial period ended 31 March 2005 amounting to Lm28,000, which had been included in 'Tax expense/(income)' in the previous financial year, has been presented within 'Share of results of associated undertakings' in the table above and in Note 8 to the financial statements.

19. Investments in associated undertakings - continued

Company	Shares in associated undertakings Lm000	Loans to associated undertakings Lm000	Total Lm000
At 1 August 2004			
Cost	721	1,065	1,786
Provisions for impairment	-	(973)	(973)
Net book amount	721	92	813
Period ended 31 March 2005			
Opening net book amount	721	92	813
Additions	-	1,065	1,065
Repayment of loans	-	(1,012)	(1,012)
Movement in provisions	-	(137)	(137)
Closing net book amount	721	8	729
At 31 March 2005			
Cost	721	1,118	1,839
Provisions for impairment	-	(1,110)	(1,110)
Net book amount	721	8	729
Year ended 31 March 2006			
Opening net book amount	721	8	729
Additions	279	-	279
Disposals	(20)	-	(20)
Closing net book amount	**980**	**8**	**988**
At 31 March 2006			
Cost	980	1,118	2,098
Provisions for impairment	-	(1,110)	(1,110)
Net book amount	**980**	**8**	**988**

Loans to associated undertakings are unsecured, repayable on demand and interest free.

20. Other financial investments – available-for-sale

Group and Company	Equity instruments Lm000	Quoted debt securities Lm000	Total Lm000
At 1 August 2004			
Cost	843	152	995
Revaluation reserve	2,413	-	2,413
Carrying amount	3,256	152	3,408
Period ended 31 March 2005			
Opening carrying amount	3,256	152	3,408
Net gains from changes in fair value	1,031	-	1,031
Disposals	(4,238)	-	(4,238)
Closing carrying amount	49	152	201
At 31 March 2005			
Cost and carrying amount	49	152	201
Year ended 31 March 2006			
Opening carrying amount	49	152	201
Disposals	(3)	-	(3)
Closing carrying amount	**46**	**152**	**198**
At 31 March 2006			
Cost and carrying amount	**46**	**152**	**198**

In addition to the amounts disclosed in the table above, the group's figures also include other investments with cost of Lm197,000, which are stated net of impairment losses of Lm197,000.

Maturity of fixed income debt securities:

	31 March 2006 Lm000	31 March 2005 Lm000
Over 5 years	**152**	152
Weighted average effective interest rates	**5.9%**	5.9%

Upon adoption of the requirements of IAS 39 (revised) all the group's investments have been classified as available-for-sale financial assets. Comparative figures have been reclassified on this basis but no adjustments to the carrying amounts were deemed necessary.

21. Financial investments – available-for-sale

Group and Company	Malta Government Treasury Bills Lm'000
Period ended 31 March 2005	
Opening carrying amount	2,482
Additions	4,488
Amortisation of discount	30
Disposals	(7,000)
Closing carrying amount	-
Year ended 31 March 2006	
Opening carrying amount	-
Additions	3,973
Amortisation of discount	27
Disposals	(4,000)
Closing carrying amount	**-**

22. Stocks

	Group		**Company**	
	31 March 2006 Lm000	31 March 2005 Lm000	**31 March 2006 Lm000**	31 March 2005 Lm000
Aircraft engineering spares	**710**	798	**710**	798
Other stocks	**424**	401	**356**	334
	1,134	1,199	**1,066**	1,132

During the current financial year, inventory write-downs recognised in the group's profit and loss account amounted to Lm87,000 (2005: Lm250,000). These amounts have been included in 'Cost of sales' in the profit and loss account.

23. Trade debtors

	Group		Company	
	31 March 2006 Lm000	31 March 2005 Lm000	**31 March 2006 Lm000**	31 March 2005 Lm000
Trade debtors – gross	**13,865**	15,500	**12,446**	14,322
Less: provisions for impairment of trade debtors	**(1,276)**	(934)	**(1,077)**	(862)
Trade debtors – net	**12,589**	14,566	**11,369**	13,460

24. Other non-current debtors

	Group and Company	
	31 March 2006 Lm000	31 March 2005 Lm000
Security deposits and outstanding proceeds arising from operating lease agreements	**2,521**	2,529
Other long-term deposits	**170**	172
	2,691	2,701

Security deposits, amounting to Lm2,134,000 (2005: Lm1,326,000), will be refunded to the company on termination of the company's fleet lease period up to March 2020. Repayment of proceeds arising from sale and leaseback agreements entered into, amounting to Lm328,000 (2005: Lm528,000), will be effected in line with the replacement schedule of the company's fleet up to April 2008.

25. Derivative financial instruments

The fair values of derivative financial instruments held at the balance sheet date are set out in the following table:

	Group and Company Fair values	
	Assets	Liabilities
At 31 March 2006	Lm000	Lm000
Derivatives held for hedging (cash flow hedges)		
Foreign exchange derivatives		
- currency forwards	1,092	-
Fuel price hedging derivatives		
- commodity swaps	348	(249)
- combined bought call and written put options	132	-
- other options	10	-
	490	(249)
Other derivatives	-	(34)
Total derivative assets/(liabilities)	1,582	(283)
Less non-current portion:		
Foreign exchange derivatives		
- currency forwards	387	-
Current portion	1,195	(283)

25. Derivative financial instruments - continued

	Group and Company	
	Fair values	
	Assets	Liabilities
At 31 March 2005	Lm000	Lm000
Derivatives held for hedging (cash flow hedges)		
Foreign exchange derivatives		
- currency forwards	23	(717)
Interest rate derivatives		
- interest rate swaps	-	(57)
Fuel price hedging derivatives		
- commodity swaps	1,608	-
- combined bought call and written put options	969	-
- other options	47	-
	2,624	-
Total derivative assets/(liabilities)	2,647	(774)
Less non-current portion:		
Foreign exchange derivatives		
- currency forwards	10	(92)
Current portion	2,637	(682)

The currency forward contracts outstanding as at 31 March 2006 are in respect of:

Contract terms	Fair value Lm000
Forward purchase of USD3.9 million against EUR (at contracted rates averaging USD1 : EUR0.816)	9
Forward sale of GBP1.5 million against MTL (at contracted rates averaging GBP1 : MTL0.631)	23
Forward sale of GBP51.2 million against USD (at contracted rates averaging GBP1 : USD1.805)	1,060
	1,092

These contracts mature within a period of thirty one (2005: twenty) months from the balance sheet date and within the same period of time the forecast transactions designated as items being hedged by these contracts are expected to affect the profit and loss account.

25. Derivative financial instruments - continued

The terms and approximate notional amounts of the combined bought call and written put fuel price options held for hedging purposes outstanding at 31 March 2006 are as follows:

Contract cover	Notional amount	Fluctuation band	Fair value Lm000
Seven month period to 31 October 2006	USD8,500,000	$70 - $55	94
Five month period to 31 March 2006	USD2,200,000	$55 - $51.70	25
Five month period to 31 March 2006	USD3,200,000	$49.59 - $60	13
			132

The terms and approximate notional amounts of the commodity swap agreements outstanding at the balance sheet date are as follows:

Contract cover	Notional amount	Settlement terms	Fair value - Assets Lm000
Twelve month period to 31 March 2007	USD9,100,000	Pay-fixed ($61.59), receive-floating	291
Seven month period to 31 October 2006	USD8,100,000	Pay-fixed ($66.70), receive-floating	38
Five month period to 31 March 2006	USD1,700,000	Pay-fixed ($54.55), receive-floating	19
			348

Contract cover	Notional amount	Settlement terms	Fair value - Liabilities Lm000
Seven month period to 31 October 2006	USD1,400,000	Pay-fixed (differential of $87), receive-floating	(134)
Seven month period to 31 October 2006	USD250,000	Pay-fixed (differential of $15.32), receive-floating	(114)
Five month period to 31 March 2006	USD400,000	Pay-fixed (differential of $62.95), receive-floating	(1)
			(249)

25. Derivative financial instruments - continued

The other fuel derivatives held by the company outstanding as at 31 March 2006 comprise a bought call option with an approximate notional amount of USD2,600,000 and strike price of $60, covering the five month period to 31 March 2006.

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 the profit and loss account 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 2005 are disclosed in the consolidated financial statements of the preceding financial year.

26. Interest-bearing borrowings

	Group		**Company**	
	31 March 2006 Lm000	31 March 2005 Lm000	**31 March 2006 Lm000**	31 March 2005 Lm000
Short-term falling due within one year				
Bank overdrafts	**1,716**	1,234	**1,312**	865
Bank loans	**40**	1,666	**-**	1,508
Other loans	**3**	3	**-**	-
Short-term borrowings	**1,759**	2,903	**1,312**	2,373
Long-term				
Bank loans	**18,419**	12,436	**18,262**	12,201
Other loans	**-**	4	**-**	-
Long-term borrowings	**18,419**	12,440	**18,262**	12,201
Total borrowings	**20,178**	15,343	**19,574**	14,574

Certain banking facilities of the holding company are secured by charges over liquid assets. Bank loans taken out by group undertakings are secured by charges over their assets and are also supported by guarantees from the holding company.

	Group		**Company**	
	31 March 2006 Lm000	31 March 2005 Lm000	**31 March 2006 Lm000**	31 March 2005 Lm000
Maturity of long-term borrowings				
Between 1 and 2 years	**6,132**	122	**5,975**	-
Between 2 and 5 years	**12,287**	12,318	**12,287**	12,201
	18,419	12,440	**18,262**	12,201

26. Interest-bearing borrowings - continued

The borrowings of the group are all subject to floating rates of interest. The weighted average effective interest rates at the balance sheet date were as follows:

	Group		Company	
	31 March 2006 %	31 March 2005 %	**31 March 2006 %**	31 March 2005 %
Bank overdrafts	**3.8**	3.4	**3.8**	3.0
Bank loans	**3.9**	3.7	**3.8**	3.7

27. Other liabilities

	Group		Company	
	31 March 2006 Lm000	31 March 2005 Lm000	**31 March 2006 Lm000**	31 March 2005 Lm000
Amounts falling due after more than one year				
Other creditors	**1,723**	1,039	-	-

28. Deferred taxation

Deferred taxation reflects all temporary differences under the liability method using a principal tax rate of 35% (2005: 35%).

The movement on deferred taxation is as follows:

	Group Lm000	**Company Lm000**
At 1 August 2004	(2,198)	(2,178)
Tax effect of remeasurement of financial assets (Note 33)	110	110
Tax effect of remeasurement of derivatives (Note 34)	139	139
Reclassification to non-current assets held for sale (Note 3)	464	-
Profit and loss account (Note 12)	(306)	(249)
At 31 March 2005	(1,791)	(2,178)
Tax effect of remeasurement of derivatives (Note 34)	(240)	(240)
Profit and loss account (Note 12)	(47)	-
At 31 March 2006	**(2,078)**	**(2,418)**

28. Deferred taxation - continued

Deferred income tax assets and liabilities are offset when the taxes concerned relate to the same fiscal authority. The following amounts are offset in the balance sheet:

	Group		Company	
	31 March 2006 Lm000	31 March 2005 Lm000	**31 March 2006 Lm000**	31 March 2005 Lm000
Deferred tax assets	**(2,452)**	(2,405)	**(2,792)**	(2,792)
Deferred tax liabilities	**374**	614	**374**	614
Net balance sheet amount	**(2,078)**	(1,791)	**(2,418)**	(2,178)

The deferred tax assets and liabilities are principally expected to be recovered or settled after more than twelve months from the balance sheet date.

Deferred tax assets and liabilities, the deferred tax charge/(credit) in the profit and loss account and the deferred tax charge/(credit) to equity are attributable to the following items:

Group	At 1 April 2005 Lm000	Charged/ (credited) to profit and loss account Lm000	Credited to equity Lm000	At 31 March 2006 Lm000
Deferred tax liabilities				
Remeasurement of derivative Instruments	614	-	(240)	374
Deferred tax assets				
Provisions	(135)	57	-	(78)
Temporary differences on fixed assets	(164)	(124)	-	(288)
Remeasurement of financial assets	(20)	20	-	-
Unabsorbed capital losses carried forward	(2,086)	-	-	(2,086)
	(2,405)	(47)	-	(2,452)
Net deferred tax	**(1,791)**	**(47)**	**(240)**	**(2,078)**

Deferred tax assets are recognised for tax losses carried forward to the extent that realisation of the related tax benefit through future taxable profits is probable. The group has unrecognised tax losses and unabsorbed capital allowances of Lm24,128,000 (2005: Lm17,174,000) to carry forward against future taxable income and which have no expiry date. In addition, the group has an unrecognised capital loss of Lm27,532,000 (2005: Lm23,797,000). This loss can be carried forward indefinitely against future capital profits. Accordingly, the group has a potential deferred tax asset amounting to Lm18,081,000 which has not been recognised in these financial statements.

28. Deferred taxation - continued

Company	At 1 April 2005 Lm000	Credited to equity Lm000	At 31 March 2006 Lm000
Deferred tax liabilities			
Remeasurement of derivative instruments	614	(240)	374
Deferred tax assets			
Provisions	(65)	-	(65)
Temporary differences on fixed assets	(398)	-	(398)
Unabsorbed capital allowances and tax losses carried forward	(243)	-	(243)
Unabsorbed capital losses carried forward	(2,086)	-	(2,086)
	(2,792)	-	(2,792)
Net deferred tax	**(2,178)**	**(240)**	**(2,418)**

29. Provisions in respect of maintenance costs

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 2006 and 2005 represent the excess of amounts charged to the profit and loss account over the actual costs incurred.

	Group and Company	
	Year ended 31 March 2006 Lm000	Period from 1 August 2004 to 31 March 2005 Lm000
At beginning of period	**3,259**	4,680
Charged to profit and loss account:		
- Additional provisions, including effects of unwinding non-current provisions	**4,088**	3,693
Used during period	**(6,664)**	(5,114)
At end of period	**683**	3,259

These provisions are substantially current in nature.

30. Other provisions

Group and Company	Provisions on onerous contracts Lm000	Provisions against commitments and guarantees issued in favour of AZZURRAair S.p.A. Lm000	Total Lm000
At 1 August 2004	8,805	2,858	11,663
Charged/(credited) to profit and loss account:			
- Additional provisions	-	454	454
- Unused amounts reversed	(365)	-	(365)
- Effects of unwinding non-current provisions (Note 10)	247	-	247
Used during period	(3,128)	(710)	(3,838)
At 31 March 2005	5,559	2,602	8,161
Charged/(credited) to profit and loss account:			
- Unused amounts reversed	(180)	(259)	(439)
- Effects of unwinding non-current provisions (Note 10)	180	-	180
Used during year	(1,991)	(1,694)	(3,685)
At 31 March 2006	**3,568**	**649**	**4,217**

Analysis of total provisions:

	31 March 2006 Lm000	31 March 2005 Lm000
Non-current	**1,939**	4,037
Current	**2,278**	4,124
	4,217	8,161

31. Share capital

	Group and Company	
	31 March 2006 Lm000	31 March 2005 Lm000
Authorised		
35,000,000 (2005: 35,000,000) ordinary shares of Lm1 each	**35,000**	35,000
Issued and fully paid		
11,115,478 (2005: 11,115,478) ordinary shares of Lm1 each	**11,115**	11,115

32. Share premium

	Group and Company	
	Year ended 31 March 2006 Lm000	Period from 1 August 2004 to 31 March 2005 Lm000
At beginning and end of period	**18,358**	18,358

33. Revaluation reserve

Group and Company	Marketable securities Lm000
At 1 August 2004	2,419
Net gains from changes in fair value	1,031
Amount released on realisation of investments	(3,340)
Deferred income tax (Note 28)	(110)
At 31 March 2005 and 31 March 2006	**-**

The revaluation reserve constituted an unrealised gain which could not be distributed by way of dividend.

34. Hedging reserve

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

Group and Company	Currency forwards and options Lm000	Commodity options and swaps Lm000	Interest rate swaps Lm000	Interest rate linked option arrangement Lm000	Total Lm000
At 1 August 2004					
Gross amounts of (losses)/gains	(168)	1,477	(16)	156	1,449
Deferred income tax	59	(517)	6	(55)	(507)
	(109)	960	(10)	101	942
Movements in period ended 31 March 2005					
(Losses)/gains from changes in fair value	(1,178)	2,528	2	(156)	1,196
Deferred income tax (Note 28)	412	(885)	-	55	(418)
	(766)	1,643	2	(101)	778
Transferred to profit and loss account	652	(1,523)	75	-	(796)
Deferred income tax (Note 28)	(228)	533	(26)	-	279
	424	(990)	49	-	(517)
At 31 March 2005					
Gross amounts of (losses)/gains	(694)	2,482	61	-	1,849
Deferred income tax	243	(869)	(20)	-	(646)
	(451)	1,613	41	-	1,203

34. Hedging reserve - continued

Group and Company	Currency forwards Lm000	Commodity options and swaps Lm000	Interest rate swaps Lm000	Total Lm000
At 1 April 2005				
Gross amounts of (losses)/gains	(694)	2,482	61	1,849
Deferred income tax	243	(869)	(20)	(646)
	(451)	1,613	41	1,203
Movements in year ended 31 March 2006				
Gains/(losses) from changes in fair value	2,055	620	-	2,675
Deferred income tax (Note 28)	(719)	(180)	-	(899)
	1,336	440	-	1,776
Transferred to profit and loss account	(269)	(2,924)	61	(3,254)
Deferred income tax (Note 28)	94	1,025	(20)	1,139
	(175)	(1,899)	41	(2,115)
At 31 March 2006				
Gross amounts of gains/(losses)	1,092	178	-	1,270
Deferred income tax	(382)	(24)	-	(406)
	710	**154**	**-**	**864**

The net fair value gains at 31 March 2006 on open forward foreign exchange contracts which hedge anticipated future foreign currency transactions will be transferred from the hedging reserve to the profit and loss account when the forecast transactions occur, at various dates up to thirty one (2005: twenty) months from the balance sheet date.

The net fair value gains at the balance sheet date on outstanding commodity options and swaps will be transferred to the profit and loss account in the periods in which the hedged forecast transactions affect the profit and loss account. This would occur in the months covered by the terms of the option and swap contracts, according to the incidence of the exercise or settlement dates, for a period of twelve months following the balance sheet date.

35. Other reserve

The other reserve arises on consolidation following the acquisition of minority interests in group undertakings.

Group	Lm000
At 1 August 2004	466
Arising on acquisition of minority interest in group undertakings	(488)
Profit and loss account	22
At 31 March 2005	-
Adjustment to equity arising on acquisition of minority interest in group undertakings	(1,501)
At 31 March 2006	**(1,501)**

During the current financial year, the group acquired further interests in subsidiary undertakings from minority shareholders. In accordance with the group's accounting policy for transactions with minority shareholders, the excess of the purchase price over the group's book value of the minority interests acquired has been debited to equity.

36. Financial instruments

Hedging policy and derivative financial instruments

As an airline operating internationally, Air Malta is exposed to various financial risks. In order to manage exposures to risks arising from fluctuations in currency exchange rates, interest rates and prices on the crude oil and fuel products markets, the company and the group make use of derivative financial instruments. These instruments mainly comprise foreign currency forward contracts and options, interest rate linked collar arrangements, interest rate swap contracts, and fuel hedging agreements.

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

Currency risk

The group manages currency risk by maintaining, as far as possible, its net foreign currency financial position in line with the components of the Maltese Lira peg, which have obviously been modified with effect from 2 May 2005.

36. Financial instruments - continued

The expected future cash flows in individual major currencies usually over the coming twelve months are budgeted and analysed, and the company hedges the respective net currency exposure in major currencies by entering into forward foreign exchange contracts, representing commitments to purchase foreign currency amounts covering the net exposure at a pre-established exchange rate. The company also utilises foreign currency options. The respective currency exposure is usually hedged for a period of up to 24 months. 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 airline services, fuel, lease expenditure, insurances and a number of other aircraft related operating costs. These expenses are routinely denominated in USD, 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 Euro and GBP.

Notwithstanding the measures taken to manage and reduce currency risk, there are areas where the group remains exposed to the impact of currency movements such as, for instance, exposure to the risk of changes in the value of the Libyan Dinar.

Interest rate risk

The group's significant interest-bearing financial instruments mainly comprise bank borrowings and deposits held with banks, which substantially are subject to floating interest rates. The group's borrowings include foreign currency facilities at variable interest rates which are based on reference rates as USD and Euro Libor. The group uses interest rate swaps, as cash flow hedges of future variable interest payments, which have the economic effect of converting these 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. Variable interest payments may be hedged up to 100% and are usually hedged for the entire duration of the floating rate borrowings.

Aircraft operating lease payables, in particular forecast variable lease payments under the twelve lease agreements coming into effect prior to and also subsequent to the balance sheet date are affected by fluctuations in reference market rates of interest. In view of the significance of aircraft lease expenditure, fluctuations in interest rate could have a relevant impact on the lease expense and accordingly on the group's results.

Fuel price risk

During the financial year ended 31 March 2006, the share of fuel expenses as disclosed in Note 4 to the financial statements accounted for approximately 17% (2005: 14%) of the total operating expenses of the group from continuing operations. Significant changes in crude oil, jet fuel and other fuel product prices may have a substantial effect on the group's results. Different hedging instruments with regard to the crude oil and fuel products markets are used to limit the fuel price risk. These instruments mainly comprise combined purchased call and written put options, together with other options and commodity swap agreements.

Commodity options used by the group are contractual arrangements under which the writer (seller) grants the purchaser the right, but not the obligation, either to notionally buy (a call option) or sell (a put option) the notional quantity of a commodity at a predetermined price (strike price) during a set period of time. Such contracts are typically settled on a net basis by comparing the strike price to the reference market price applicable during the set period.

36. Financial instruments - continued

Combined purchased call and written put options represent the combination of a purchase of a call option by the group and the simultaneous sale of a put option to the same derivative counterparty. These combination options substantially amount to a collar arrangement with a floor and a cap (fluctuation band) whereby settlements are effected by either party, usually on a monthly basis, if and only if, the reference market price for the particular month during the set period does not fall within the band. Commodity swap agreements are commitments to exchange one set of cash flows based on fixed contracted fuel prices (determined by reference to the contract's notional amount) for another set of cash flows determined by variable prices.

Alternatively, two sets of cash flows determined by variable prices may be exchanged particularly when the two sets of variable prices are determined by reference to different commodity reference prices.

The group's policy during the year aimed at hedging a minimum of 40% of the expected fuel expenditure of the ensuing 12 months.

Credit risk

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 credit worthiness 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 asked for depending on the type and extent of the service rendered, while credit references or historical data from a previous relationship, in particular referring to payment behaviour, is used to avoid non performance.

Recognisable risks are accounted for by allowances on debtors.

The credit risk 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 business partners. Transactions are concluded with first rate counterparties only while counterparty limits are defined so that the risk of loss is actually low.

Liquidity risk

To identify future liquidity requirements on a timely basis, the company estimates its expected financial requirement over a twelve month period. According to the forecast current at the time of preparing these financial statements, no additional financing facilities, other than those facilities already in place, are expected to be required over the coming year.

Fair values

The fair value of publicly traded available-for-sale investments is based on quoted market prices at the balance sheet date. The fair value of derivative financial instruments is determined in accordance with the group accounting policy disclosed on page 25.

At 31 March 2006 and 2005, the carrying amounts of the group's other financial assets and liabilities approximated their fair values.

37. Cash used in operations

Reconciliation of operating loss to cash used in operations:

	Group		Company	
	Year ended 31 March 2006 Lm000	Period from 1 August 2004 to 31 July 2005 Lm000	**Year ended 31 March 2006 Lm000**	Period from 1 August 2004 to 31 July 2005 Lm000
Operating loss from continuing operations	**(5,636)**	(4,067)	**(6,353)**	(4,819)
Operating loss from discontinued operations (Note 3)	**(849)**	(759)	**-**	-
Operating loss for the period	**(6,485)**	(4,826)	**(6,353)**	(4,819)
Adjustments for:				
Depreciation of property, plant and equipment (Note 16)	**1,906**	1,945	**1,702**	1,558
Depreciation of investment property (Note 17)	**61**	40	**60**	40
Amortisation of intangible asset	**-**	60	**-**	-
Impairment charge on assets other than aircraft (Note 16)	**-**	70	**-**	-
Gain on disposal of tangible assets other than aircraft	**-**	(1)	**-**	(2)
Maintenance charges	**4,088**	3,693	**4,088**	3,693
Movement in capital reserve	**-**	22	**-**	-
Exchange movement on retranslation of foreign subsidiary balances	**205**	(177)	**-**	-
Changes in working capital:				
Stocks	**123**	396	**66**	282
Debtors	**1,264**	9,661	**1,192**	9,457
Creditors	**427**	(12,918)	**(484)**	(9,973)
Provisions used during period	**(3,685)**	(3,838)	**(3,685)**	(3,838)
Cash used in operations	**(2,096)**	(5,873)	**(3,414)**	(3,602)

38. Cash and cash equivalents

For the purposes of the cash flow statement, the period end cash and cash equivalents comprise the following:

	Group		Company	
	31 March 2006 Lm000	31 March 2005 Lm000	**31 March 2006 Lm000**	31 March 2005 Lm000
Attributable to continuing operations:				
Cash at bank and in hand	**18,159**	23,633	**12,806**	17,951
Bank overdrafts	**(1,716)**	(1,234)	**(1,312)**	(865)
	16,443	22,399	**11,494**	17,086
Attributable to discontinued operations:				
Cash at bank and in hand	**15**	312	**-**	-
Bank overdrafts	**(443)**	(751)	**-**	-
	(428)	(439)	**-**	-
Total cash and cash equivalents	**16,015**	21,960	**11,494**	17,086

As at 31 March 2006, balances amounting to Lm3,424,000 (2005: Lm4,400,000) were pledged as cash collateral with bankers as security for banking and other facilities utilised. Bank and cash balances include an amount of Lm1,092,000 (2005: Lm992,000) which is held in overseas bank accounts subject to currency restrictions which lead to delays in remittance to Malta.

39. Capital commitments

	Group		Company	
	31 March 2006 Lm000	31 March 2005 Lm000	**31 March 2006 Lm000**	31 March 2005 Lm000
Capital expenditure in respect of property, plant and equipment:				
Authorised and contracted for	**1,857**	835	**1,857**	835

40. Operating lease commitments – where a group company is the lessee

The group's future minimum lease payment obligations under non-cancellable operating leases are as follows:

	31 March 2006 Lm000	31 March 2005 Lm000
Not later than 1 year	**12,678**	13,623
Later than 1 year and not later than 5 years	**47,443**	44,373
Over 5 years	**67,569**	72,483
	127,690	130,479

The group's lease commitments include lease payment obligations amounting to Lm116,935,000 (2005: Lm113,430,000) which have been based on the fixed base rent payable outlined in the lease agreements. However, the lease payments may vary in accordance with the movements in the 10 year USD Treasury yield rate.

41. Contingent liabilities

Group undertakings have contingent liabilities for which no provision has been made in these accounts. These contingent liabilities include:

	31 March 2006 Lm000	31 March 2005 Lm000
Guarantees in respect of other group and associated undertakings	**1,318**	2,283
Indemnities to certain banks for guarantees principally given to the Civil Aviation Authority of the United Kingdom	**4,663**	4,687
Other indemnities, bank guarantees and documentary credits	**6,252**	6,605

42. Related party transactions

During the 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 96% shareholding and is accordingly represented on the Board of directors.

All companies forming part of the Air Malta Group are considered by the directors to be related parties since these companies are also ultimately owned by Air Malta plc.

42. Related party transactions - continued

The following transactions were carried out by the company with the specified categories of related parties:

	Group		**Company**	
	31 March 2006 Lm000	31 March 2005 Lm000	**31 March 2006 Lm000**	31 March 2005 Lm000
Government and other entities controlled by Government:				
- Sales of services	**1,050**	761	**1,050**	761
- Purchases of materials and services	**27,809**	15,596	**27,809**	15,596
	28,859	16,357	**28,859**	16,357
Subsidiary undertakings				
- Sales of services	**-**	-	**8,910**	6,740
- Purchases of services	**-**	-	**2,754**	2,351
- Interest receivable and similar income			**444**	296
	-	-	**12,108**	9,387
Associated undertakings				
- Sales of services	**288**	106	**288**	106
Key management personnel				
- Sales of serves	**10**	4	**10**	4

Year-end balances owed by or to group undertakings and other related parties, arising principally from transactions referred to previously, are disclosed on the face of the balance sheet.

Remuneration and other benefits payable to key management personnel are disclosed in Note 13 to these financial statements.

Air Malta group

Group and associated undertakings within the group as at 31 March 2006 were the following:

Group undertakings	Group % holding 2006	Group % holding 2005	Company % holding 2006	Company % holding 2005	Country of Incorporation
Airline activities					
Air Malta plc 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
Peregrine Aviation Leasing Company Limited WIL House, Shannon Business Park Shannon Co. Clare, Ireland	**100**	100	**100**	100	Ireland
Malta Air Charter Company Limited Air Malta Buildings, Vjal l-Avjazzjoni, Luqa	**100**	100	**100**	100	Malta
The Holiday Travel Club Limited Air Malta House, 314/316 Upper Richmond Road, Putney, London (held by Holiday Malta Company Limited)	**100**	75	**-**	-	United Kingdom
The Holiday Travel Club Transport Limited Air Malta House, 314/316 Upper Richmond Road, Putney, London (held by The Holiday Travel Club Limited)	**100**	75	**-**	-	United Kingdom
Holiday Malta GmbH Niederroder Weg 14, 63150 Heusenstamm, Germany (held by Holiday Malta Company Limited)	**100**	72	**-**	-	Germany
Holiday Malta (Russia) Limited Air Malta Head Office, Luqa LQA 05, Malta (held by Holiday Malta Company Limited)	**100**	100	**-**	-	Malta
G.W. Munzone S.r.l. Corso Martiri della Liberta, 188 95131 Catania, Sicily (held by Holiday Malta Company Limited)	**60**	60	**-**	-	Italy
Travel 2000 S.r.l. Corso Martiri della Liberta, 184 95131 Catania, Sicily (held by G.W. Munzone S.r.l.)	**60**	60	**-**	-	Italy
Holiday Malta (Hellas) Tourism S.A. 91, Alexandras Ave, 11474 Athens, Greece (held by Holiday Malta Company Limited)	**96**	96	**-**	-	Greece
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 Air Malta group - continued

Group undertakings – continued	**Group % holding**		**Company % holding**		**Country of Incorporation**
	2006	2005	**2006**	2005	
Hotels					
Hal Ferh Company Limited Air Malta Buildings, Vjal l-Avjazzjoni, Luqa	**100**	100	**100**	100	Malta
Selmun Palace Hotel Company Limited Air Malta Buildings, Vjal l-Avjazzjoni, Luqa	**100**	100	**100**	100	Malta
Tigne Development Company Limited Air Malta Buildings, Vjal l-Avjazzjoni, Luqa	**100**	100	**100**	100	Malta
Retail and other activities					
Airport Services Company Limited (formerly Airport Hotel Company Limited) Air Malta Buildings, Vjal l-Avjazzjoni, Luqa	**100**	100	**100**	100	Malta
Air Supplies and Catering Company Limited Air Malta Buildings, Vjal l-Avjazzjoni, Luqa	**-**	100	**-**	100	Malta
KM Holdings plc (in liquidation) Air Malta Buildings, Vjal l-Avjazzjoni, Luqa	**100**	100	**100**	100	Malta
Maltex Co. Ltd. (in liquidation) Air Malta Buildings, Vjal l-Avjazzjoni, Luqa	**100**	100	**100**	100	Malta
Medisle Holidays Company Limited (in liquidation) Air Malta Buildings, Vjal l-Avjazzjoni, Luqa	**100**	100	**100**	100	Malta
Osprey Insurance Brokers Company Limited Air Malta Buildings, Vjal l-Avjazzjoni, Luqa	**100**	100	**100**	100	Malta
Shield Insurance Co. (Guernsey) Limited PO Box 130 Court, St. Peter Port, Guernsey	**100**	100	**100**	100	Guernsey
Sterling Travel & Tourism Limited Air Malta Buildings, Vjal l-Avjazzjoni, Luqa	**-**	**100**	**-**	**100**	Malta
Associated companies					
Accor Air Malta Company Limited Air Malta Buildings, Vjal l-Avjazzjoni, Luqa	**-**	**40**	**-**	**40**	Malta
Air International Services S.r.l. (in liquidation) Corso Martiri della Liberta, Catania, Sicily, Italy	**49**	**49**	**49**	**49**	Italy
A.M.G. Limited (in liquidation) Air Malta Buildings, Vjal l-Avjazzjoni, Luqa	**45**	**45**	**45**	**45**	Malta

The Air Malta group - continued

Group undertakings – continued	**Group % holding**		**Company % holding**		**Country of Incorporation**
	2006	2005	**2006**	2005	
Associated companies – continued					
AZZURRAair S.p.A. (in liquidation) Viale Papa Giovanni XXIII, 48 24121 Bergamo	**49**	49	**49**	49	Italy
Chinese-Maltese Services Co. Ltd. (in liquidation) c/o Malta Investment Management Co. Ltd. Trade Centre, San Gwann Industrial Estate, San Gwann	**49**	49	**49**	49	Malta
Cottonera Properties Co. Ltd. (in liquidation) c/o Malta Investment Management Co. Ltd. Trade Centre, San Gwann Industrial Estate, San Gwann	**49**	49	**49**	49	Malta
Flight Catering Co. Ltd. Air Malta Buildings, Vjal l-Avjazzjoni, Luqa	**30**	30	**30**	30	Malta
Lufthansa Technik (Malta) Ltd. Malta International Airport, Gudja	**25**	49	**25**	49	Malta
Malpro Limited Air Malta Buildings, Vjal l-Avjazzjoni, Luqa	**50**	50	**50**	50	Malta
Mediterranean Aviation Company Limited Flat 2, Valletta Buildings, South Street, Valletta	**25**	25	**25**	25	Malta
Medpromo Co. Ltd. (in liquidation) 34, Windsor Terrace, Sliema	**49**	49	**49**	49	Malta
Sabratha Duty Free Co. Ltd. Air Supplies, Malta International Airport, Gudja (formerly held by Air Supplies and Catering Company Limited)	**50**	50	**50**	-	Malta
World Aviation Systems Limited 20, Republic Street, Valletta	**50**	50	**50**	50	Malta
Stakes Holding Limited Air Malta Buildings, Vjal l-Avjazzjoni, Luqa	**18**	-	**18**	-	Malta
Airline Partner Solutions Limited 20/2, Republic Street, Valletta	**50**	-	**-**	-	Malta