

AIR MALTA p.l.c.

Annual Report and Consolidated  
Financial Statements  
31 March 2012

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## **Directors' report**

The Directors present their report and the audited financial statements of Air Malta p.l.c. for the year ended 31 March 2012.

### **Principal activities**

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

### **Review of the business and results**

#### **General**

Air Malta p.l.c. has been incurring losses on its core airline business for several years. During the financial year ended 31 March 2012, the Group incurred losses from continuing operations before tax amounting to €37.6 million (2011: €65.9 million) putting the Group's equity base under further strain. The Group's liabilities exceeded its assets as at 31 March 2012 by €103.8 million (2011: €68.8 million) and its current liabilities exceeded its current assets by €69.9 million (2011: €62.7 million) as at that date, excluding the impact of sales in advance from the Group's current liabilities.

#### **Restructuring Plan and Restructuring Aid**

In order to address the commercial challenges the airline is facing, the Company's Restructuring Plan was devised setting out the strategy to return the airline to positive financial results and a positive net cash flow position. During the current financial year, the Government of Malta, as the principal shareholder, has taken ownership of the Restructuring Plan ("The Plan") and communicated this to the European Commission ("The Commission"), seeking Commission approval of the Restructuring Plan and of the implied restructuring aid.

This Restructuring Plan sets out the turnaround strategy for the Company for the five-year period financial year 2012 (FY2012) to financial year 2016 (FY2016). The Plan was drawn up following the Government's notification – and subsequent European Commission approval – of the provision of a €52 million Rescue Aid Loan to the Company. According to the Restructuring Plan, a capital increase of €130 million is required to help restructure the Company, which has been in difficulty for several years.

On 27 June 2012, The Commission has communicated its decision confirming approval of Restructuring Aid for Air Malta p.l.c. and it resolved that a €130 million aid amount to be granted to the Company for its restructuring is in line with EU state aid rules. The Commission observed that the Restructuring Plan adequately addresses the financial problems of the Company. The restructuring measures foreseen, which include a significant capacity reduction and the sale of assets, should ensure long-term viability without continued state support, whilst avoiding undue distortions of competition.

In accordance with its investigation, The Commission resolved that the Restructuring Plan is based on realistic assumptions and should enable Air Malta p.l.c. to become viable within a reasonable timescale. The Commission is satisfied that the proposed capacity reduction consisting in the withdrawal from certain routes will avoid undue distortions of competition. Moreover, Air Malta p.l.c. will contribute to the costs of restructuring by selling property and other assets, as well as securing private bank borrowings.

## **Directors' report - continued**

### **General - continued**

The survival of the Company is intrinsically linked to the ability of the airline to rapidly and successfully execute a range of cost and revenue initiatives as reflected in the Restructuring Plan. The Restructuring Plan shows that the existing level of losses can be turned around to breakeven levels by FY2014 and to profitability by FY2015. Air Malta p.l.c. has already proceeded with the implementation of initiatives contemplated within the Restructuring Plan as submitted to The Commission for the approval of the Restructuring Aid, including:

- significant downsizing of the head count through Voluntary and Early Retirement Schemes;
- implementation of a comprehensive change agenda of more than 160 projects covering all aspects of the airline;
- implementation of a more disaggregated and internet-based reservation/sales function in line with the model adopted by other carriers; and
- appointment of key executives with industry expertise.

The effectiveness of the measures already taken has been reflected in the improved financial results registered during the current financial year when compared to the preceding financial year performance. In view of the phased implementation of the measures envisaged, the full benefit of cost reductions has not been experienced by the Company during the year ended 31 March 2012. This is expected to occur in the financial year ending 31 March 2013 further improving the operating results registered. During the forthcoming financial year, the Company will pursue with the implementation of the next measures and phases as envisaged in the Restructuring Plan.

### **Financing of the Restructuring Plan**

The Restructuring Plan reflects the strategy to return the airline to a positive net cash flow position by the end of FY2014. This return to a positive net cash flow position will however require the Company to sell its main remaining property assets. The funding raised will then be employed in the restructuring of the Company and supplemented by approved State Aid in the form of a capital injection. The funding plan implied within the Restructuring Plan has been formally approved and fully supported by Government, as the Company's principal shareholder. To this end the Rescue Aid Loan from the principal shareholder that was due for repayment in November 2011 has been extended for a further period to November 2012 or until one month from the date on which the Restructuring Plan has been finally determined and approved by the Commission, whichever is the earlier.

The principal steps in the financing process, reflected within the Restructuring Plan and accordingly approved by the European Commission, are the following:

- on 7 December 2011, a Promise of Sale Agreement to dispose of the principal property, constituting the remaining main asset owned by the Company, for an amount of €66.2 million has been entered into with Government. A deposit of €20 million has been paid by Government during January 2012;
- simultaneously, the Company has successfully negotiated fresh bank loans amounting to €30 million. These facilities are secured on the Promise of Sale Agreement referred to above and will be repaid through the sale proceeds. In addition, facilities of €20 million will be required during the later part of the 5 year plan;
- the disposal process of the Company's subsidiaries and other strategic investments, which have been earmarked for sale, has progressed during the current financial year;

## **Directors' report - continued**

### **General - continued**

- Government will make a fresh commercial loan of €52 million to the Company. These funds will be used by the Company to pay back the existing Rescue Aid Loan in line with the European Commission's Rescue and Restructuring Guidelines. The commercial loan will be converted to equity in the later part of the 5 year plan; and
- the Company will issue €78 million of fresh equity to Government. The capital will be called up in tranches in due course in accordance with the programme established in the Restructuring Plan.

### **Overall assessment of going concern**

Taking cognisance of the approval by the European Commission of the Company's Restructuring Plan, it is the view of the directors that there is a reasonable expectation that the Company and the Group are able to continue in operational existence for a period of at least 12 months from the end of the reporting period. Accordingly, the directors continue to adopt the going concern basis in preparing the financial statements, on the basis of:

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

### **Financial results**

The airline's operating loss for the year amounted to €29.8 million. This result represents a net improvement of €4.3 million over the corresponding loss in FY2011 of €34.1 million. However, the FY2012 performance was adversely affected by the two factors described below, which if eliminated for comparison purpose, will result in an operating performance improvement of €17.9 million:

- as part of the Restructuring Plan approved by the Commission, Air Malta p.l.c. is obliged to reduce significantly its capacity. This has translated into an estimated reduction in profitability during FY2012 of €4 million; and,
- the average price of fuel in FY2012 increased by 30%, significantly increasing fuel costs for the year by €13.9 million.

The improved performance in FY2012 was driven by the initial benefits of the Restructuring Plan as the company commenced a significant amount of activity to convert the airline from a loss making business into a profitable operation.

The revenue from airline operations in FY2012 amounted to €214 million compared to €207 million in the previous year. As part of the Restructuring Plan the airline has committed to a reduction in flight capacity of around 20%, of which just under 10% was achieved in FY2012.

Notwithstanding this reduction in capacity, revenue has increased through a number of commercial initiatives. These included improved yields, improved seat factors together with the commencement of various ancillary revenue programmes. These initiatives have driven a gross improvement in revenue of over €20 million which has been partially diluted by the reduction in capacity.

## **Directors' report - continued**

### **Financial results - continued**

Fuel costs have increased by 26.7% in FY2012 compared to the preceding year. This level of increase is not envisaged to occur in FY2013.

The operational costs of the airline have continued to decrease although contractual inflation has reduced the impact of these improvements. The effect of the projects pertaining to the Restructuring Plan started to influence the results in the second half of the financial year with aspects such as personnel costs reducing significantly and other charges such as airport charges which reduced on the back of the waiver of Malta landing fees in winter for all airlines.

The Company incurred non-operational costs during this financial year, including €4.6 million on financing mainly relating to the €52 million Rescue Aid Loan, partially offset by a dividend from a subsidiary insurance company of €3.7 million.

During FY2012, under the heading "Discontinued operations" which represent companies held for sale, the Company further increased provisions on amounts due from Holiday Malta Company Limited and Selmun Palace Hotel Company Limited. This was offset by dividend totalling €1.3 million received from Osprey Insurance Brokers Company Limited and World Aviation Group Limited resulting in a total charge for the financial year of €5 million.

The loss for the year after accounting for non-operational costs and losses from discontinued operations resulted in a loss after tax for FY2012 of €38.4 million.

The Group results incorporate Air Malta p.l.c. and Shield Insurance Company Limited following the transfer of all other subsidiaries to the category of assets classified as held for sale.

The Group results are generally similar to the Company results, whereby the Group loss for the year amounted to €38.4 million.

### **Dividends**

The Directors do not recommend the payment of a dividend.

### **Directors**

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

Louis A. Farrugia - appointed as Director and Chairman on 25 May 2011

Sonny Portelli - term of office expired on 13 May 2011

Adrian Coppini

Alan Caruana - appointed as Director on 25 May 2011

Alison Attard

Andrew Calascione - appointed as Director on 25 May 2011

Anton Attard - term of office expired on 13 May 2011

Carmel John Farrugia - term of office expired on 13 May 2011

Clyde Micallef - term of office expired on 13 May 2011

Helga Ellul - appointed as Director on 25 May 2011

Henriette Busuttil - term of office expired on 13 May 2011

Mark Micallef Eynaud - appointed as Director on 25 May 2011; resigned on 29 February 2012

Roderick Chalmers - appointed as Director on 25 May 2011

## **Directors' report - continued**

### **Statement of directors' responsibilities for the financial statements**

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

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

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

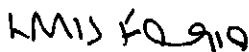
The directors are also responsible for designing, implementing and maintaining internal control relevant to the preparation and the fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error, and that comply with the Maltese Companies Act, 1995.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

The financial statements of Air Malta p.l.c. for the year ended 31 March 2012 are included in the Annual Report and Consolidated Financial Statements 2012, which is published in hard-copy printed form and made available on the Company's website. The directors are responsible for the maintenance and integrity of the Annual Report on the website in view of their responsibility for the controls over, and the security of, the website. Access to information published on the Company's website is available in other countries and jurisdictions, where legislation governing the preparation and dissemination of financial statements may differ from requirements or practice in Malta.

### **Auditors**

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

On behalf of the board



Louis A. Farrugia  
Chairman



Alison Attard  
Director

19 July 2012

## **Corporate Governance Statement**

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

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

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

### **The Board**

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

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

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

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

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

During the financial year ended 31 March 2012 the Board of Directors met 17 times.



## **Corporate Governance Statement - continued**

### **Responsibilities of the Board**

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

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

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

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

### **Relations with Shareholders**

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

### **Relations with Stakeholders – Works Council**

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

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

## **Corporate Governance Statement – continued**

### **Committees established by the Board**

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

#### **1) Board Committees**

##### **Audit Committee**

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

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

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

##### **Remuneration Committee**

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

##### **Risk Committee**

The Board has overall responsibility and ultimate accountability for risk management and has entrusted the Risk Committee to ensure that the risk management process within the company is effective. As part of the restructuring process of Air Malta, the Board of Directors and management of Air Malta p.l.c. carried out a review of the company's management of risk. The review was aimed at devising a framework that provides the necessary assurances that the financial and governance/compliance risks that the company is exposed to are pro-actively controlled and managed.

The Risk Committee assists the Board in fulfilling its risk management responsibilities, by assessing and providing oversight of the Company's risk management processes and its identification, evaluation and treatment of major strategic, financial, operational and regulatory risks and such other risks as necessary to fulfil the Committee's duties.

## **Corporate Governance Statement – continued**

### **Risk Committee - continued**

The Risk Committee is chaired by the Chairman of the Company and comprises the Chief Executive Officer, the Chief Financial Officer (CFO) and two Board Directors, one of which is also a member of the Audit Committee. The Risk Committee meets at least on a quarterly basis or as frequently as may be required and reports its actions and recommendations to the Board at least on an annual basis. The Risk Committee collaborates with the Audit Committee in terms of providing assurance on the effectiveness of the Company's risk management structures and reviewing disclosures regarding risk contained in the Company's Annual Report.

## **2) Management Committees**

### **Senior Management Team**

During the year ended 31 March 2012, the CEO led the Senior Management Team and reported directly to the Board. The Senior Management Team is made up of the Chief Officers responsible for the Finance, Commercial, Organisational Development, Flight Operations, Engineering and Information Systems departments as well as the Chief Restructuring Officer (CRO). Members from the Project Management Office are also requested to attend from time to time. The Senior Management Team meeting is convened on a weekly basis and concentrated mainly on:

- implementing corporate strategy and making recommendations on significant corporate strategic initiatives;
- developing the Company's annual budget and business plan and recommending it to the Board for approval;
- managing the Company's day to day operations in accordance with the Board approved authorisations, policies, procedures, budget and business plan;
- monitoring the Company's performance and reports monthly to the Board on key performance indicators mainly through the regular updating of the corporate dashboard and the presentation of detailed management accounts; and
- organizational development issues, including directing the negotiations with unions on collective agreements and restructuring agreements, ensuring transparency and good governance are maintained in these processes.

The appointed Secretary circulates the agenda and the minutes for each meeting.

### **Financial Risk Committee**

The Financial Risk Committee provides the framework for the management of the Company's financial risks, and provides specific guidance on the management of liquidity, interest rate, foreign exchange, commodity pricing (fuel and emissions) and credit exposures.

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

- developing, reviewing and maintaining a funding strategy for the Company, with a view to ensure proper funding of the Company's business activities;
- providing guidelines and ensuring control of financial risks emanating from fuel price volatility, interest rate risk and exchange rate risk;
- providing guidance on managing liquidity risk through regular review of cash flow performance;
- monitoring credit risk of existing major counterparties and extent of credit risk concentration;
- authorising the adoption and acquisition of investment instruments, risk hedging instruments and related derivatives; and

## **Corporate Governance Statement – continued**

### **Financial Risk Committee - continued**

- recommending to the Board ways in which the financial position can be developed through Treasury activities. This includes ensuring that the structure of the Company's statement of financial position is appropriate in terms of funding mix and gearing, capital adequacy and financial risk management policy.

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

### **Internal Audit**

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

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

### **External Audit**

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

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

### **Investment Committee**

The Investment Committee was established in November 2011 to provide project governance to ensure that all business projects within Air Malta p.l.c.:

- are aligned with Air Malta p.l.c.'s strategic objectives and restructuring plan;
- have appropriate business ownership;
- are being managed well and in accordance the requirements of Governance across the Company;
- are making optimum and appropriate use of corporate resource, and the spend proposed is in line with the restructuring plan; and
- will deliver the benefits forecast in the project's business case.

## **Corporate Governance Statement - continued**

### **Investment Committee - continued**

The Investment Committee is composed of the CEO, the CRO, the Chief Commercial Officer (CCO), the Head of Project Management Office and the CFO. Since establishment the Investment Committee met four times in the financial year ending 31 March 2012.

### **Flight Safety Committee**

The main objectives of the Flight Safety Committee are to instigate preventive systems and procedures within the Company in order to prevent accident or incident in relation to aircraft operation and assist the Head of Safety and Compliance in any investigation that may become necessary.

Besides flight operations, the areas covered by the Flight Safety Committee include ground operations involving passengers and goods and other technical ground operations.

The Flight Safety Committee meetings are chaired by the Head of Safety and Compliance and are attended by the CEO and Chief Officers or Heads of the Flight Operations, Ground Operations, Engineering and Maintenance, In-flight Services, Organisational Development and Internal Control departments.

The Flight Safety Committee has since December 2011 been convened on a monthly basis.

### **Internal Controls**

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

- an independent and professional Board which meets at least on a monthly basis and has separate Chairman and CEO roles;
- weekly Senior Management meetings;
- an Audit Committee which approves audit plans and considers significant control matters raised by the internal and external auditors together with management;
- a Risk Committee that assists the Board in fulfilling its risk management responsibilities;
- a Financial Risk Management Committee that provides oversight and guidance in the financial risk identification process and ensures proper analysis, evaluation, mitigation and management reporting and monitoring of material financial risks;
- an internal audit function which reviews key financial/operational processes and controls which reports directly to the Audit Committee;
- an Investment Committee which provides assurance that projects are being managed well and in accordance the requirements of governance across the Company;
- a Flight Safety Committee that provides the framework for incident or accident prevention processes and incident investigation and reporting processes covering all areas relating to aircraft operation.
- 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;

## **Corporate Governance Statement - continued**

### **Internal Controls - continued**

- the business agenda is determined by the Business Plan which represents the operational and financial evaluation of the corporate strategy, identifying and prioritising improvement opportunities to achieve financial budgets and service standards;
- information systems are developed to support the Company's long-term objectives.

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



## **Independent auditor's report**

To the Shareholders of Air Malta p.l.c.

### **Report on the Financial Statements for the year ended 31 March 2012**

#### **Report on the Financial Statements**

We have audited the consolidated and the standalone parent Company financial statements of Air Malta p.l.c. (together the "financial statements"), on pages 15 to 98, which comprise the consolidated and parent Company statement of financial position as at 31 March 2012, and the consolidated and parent Company statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

#### *Directors' Responsibility for the Financial Statements*

As explained more comprehensively in the Statement of directors' responsibilities for the financial statements on page 5, the directors are responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU and the requirements of the Maltese Companies Act, 1995 and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

#### *Auditor's Responsibility*

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

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

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

#### *Opinion*

In our opinion the financial statements:

- give a true and fair view of the financial position of the Group and parent Company as at 31 March 2012, and of the Group's and the parent Company's financial performance and cash flows for the year then ended in accordance with IFRSs as adopted by the EU; and
- have been properly prepared in accordance with the requirements of the Maltese Companies Act, 1995.



## **Independent auditor's report - continued**

### *Emphasis of Matter*

Without qualifying our opinion, we draw attention to Note 1.1.1 that deals with the basis of preparation of these financial statements, which addresses developments in connection with the approval by the European Commission of the Company's Restructuring Plan and the implied Restructuring Aid, consisting of a capital increase of €130 million. This matter is considered to be of fundamental importance to the users' understanding of the financial statements because of the nature of these developments and the impact they have on the basis of preparation of these financial statements.

### **Report on Other Legal and Regulatory Requirements**

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

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

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

### **PricewaterhouseCoopers**

167 Merchants Street  
Valletta  
Malta

A handwritten signature in black ink, appearing to read 'Fabio Axisa'.

Fabio Axisa  
Partner

19 July 2012



## Statements of financial position

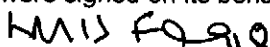
		As at 31 March			
	Notes	2012	2011	2012	2011
		Group		Company	
		€000	€000	€000	€000
<b>ASSETS</b>					
<b>Non-current assets</b>					
Property, plant and equipment	5	4,782	56,520	4,782	56,000
Investment property	6	47	15,477	47	15,977
Intangible assets	7	2,144	-	2,144	-
Investments in subsidiaries	8	-	-	1,805	1,863
Investments in associates	9	-	639	-	225
Deferred tax assets	25	-	124	-	-
Available-for-sale financial assets	10	107	268	107	107
Amount owed by ultimate shareholder	12	46,200	-	46,200	-
Other receivables	13	5,540	4,938	5,540	4,938
Term placements with banks	16	439	1,239	-	-
Total non-current assets		59,259	79,205	60,625	79,110
<b>Current assets</b>					
Inventories	14	1,400	1,711	1,400	1,711
Trade receivables	15	23,694	21,749	23,694	21,804
Amounts owed by subsidiaries		-	-	2,320	14
Amounts owed by associates		223	245	223	245
Amounts owed by related parties		452	710	452	451
Current tax assets		667	864	667	849
Other receivables		3,336	4,609	3,244	3,931
Prepayments and accrued income		3,249	4,184	3,156	3,998
Available-for-sale financial assets	10	518	1,167	-	-
Derivative financial instruments	11	5,072	650	5,072	650
Term placements with banks	16	2,139	4,617	-	-
Cash and cash equivalents	17	20,326	23,531	17,574	22,915
Assets classified as held for sale	18	8,370	7,914	283	4,323
Total current assets		69,446	71,951	58,085	60,891
Total assets		128,705	151,156	118,710	140,001

**Statements of financial position - continued**

		As at 31 March			
	Notes	2012 Group €000	2011 €000	2012 Company €000	2011 €000
<b>EQUITY AND LIABILITIES</b>					
<b>Capital and reserves</b>					
Share capital	19	25,892	25,892	25,892	25,892
Share premium	20	42,762	42,762	42,762	42,762
Revaluation reserve	21	13,868	13,868	13,868	13,868
Hedging reserve	22	3,095	(187)	3,095	(187)
Other reserve	23	(3,497)	(3,497)	-	-
Accumulated losses		(185,963)	(147,682)	(195,190)	(156,838)
Total equity		(103,843)	(68,844)	(109,573)	(74,503)
<b>Non-current liabilities</b>					
Borrowings	24	10,000	4,000	10,000	4,000
Provisions in respect of maintenance costs	26	37,190	32,885	37,190	32,885
Other payables		6,498	7,881	5,575	6,699
Total non-current liabilities		53,688	44,766	52,765	43,584
<b>Current liabilities</b>					
Trade payables		20,043	23,216	20,043	21,770
Amounts owed to subsidiaries		-	-	5,945	5,615
Amounts owed to associates		134	102	134	102
Amounts owed to related parties		2,090	2,400	2,090	2,400
Sales in advance		39,452	40,568	39,488	40,717
Current tax liabilities		342	425	-	-
Other payables		3,442	2,470	3,343	2,454
Indirect taxation and social security		1,280	932	1,280	925
Accruals and deferred income		16,013	15,474	15,989	15,130
Borrowings	24	56,156	48,987	56,156	48,987
Derivative financial instruments	11	312	795	312	795
Provisions in respect of maintenance costs	26	3,506	3,407	3,506	3,407
Provision in respect of restructuring costs	28.3.2	26,814	28,200	26,814	28,200
Other provisions	27	418	418	418	418
		170,002	167,394	175,518	170,920
Liabilities directly associated with assets classified as held for sale	18	8,858	7,840	-	-
Total current liabilities		178,860	175,234	175,518	170,920
Total liabilities		232,548	220,000	228,283	214,504
<b>Total equity and liabilities</b>		<b>128,705</b>	<b>151,156</b>	<b>118,710</b>	<b>140,001</b>

The notes on pages 22 to 98 are an integral part of these consolidated financial statements.

The financial statements on pages 15 to 98 were authorised for issue by the Board on 19 July 2012 and were signed on its behalf by:



Louis A. Farrugia  
Chairman

  
Alison Attard  
Director

## Income statements

		Year ended 31 March			
	Notes	2012 Group €000	2011 €000	2012 Company €000	2011 €000
<b>Continuing operations:</b>					
Revenue	28.1	214,076	201,586	214,101	207,496
Cost of sales	28.2	(215,909)	(223,900)	(217,319)	(231,165)
<b>Gross result</b>		<b>(1,833)</b>	<b>(22,314)</b>	<b>(3,218)</b>	<b>(23,669)</b>
Selling and distribution costs	28.2	(17,215)	(24,540)	(17,215)	(24,540)
Administrative expenses	28.2	(13,827)	(19,236)	(13,726)	(19,175)
Losses from changes in fair value of investment property	6	-	(4,426)	-	(4,426)
Other operating income		119	6,036	119	6,045
<b>Operating loss</b>		<b>(32,756)</b>	<b>(64,480)</b>	<b>(34,040)</b>	<b>(65,765)</b>
<i>Operating loss before restructuring costs</i>		<i>(28,517)</i>	<i>(32,780)</i>	<i>(29,801)</i>	<i>(34,065)</i>
<i>Restructuring costs</i>	28.3.1	<i>(4,239)</i>	<i>(31,700)</i>	<i>(4,239)</i>	<i>(31,700)</i>
<i>Operating loss after restructuring costs</i>		<i>(32,756)</i>	<i>(64,480)</i>	<i>(34,040)</i>	<i>(65,765)</i>
Investment and other related income	30	(334)	(555)	3,692	(323)
Results of subsidiaries and associates	31	-	655	-	-
Finance income	32	31	165	(113)	18
Finance costs	33	(4,571)	(1,682)	(4,590)	(1,692)
<b>Loss before tax</b>		<b>(37,630)</b>	<b>(65,897)</b>	<b>(35,051)</b>	<b>(67,762)</b>
Tax income/(expense)	34	2,046	(10,993)	1,699	(10,583)
<b>Loss for the year from continuing operations</b>		<b>(35,584)</b>	<b>(76,890)</b>	<b>(33,352)</b>	<b>(78,345)</b>
<b>Discontinued operations:</b>					
Loss for the year from discontinued operations	18	(2,879)	(1,404)	(5,000)	(10,509)
<b>Loss for the year</b>		<b>(38,463)</b>	<b>(78,294)</b>	<b>(38,352)</b>	<b>(88,854)</b>

The notes on pages 22 to 98 are an integral part of these consolidated financial statements.

## Statements of comprehensive income

		Year ended 31 March			
	Notes	2012	2011	2012	2011
		<b>Group</b>		<b>Company</b>	
		€000	€000	€000	€000
<b>Loss for the year</b>		<b>(38,463)</b>	<b>(78,294)</b>	<b>(38,352)</b>	<b>(88,854)</b>
<b>Other comprehensive income:</b>					
Adjustments to surplus arising on revaluation of land and buildings, net of deferred tax	21	-	(8,763)	-	(8,763)
Reversal of deferred tax arising on revaluation of land and buildings	21	-	4,853	-	4,853
Cash flow hedges, net of deferred tax	22	<b>3,282</b>	(2,066)	<b>3,282</b>	(2,066)
Currency translation differences		<b>182</b>	(93)	-	-
<b>Other comprehensive income for the year, net of tax</b>		<b>3,464</b>	<b>(6,069)</b>	<b>3,282</b>	<b>(5,976)</b>
<b>Total comprehensive income for the year</b>		<b>(34,999)</b>	<b>(84,363)</b>	<b>(35,070)</b>	<b>(94,830)</b>

The notes on pages 22 to 98 are an integral part of these consolidated financial statements.

## Statements of changes in equity

### Group

	Notes	Share capital €000	Share premium €000	Hedging reserve €000	Revaluation reserve €000	Other reserve €000	Accumulated losses €000	Total Equity €000
Balance at 1 April 2010		25,892	42,762	1,879	17,778	(3,497)	(69,295)	15,519
<b>Comprehensive income</b>								
Loss for the year		-	-	-	-	-	(78,294)	(78,294)
<b>Other comprehensive income:</b>								
Adjustment to surplus arising on revaluation of land and buildings, net of deferred tax	21	-	-	-	(8,763)	-	-	(8,763)
Reversal of deferred tax arising on revaluation of land and buildings	21	-	-	-	4,853	-	-	4,853
Cash flow hedges, net of deferred tax	22	-	-	(2,066)	-	-	-	(2,066)
Currency translation differences		-	-	-	-	-	(93)	(93)
Total other comprehensive income		-	-	(2,066)	(3,910)	-	(93)	(6,069)
<b>Total comprehensive income</b>		-	-	(2,066)	(3,910)	-	(78,387)	(84,363)
Balance at 31 March 2011		25,892	42,762	(187)	13,868	(3,497)	(147,682)	(68,844)
<b>Comprehensive income</b>								
Loss for the year		-	-	-	-	-	(38,463)	(38,463)
<b>Other comprehensive income:</b>								
Cash flow hedges, net of deferred tax	22	-	-	3,282	-	-	-	3,282
Currency translation differences		-	-	-	-	-	182	182
Total other comprehensive income		-	-	3,282	-	-	182	3,464
<b>Total comprehensive income</b>		-	-	3,282	-	-	(38,281)	(34,999)
<b>Balance at 31 March 2012</b>		<b>25,892</b>	<b>42,762</b>	<b>3,095</b>	<b>13,868</b>	<b>(3,497)</b>	<b>(185,963)</b>	<b>(103,843)</b>

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

## Statements of changes in equity - continued

### Company

	Notes	Share capital €000	Share premium €000	Hedging reserve €000	Revaluation reserve €000	Accumulated losses €000	Total equity €000
Balance at 1 April 2010		25,892	42,762	1,879	17,778	(67,984)	20,327
<b>Comprehensive income</b>							
Loss for the year		-	-	-	-	(88,854)	(88,854)
<b>Other comprehensive income:</b>							
Adjustment to surplus arising on revaluation of land and buildings, net of deferred tax	21	-	-	-	(8,763)	-	(8,763)
Reversal of deferred tax arising on revaluation of land and buildings	21	-	-	-	4,853	-	4,853
Cash flow hedges, net of deferred tax	22	-	-	(2,066)	-	-	(2,066)
Total other comprehensive income		-	-	(2,066)	(3,910)	-	(5,976)
<b>Total comprehensive income</b>		-	-	(2,066)	(3,910)	(88,854)	(94,830)
Balance at 31 March 2011		25,892	42,762	(187)	13,868	(156,838)	(74,503)
<b>Comprehensive income</b>							
Loss for the year		-	-	-	-	(38,352)	(38,352)
<b>Other comprehensive income:</b>							
Cash flow hedges, net of deferred tax	22	-	-	3,282	-	-	3,282
Total other comprehensive income		-	-	3,282	-	-	3,282
<b>Total comprehensive income</b>		-	-	3,282	-	(38,352)	(35,070)
Balance at 31 March 2012		25,892	42,762	3,095	13,868	(195,190)	(109,573)

The notes on pages 22 to 98 are an integral part of these consolidated financial statements.

## Statements of cash flows

		Year ended 31 March			
	Notes	2012 Group €000	2011 €000	2012 Company €000	2011 €000
<b>Cash flows from operating activities</b>					
Cash used in operations	36	(36,279)	(18,439)	(38,572)	(18,144)
Investment and other related income received		240	215	(18)	68
Dividends received from subsidiaries		-	-	4,981	-
Dividends received from associates		210	225	210	225
Interest paid and similar charges		(4,838)	(2,179)	(4,721)	(1,986)
Tax paid		(1,165)	(340)	(667)	-
Tax refunded		1,558	454	849	371
Net cash used in operating activities		(40,274)	(20,064)	(37,938)	(19,466)
<b>Cash flows from investing activities</b>					
Purchases of tangible and intangible assets		(232)	(6,921)	(243)	(6,880)
Proceeds from sale of tangible assets		20,000	14,533	20,000	14,533
Proceeds from sale of investments classified as held for sale		-	308	-	308
Loans granted to subsidiaries and associates		-	-	(162)	(80)
Loan repayments received from subsidiaries and associates		-	46	-	235
Acquisition of available-for-sale financial assets		(952)	(1,595)	-	-
Proceeds from redemption of available-for-sale financial assets upon maturity		1,366	1,847	-	-
Funds advanced under term placements		(2,139)	(953)	-	-
Proceeds from maturity of term placements		5,417	1,061	-	-
Net cash generated from investing activities		23,460	8,326	19,595	8,116
<b>Cash flows from financing activities</b>					
Proceeds from bank borrowings		10,884	7	10,000	-
Proceeds from shareholder's loan		11,000	41,000	11,000	41,000
Repayments of bank borrowings		(7,142)	(13,483)	(7,142)	(13,123)
Net cash generated from financing activities		14,742	27,524	13,858	27,877
<b>Net movement in cash and cash equivalents</b>		(2,072)	15,786	(4,485)	16,527
<b>Cash and cash equivalents at beginning of year</b>		23,222	7,159	22,070	5,266
Exchange differences on cash and cash equivalents		(167)	277	(167)	277
<b>Cash and cash equivalents at end of year</b>	17	20,983	23,222	17,418	22,070

The notes on pages 22 to 98 are an integral part of these consolidated financial statements.

## Notes to the consolidated financial statements

### 1. Summary of significant accounting policies

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

#### 1.1 Basis of preparation

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

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

##### 1.1.1 Assessment of going concern

Air Malta p.l.c. has been incurring losses on its core airline business for several years. During the financial year ended 31 March 2012, the Group incurred losses after tax from continuing operations amounting to €35.6 million (2011: €76.9 million) putting the Group's equity base under further strain. The Group's liabilities exceeded its assets as at 31 March 2012 by €103.8 million (2011: €68.8 million) and its current liabilities exceeded its current assets by €69.9 million (2011: €62.7 million) as at that date, excluding the impact of sales in advance from the Group's current liabilities.

#### Restructuring Plan and Restructuring Aid

In order to address the commercial challenges the airline is facing, the Company's Restructuring Plan was devised setting out the strategy to return the airline to positive financial results and a positive net cash flow position. During the current financial year, the Government of Malta, as the principal shareholder, has taken ownership of the Restructuring Plan and communicated this to the European Commission, seeking Commission approval of the Plan and of the implied Restructuring Aid.

This Restructuring Plan sets out the turnaround strategy for the Company for the five-year period FY2012 to FY2016. The Plan was drawn up following the Government's notification – and subsequent European Commission approval – of the provision of a €52 million Rescue Aid Loan to the Company. According to the Restructuring Plan, a capital increase of €130 million is required to help restructure the Company, which has been in difficulty for several years.

On 27 June 2012, the European Commission has communicated its decision confirming approval of Restructuring Aid for Air Malta p.l.c. and it resolved that a €130 million aid amount to be granted to the Company for its restructuring is in line with EU state aid rules. The Commission observed that the Restructuring Plan adequately addresses the financial problems of the Company. The restructuring measures foreseen, which include a significant capacity reduction and the sale of assets, should ensure long-term viability without continued state support, whilst avoiding undue distortions of competition.



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

**1.1 Basis of preparation - continued**

**1.1.1 Assessment of going concern - continued**

In accordance with its investigation, the Commission resolved that the Restructuring Plan is based on realistic assumptions and should enable Air Malta p.l.c. to become viable within a reasonable timescale. The Commission is satisfied that the proposed capacity reduction consisting in the withdrawal from certain routes will avoid undue distortions of competition. Moreover, Air Malta p.l.c. will contribute to the costs of restructuring by selling property and other assets, as well as securing private bank borrowings.

The survival of the Company is intrinsically linked to the ability of the airline to rapidly and successfully execute a range of cost and revenue initiatives as reflected in the Restructuring Plan. The Restructuring Plan shows that the existing level of losses can be turned around to breakeven levels by FY2014 and to profitability by FY2015. Air Malta p.l.c. has already proceeded with the implementation of initiatives contemplated within the Restructuring Plan as submitted to the European Commission for the approval of the Restructuring Aid, including:

- significant downsizing of the head count through Voluntary and Early Retirement Schemes;
- implementation of a comprehensive change agenda of more than 160 projects covering all aspects of the airline;
- implementation of a more disaggregated and internet-based reservation/sales function in line with the model adopted by other carriers; and
- appointment of key executives with industry expertise.

The effectiveness of the measures already taken has been reflected in the improved financial results registered during the current financial year when compared to the preceding financial year performance. In view of the phased implementation of the measures envisaged, the full benefit of cost reductions has not been experienced by the Company during the year ended 31 March 2012. This is expected to occur in the financial year ending 31 March 2013 further improving the operating results registered. During the forthcoming financial year, the Company will pursue with the implementation of the next measures and phases as envisaged in the Restructuring Plan.

**Financing of the Restructuring Plan**

The Restructuring Plan reflects the strategy to return the airline to a positive net cash flow position by the end of FY2014. This return to a positive net cash flow position will however require the Company to sell its main remaining property assets. The funding raised will then be employed in the restructuring of the Company and supplemented by approved State Aid in the form of a capital injection. The funding plan implied within the Restructuring Plan has been formally approved and fully supported by the Government, as the Company's principal shareholder. To this end the Rescue Aid Loan from the principal shareholder that was due for repayment in November 2011 has been extended for a further period to November 2012 or until one month from the date on which the Restructuring Plan has been finally determined and approved by the Commission, whichever is the earlier.

The principal steps in the financing process, reflected within the Plan and accordingly approved by the European Commission, are the following:

- On 7 December 2011, a Promise of Sale Agreement to dispose of the principal property, constituting the remaining main asset owned by the Company, for an amount of €66.2 million has been entered into with Government. A deposit of €20 million has been paid by Government during January 2012.

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

**1.1 Basis of preparation - continued**

**1.1.1 Assessment of going concern - continued**

- Simultaneously, the Company has successfully negotiated fresh bank loans amounting to €30 million. These facilities are secured on the Promise of Sale Agreement referred to above and will be repaid through the sale proceeds. In addition, facilities of €20 million will be required during the later part of the 5 year plan.
- The disposal process of the Company's subsidiaries and other strategic investments, which have been earmarked for sale, has progressed during the current financial year.
- Government will make a fresh commercial loan of €52 million to the Company. These funds will be used by the Company to pay back the Rescue Aid Loan in line with the European Commission's Rescue and Restructuring Guidelines. The commercial loan will be converted to equity in the later part of the 5 year plan.
- The Company will allocate €78 million of fresh equity to Government. The capital will be called up in tranches in due course in accordance with the programme established in the Restructuring Plan.

**Overall assessment**

Taking cognisance of the approval by the European Commission of the Company's Restructuring Plan, it is the view of the directors that there is a reasonable expectation that the Company and the Group are able to continue in operational existence for a period of at least 12 months from the end of the reporting period. Accordingly, the directors continue to adopt the going concern basis in preparing the financial statements, on the basis of:

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

**1.1.2 Changes in accounting policy and disclosures**

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

During the current financial year, the group adopted amendments and interpretations to existing standards that are mandatory for the group's accounting period beginning on 1 April 2011. The adoption of these revisions to the requirements of IFRSs as adopted by the EU did not result in substantial changes to the Group's accounting policies.

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

**1.1 Basis of preparation - continued**

**1.1.2 Changes in accounting policy and disclosures - continued**

*(b) New standards, amendments and interpretations issued but not yet effective*

Certain new standards, amendments and interpretations to existing standards have been published by the date of authorisation for issue of these financial statements but are mandatory for the group's accounting periods beginning after 1 April 2011. The group has not early adopted these revisions to the requirements of IFRSs as adopted by the EU and the company's directors are of the opinion that, with the exception of IFRS 9, 'Financial instruments', there are no requirements that will have a possible significant impact on the group's financial statements in the period of initial application.

IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 was issued in November 2009 and October 2010. It replaces parts of IAS 39 that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. Subject to adoption by the EU, IFRS 9 is effective for financial periods beginning on, or after, 1 January 2015. The Group is considering the implications of the standard and its impact on the group's financial results and position, together with the timing of its adoption taking cognisance of the endorsement process by the European Commission.

Also, IFRS 13, 'Fair value measurement', aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards. The Group is yet to assess IFRS 13's full impact and intends to adopt IFRS 13 no later than the accounting period beginning on 1 April 2013.

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

**1.2 Consolidation**

**(a) Subsidiaries**

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

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

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

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

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

A listing of the Group's principal subsidiaries is set out in Note 41.1 to these financial statements.

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

**1.2 Consolidation - continued**

**(b) Transactions with non-controlling interests**

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

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

**(c) Associates**

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

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

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

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

**1.2 Consolidation - continued**

**(c) Associates - continued**

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

A listing of the Group's principal associates is set out in Note 41.2 to these financial statements.

**1.3 Foreign currencies**

**(a) Functional and presentation currency**

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

**(b) Transactions and balances**

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

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

**(c) Group companies**

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

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

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

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

**1.4 Property, plant and equipment**

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

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

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

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

- Buildings held on a freehold basis are depreciated at 1% per annum. Freehold land is not depreciated as it is deemed to have an indefinite economic life. Properties held on long-term leases are amortised over the period of the respective leases.
- In the case of aircrafts, the related rotables, engines and major spares, which are used for the Group's own flight operations, are depreciated on two, three and twelve years respectively.
- Aircraft and flight equipment in respect of leased out assets are depreciated over their estimated operational lives of 20 years, with residual values being taken as 10%.
- The estimated useful lives of equipment, motor vehicles and other assets, held at hotels and otherwise, vary from 3 to 20 years, depending on their nature.

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

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

**1.4 Property, plant and equipment - continued**

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

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

**1.5 Investment property**

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

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

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

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



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

**1.5 Investment property - continued**

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

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

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

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

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

**1.6 Intangible assets**

*Emission rights*

Emission rights represent the right of the operator of one or more aircraft to emit greenhouse gases, more specifically carbon dioxide, in the course of its operations. Emission rights are allocated by the competent authority to the Group for no consideration in accordance with the European Community Greenhouse Gas Emissions Trading Scheme for Aviation Regulations, 2010.

The Group recognises the emission rights granted by the competent authority as an intangible asset measured at fair value as at the date of the grant based on quoted market prices. These grants measured at fair value are presented in the statement of financial position as deferred income and are recognised in profit or loss on a systematic basis over the period in which the entity recognises as expenses the related costs for which the grants are intended to compensate, i.e. over the compliance period for which the allowances were issued.

Emissions surpassing the allotment by the competent authority have to be covered by the purchase of additional greenhouse gas emission rights. Purchased emission allowances are recognised at cost.

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

**1.6 Intangible assets - continued**

*Emission rights - continued*

Emission allowances are not amortised taking cognisance of the residual value, based on quoted prices. These rights are not revalued but tested for impairment whenever indicators exist that the carrying amount may not be recoverable.

The Group is responsible for determining and reporting the amount of greenhouse gas emissions produced by the aircraft it operates in the calendar year. As emissions are produced, a liability is recognised for the obligation to deliver allowances equal to emissions that have been produced. This liability shall be measured at the best estimate of the expenditure required to settle the present obligation at the end of the reporting period.

**1.7 Impairment of non-financial assets**

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

**1.8 Non-current assets held for sale**

Non-current assets are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. They are stated at the lower of carrying amount and fair value less costs to sell.

**1.9 Financial assets**

**Classification**

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

**(a) Loans and receivables**

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

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

**1.9 Financial assets - continued**

**Classification - continued**

**(b) Available-for-sale financial assets**

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

**Recognition and measurement**

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

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

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

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

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

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

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

## 1. Summary of significant accounting policies - continued

### 1.9 Financial assets - continued

#### Impairment

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

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

#### (a) Assets carried at amortised cost

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

#### (b) Assets classified as available-for-sale

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

### 1.10 Leased assets

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

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

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

**1.11 Maintenance of aircraft**

Costs for routine aircraft maintenance as well as repair costs are charged to the income statement.

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 provisions are therefore set up for major non-routine maintenance and overhauls as well as costs estimated to be incurred on re-delivery of the aircraft to the lessor. These costs are reviewed on an annual basis to ensure they reflect the estimated aircraft maintenance programme and are charged over the unexpired term of the lease.

**1.12 Inventories**

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

**1.13 Trade and other receivables**

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

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment (note 1.9). The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement. When a receivable is uncollectible, it is written off against the allowance account for trade and other receivables. Subsequent recoveries of amounts previously written off are credited against the income statement.

**1.14 Cash and cash equivalents**

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

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

**1.15 Financial liabilities**

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

**1.16 Trade and other payables**

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

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

**1.17 Borrowings and borrowing costs**

Borrowings are recognised initially at the fair value of proceeds received, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in 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 twelve months after the end of the reporting period.

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

**1.18 Deferred taxation**

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

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

**1.18 Deferred taxation - continued**

The principal temporary differences arise from depreciation on property, plant and equipment, revaluations of derivative contracts, provisions and tax losses carried forward; and in relation to acquisitions, on the difference between the fair values of the net assets acquired and their tax base.

Deferred tax assets relating to the carry forward of trading losses are recognised to the extent that it is probable that future taxable profit will be available against which the unused tax losses can be utilised. Deferred tax assets relating to capital losses on investments in subsidiaries and associates are only recognised to the extent to which they are offset by deferred tax liabilities of a capital nature or to the extent to which they can be expected to materialise in the foreseeable future.

**1.19 Employee benefits**

*Termination benefits*

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to a termination when, and only when, the entity has a detailed formal plan to terminate the employment of current employees without the possibility of withdrawal. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to their present value.

**1.20 Provisions**

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

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

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

**1.21 Revenue recognition**

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

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

**1.21 Revenue recognition - continued**

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

- Interest income – Interest income is recognised in the income statement for all interest-bearing instruments as it accrues, on a time-proportion basis using the effective interest method, unless collectability is in doubt.
- Dividend income – Dividend income is recognised when the right to receive payment is established.
- Rental income from investment property – Rental income is recognised in the income statement, on a straight-line basis over the term of the lease, as it accrues unless collectability is in doubt.

**1.22 Sale and leaseback transactions**

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

**1.23 Obligations under bonus mile programmes**

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

**1.24 Derivative financial instruments and hedging**

Derivative financial instruments including forward foreign exchange contracts, commodity options (combined written and purchased options together with other options), commodity swaps 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.

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



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

**1.24 Derivative financial instruments and hedging - continued**

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

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

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

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

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 income statement and classified as revenue or expense in the periods during which the hedged forecast transaction affects the income statement.

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

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

The fair values of derivative instruments held for trading and hedging purposes are disclosed in Note 11 to the financial statements.

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

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

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

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

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

**2. Financial risk management**

**2.1 Financial risk factors**

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

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

- (a) Market risk
  - (i) Foreign exchange risk

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

Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities which are denominated in a currency that is not the respective entity's functional currency. The Group is exposed to foreign exchange arising from various currency exposures, primarily with respect to the US dollar and UK sterling. With respect to the US dollar, the Group is in a net payer position from its operating business particularly in view of a significant portion of purchases denominated in this currency, including fuel, operating leases, maintenance and other related costs. In relation to other currencies the Group is in a net surplus position which is attributable to a portion of Group's revenue which is denominated in these currencies. UK sterling is considered to be the main risk exposure in this respect. A subsidiary domiciled overseas (see Note 41.1) has a functional currency which is different from the euro. This subsidiary is also subject to currency risk in respect of purchases and intra-Group financing denominated in euro; but these exposures are not deemed material in the context of the Group figures.

## 2. Financial risk management - continued

### 2.1 Financial risk factors - continued

#### a) Market risk - continued

##### (i) Foreign exchange risk - continued

The expected future cash flows in individual major currencies usually over the coming 12 months (2011: 12 months) are budgeted and analysed, and the Group hedges the respective net currency exposure in major currencies, within certain pre-established parameters, by entering into forward foreign exchange contracts. These contracts represent commitments to purchase foreign currency amounts covering the net exposure at a pre-established exchange rate. The Company also utilises foreign currency options when deemed necessary. In accordance with the requirements of IAS 39, the Group designates forecast transactions amounting to the net exposure in individual currencies as hedged items. These forecast transactions, qualifying as highly probable, would typically include the Group's purchases of fuel, lease expenditure and other aircraft related operating costs. These expenses are routinely denominated in US dollar, which currency accounts for a relatively minor portion of the Group's revenues. Forecast transactions designated as hedged items could also include revenues denominated in UK sterling.

As at 31 March 2012, the Group forecasts net receipts denominated in UK sterling amounting to €22.8 million (2011: €14.6 million) for the twelve months immediately after the end of the reporting period. The Group also forecasts net payments denominated in US dollar amounting to €72.6 million (2011: €59.5 million) for the twelve months immediately after the end of the reporting period. These exposures were partially hedged as at the end of the reporting period, in accordance with the policy parameters referred to previously, through the use of derivative contracts having a notional amount of €47.3 million (2011: €31.2 million) covering US dollar exposures, and €8.2 million (2011: €4.8 million) covering GBP exposures.

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

	Group		Company	
	2012 €000	2011 €000	2012 €000	2011 €000
Net UK sterling liability position	(5,866)	(7,711)	(5,866)	(7,711)
Net US dollar liability position	(37,260)	(34,038)	(37,383)	(34,331)

**2. Financial risk management - continued**

**2.1 Financial risk factors - continued**

(a) Market risk - continued

(i) Foreign exchange risk - continued

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

	<b>Group</b>		<b>Company</b>	
	(+) 10% €000	(-) 10% €000	(+) 10% €000	(-) 10% €000
<b>UK sterling</b>				
At 31 March 2012	533	(652)	533	(652)
At 31 March 2011	701	(857)	701	(857)
<b>US dollar</b>				
At 31 March 2012	3,387	(4,140)	3,398	(4,154)
At 31 March 2011	3,095	(3,782)	3,121	(3,815)

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

	<b>Group and Company</b>	
	(+) 10% €000	(-) 10% €000
At 31 March 2012	5,023	(6,478)
At 31 March 2011	3,184	(3,891)

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

## 2. Financial risk management - continued

### 2.1 Financial risk factors - continued

#### (a) Market risk - continued

##### (ii) *Cash flow and fair value interest rate risk*

The Group's interest rate risk principally arises from bank borrowings issued at variable rates (Note 24) and advances to related parties subject to floating interest rates which expose the Group to cash flow interest rate risk. The Group's borrowings mainly consist of facilities subject to variable interest rates which are principally based on reference rates. Management monitors the impact of changes in market interest rates on amounts reported in the income statement in respect of these instruments. Based on this analysis, management considers the potential impact on profit or loss of a defined interest rate shift that is reasonably possible at the end of the reporting period to be immaterial and accordingly the level of interest rate risk is contained. The Group's operating cash flows are substantially independent of changes in market interest rates.

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

##### (iii) *Price risk*

During the financial year ended 31 March 2012, fuel expenses amounted to €66 million (2011: €52 million) as disclosed in Note 28.2 to the financial statements and accounted for approximately 27% (2011: 20%) of the total operating expenses of the Group from continuing operations. Fluctuations in crude oil, jet fuel and other fuel product prices may have a significant 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. The Group's policy during the current and preceding years is aimed at hedging, in normal circumstances, a minimum of 40% of the expected fuel expenditure of the ensuing twelve months. As at 31 March 2012, the notional amounts of the hedging derivatives outstanding amounted to approximately €28.2 million (2011: €4 million) in view of the prevailing market and trading conditions (refer to Note 11).

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.

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.

## 2. Financial risk management - continued

### 2.1 Financial risk factors - continued

#### (a) Market risk - continued

##### (iii) Price risk - continued

If as at 31 March 2012 the price of fuel products had strengthened/weakened by 10% with all other variables held constant, equity (prior to tax effects) as at the end of the reporting period would change as follows:

	<b>Group and Company</b>	
	(+) 10% €000	(-) 10% €000
At 31 March 2012	(4,232)	4,232
At 31 March 2011	(67)	60

#### (b) Credit risk

Credit risk principally arises from cash and cash equivalents and credit exposures to customers, including outstanding debtors and committed transactions. The Group's exposures to credit risk as at the end of the reporting periods are analysed as follows:

	<b>Group</b>		<b>Company</b>	
	2012 €000	2011 €000	2012 €000	2011 €000
<b>Continuing operations:</b>				
Loans and receivables category:				
Cash and cash equivalents (Note 17)	20,326	23,531	17,574	22,915
Term placements with banks (Note 16)	2,578	5,856	-	-
Trade and related receivables	24,369	22,704	24,369	22,500
Amounts owed by subsidiaries	-	-	2,320	14
Amounts due from ultimate shareholder	46,200	-	46,200	-
Other receivables	8,876	9,589	8,784	8,869
Loans to subsidiaries and associates (Notes 8 and 9)	-	213	-	213
	<b>102,349</b>	<b>61,893</b>	<b>99,247</b>	<b>54,511</b>
Financial instruments held for hedging:				
Derivative financial instruments (Note 11)	5,072	650	5,072	650
	<b>107,421</b>	<b>62,543</b>	<b>104,319</b>	<b>55,161</b>

**2. Financial risk management - continued**

**2.1 Financial risk factors - continued**

**(b) Credit risk - continued**

	<b>Group</b>		<b>Company</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
	<b>€000</b>	<b>€000</b>	<b>€000</b>	<b>€000</b>
<b>Discontinued operations:</b>				
Loans and receivables category:				
Cash and cash equivalents (Note 18)	<b>1,663</b>	1,362	-	-
Trade and other receivables (Note 18)	<b>1,862</b>	1,188	-	-
Loans to subsidiaries and associates (Note 8, 9 and 18)	<b>213</b>	-	<b>213</b>	4,323
	<b>3,738</b>	2,550	<b>213</b>	4,323

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

*Cash and cash equivalents and term placements with banks*

Group undertakings principally bank with local and foreign financial institutions which have high quality credit standing or rating. The Group's main foreign bank counterparties as at the end of the reporting periods have a satisfactory external credit rating, as determined by major rating agencies such as Fitch. Exposures to foreign banking institutions as at 31 March 2012 amounted to approximately €6.5 million (2011: €4.4 million). Term placements with banks with contractual terms of more than three months mature within a period of thirty-four (2011: thirty-four) months from the end of the reporting period and are held principally with local bank counterparties. Hence credit risk in this respect is quite limited.

**2. Financial risk management - continued**

**2.1 Financial risk factors - continued**

**(b) Credit risk - continued**

*Trade and other receivables*

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

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

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

The Group manages credit limits and exposures actively in a practicable manner such that past due amounts receivable from customers are within controlled parameters. The credit quality of the Group's trade and other receivables, which are not impaired or past due financial assets, reflects the nature of these assets which are principally debts in respect of transactions with customers for whom there is no recent history of default. Management does not expect any losses from non-performance by these customers. As at 31 March 2012, the Group holds collateral in the form of bank guarantees for the amount of €2,776,704 (2011: €2,522,081) as security in respect of trade receivables. At 31 March 2012 and 2011, no trade or other receivables that would otherwise be past due or impaired have been renegotiated.

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



## 2. Financial risk management - continued

### 2.1 Financial risk factors - continued

#### (b) Credit risk - continued

As at 31 March 2012, the Group's and Company's trade receivables amounting to €5,399,000 (2011: €4,855,000) and €4,067,000 (2011: €3,536,000) respectively were impaired and the amount of the provisions in this respect are equivalent to these amounts. The individually impaired receivables mainly relate to a number of independent customers which are in unexpectedly difficult economic situations and which are accordingly not meeting repayment obligations. The Group does not hold any significant collateral as security in respect of the impaired assets.

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

	<b>Group</b>		<b>Company</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
	<b>€000</b>	<b>€000</b>	<b>€000</b>	<b>€000</b>
<b>Continuing operations:</b>				
At beginning of year	<b>3,536</b>	3,026	<b>3,536</b>	3,026
Increase in provisions	<b>560</b>	718	<b>560</b>	718
Reversals of provisions which are no longer required	<b>(29)</b>	(135)	<b>(29)</b>	(135)
Other movements	-	(73)	-	(73)
At end of year	<b>4,067</b>	3,536	<b>4,067</b>	3,536
<b>Discontinued operations:</b>				
At beginning of year	<b>1,319</b>	1,405	-	-
Increase in provisions	<b>30</b>	184	-	-
Reversals of provisions which are no longer required	<b>(17)</b>	(265)	-	-
Other movements	-	(5)	-	-
At end of year	<b>1,332</b>	1,319	-	-
<b>Total</b>	<b>5,399</b>	4,855	-	-

Reversals of provisions for impairment arise in those situations where customers recover from unfavourable circumstances and accordingly start meeting repayment obligations. The movements in these provisions are disclosed in Note 28.2 and are included in 'Administrative expenses' in the Group's income statement.

## 2. Financial risk management - continued

### 2.1 Financial risk factors - continued

#### (b) Credit risk - continued

As at 31 March 2012, trade receivables and amounts owed by related parties amounting to €1,931,000 and €139,000 (2011: €1,444,000 and €258,000) respectively were past due but not impaired. These relate to a number of customers for whom there is no recent history of default and in respect of which the Group has obtained no significant collateral. Categorisation of receivables as past due is determined by the Group on the basis of the nature of the credit terms in place and credit arrangements actually utilised in managing exposures with customers.

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

	2012 €000	2011 €000
Up to 60 days	428	506
60 to 120 days	672	228
Over 120 days	831	710
	1,931	1,444

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

As at 31 March 2012, the Company also had amounts receivable from associates amounting to €173,000 (2011: €198,000) which were past due but not impaired. Such amounts were mainly past due for less than one year.

As at 31 March 2012, the Company had amounts receivable from subsidiaries amounting to €1,715,000 (2011: €2,609,000) which were impaired. Such amounts were mainly past due. The impaired balances as at 31 March 2011 have been written off during the current financial year. At 31 March 2012, the Company and Group also had amounts receivable from related parties amounting to €817,580 (2011: €617,887) which were impaired. These amounts were past due.

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

#### *Loans to subsidiaries and associates*

The Group's and Company's loans referred to in the table on page 44 consist of advances to subsidiaries and associates forming part of the Air Malta Group. The Group's credit control function monitors intra-Group credit exposures and ensures timely performance in the context of overall Group liquidity management. Management does not expect any losses from non-performance or default, except as disclosed below. Loans to subsidiaries and associates which are impaired are reflected in Notes 8 and 9 and the provisions for impairment in this respect are equivalent to the impaired assets. The impaired assets consist of loans to entities which are in adverse trading and operational circumstances.

## 2. Financial risk management - continued

### 2.1 Financial risk factors - continued

#### (b) Credit risk - continued

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

	<b>Company</b>	
	<b>2012</b>	<b>2011</b>
	<b>€000</b>	<b>€000</b>
<b>Provisions on loans to subsidiaries</b>		
At beginning of year	<b>6,429</b>	552
Increase in provisions	<b>4,485</b>	5,877
Reversals of provisions which are no longer required in view of waiver of loans	<b>(312)</b>	-
At end of year	<b>10,602</b>	6,429

#### *Derivative financial instruments*

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

#### (c) Liquidity risk

The Group is exposed to liquidity risk in relation to meeting future obligations associated with its financial liabilities, which comprise principally borrowings (Note 24) and payables. Prudent liquidity risk management includes maintaining sufficient cash and committed credit lines to ensure the availability of an adequate amount of funding to meet the Group's obligations. Management monitors liquidity risk by reviewing expected Group cash flows, and ensures that liquid resources and facilities that are expected to be required over the coming year are in place.

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

**2. Financial risk management - continued**

**2.1 Financial risk factors - continued**

**(c) Liquidity risk - continued**

The overall liquidity requirements of the Group involve maintaining available net liquidity equivalent to a number of weeks' cash outflows from operations depending on seasonality and expected volatility. The risk is actively managed by taking cognisance of the matching of operational cash inflows and outflows including those arising from expected maturities of financial instruments, the Group's committed bank borrowing facilities and shareholder financing that it can access. In view of the Group's financial position and its operating results, the airline's liquidity management process has significantly influenced the Company's Restructuring Plan which has been approved by the European Commission subsequent to 31 March 2012 as referred to in Note 1.1.1. As outlined previously in the said note, a number of financing arrangements have been projected in the Restructuring Plan and the key steps in implementing the financing process required include:

- The Rescue Aid Loan from the principal shareholder, amounting to €52 million, that was due for repayment in November 2011 has been extended for a further period to November 2012 or until one month from the date on which the Restructuring Plan has been finally determined and approved by the Commission, whichever is the earlier.
- A Promise of Sale Agreement to dispose of the principal property, constituting the remaining main asset owned by the Company, for an amount of €66.2 million has been entered into with Government in December 2011 with a deposit of €20 million which has been paid by Government in January 2012.
- The Company has successfully negotiated fresh bank loans amounting to €30 million on the back of the Promise of Sale Agreement referred to above, which loans will be repaid from the sale proceeds. Further facilities of €20 million will be required during the later part of the 5 year plan.
- The disposal process of the Company's subsidiaries and other strategic investments, which have been earmarked for sale, has progressed during the current financial year.
- Government will make a fresh commercial loan of €52 million to the Company. These funds will be used by the Company to pay back the Rescue Aid Loan in line with Rescue and Restructuring Guidelines. The commercial loan will be converted to equity in the later part of the 5 year plan.
- The Company will allocate €78 million of fresh equity to Government. The capital will be called up in tranches in due course in accordance with the program established in the Restructuring Plan.

## 2. Financial risk management - continued

### 2.1 Financial risk factors - continued

#### (c) Liquidity risk - continued

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

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

#### Group

At 31 March 2012	Within 3 months €000	3 - 6 Months €000	6 - 12 months €000	1 - 2 years €000	2 - 5 years €000	Over 5 years €000	Total €000
Continuing operations:							
Bank borrowings	1,156	2,314	1,259	507	10,318	-	15,554
Loan from shareholder	-	-	57,909	-	-	-	57,909
Trade and other payables	43,344	-	-	-	-	-	43,344
	44,500	2,314	59,168	507	10,318	-	116,807
Discontinued operations:							
Bank borrowings	3,570	-	-	-	-	-	3,570
Trade and other payables	5,288	-	-	-	-	-	5,288
	8,858	-	-	-	-	-	8,858
<b>Total</b>	<b>53,358</b>	<b>2,314</b>	<b>59,168</b>	<b>507</b>	<b>10,318</b>	<b>-</b>	<b>125,665</b>
<b>At 31 March 2011</b>							
Continuing operations:							
Bank borrowings	1,496	2,751	3,608	4,132	-	-	11,987
Loan from shareholder	-	-	43,153	-	-	-	43,153
Trade and other payables	45,019	-	-	-	-	-	45,019
	46,515	2,751	46,761	4,132	-	-	100,159
Discontinued operations:							
Bank borrowings	2,663	-	-	-	-	-	2,663
Trade and other payables	5,177	-	-	-	-	-	5,177
	7,840	-	-	-	-	-	7,840
<b>Total</b>	<b>54,355</b>	<b>2,751</b>	<b>46,761</b>	<b>4,132</b>	<b>-</b>	<b>-</b>	<b>107,999</b>

Subsequent to 31 March 2011, the term of the shareholder's loan was extended to 15 November 2012 or until one month from the date on which the Restructuring Plan has been finally determined and approved by the Commission, whichever is the earlier. On 27 June 2012, the European Commission has communicated its decision confirming approval of Restructuring Aid for Air Malta p.l.c.; the amounts reflected in the table above have not been modified in this respect.

## 2. Financial risk management - continued

### 2.1 Financial risk factors - continued

#### (c) Liquidity risk - continued

Company	Within 3 months €000	3 - 6 months €000	6 - 12 months €000	1 - 2 years €000	2 - 5 years €000	Over 5 years €000	Total €000
<b>At 31 March 2012</b>							
Bank borrowings	1,156	2,314	1,259	507	10,318	-	15,554
Loan from shareholder	-	-	57,909	-	-	-	57,909
Trade and other payables	48,824	-	-	-	-	-	48,824
	<b>49,980</b>	<b>2,314</b>	<b>59,168</b>	<b>507</b>	<b>10,318</b>	<b>-</b>	<b>122,287</b>
<b>At 31 March 2011</b>							
Bank borrowings	1,496	2,751	3,608	4,132	-	-	11,987
Loan from shareholder	-	-	43,153	-	-	-	43,153
Trade and other payables	48,396	-	-	-	-	-	48,396
	<b>49,892</b>	<b>2,751</b>	<b>46,761</b>	<b>4,132</b>	<b>-</b>	<b>-</b>	<b>103,536</b>

The Group's derivatives that will be settled on a gross basis consist principally of forward foreign exchange contracts (Note 11). The table below analyses the Group's derivative financial liabilities that will be settled on a gross basis into relevant maturity Groupings based on the remaining period at 31 March 2012 to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

#### Group and Company

	Within 3 months €000	3 - 6 months €000	6 - 12 months €000	Total €000
<b>At 31 March 2012</b>				
Foreign exchange derivatives:				
- Outflows	(1,741)	(1,745)	(4,957)	(8,443)
- Inflows	1,696	1,697	4,838	8,231
	<b>(45)</b>	<b>(48)</b>	<b>(119)</b>	<b>(212)</b>

#### Group and Company

	Within 3 months €000	3 - 6 months €000	6 - 12 months €000	Total €000
<b>At 31 March 2011</b>				
Foreign exchange derivatives:				
- Outflows	(9,814)	(9,814)	(3,271)	(22,900)
- Inflows	9,396	9,396	3,132	21,923
	<b>(418)</b>	<b>(418)</b>	<b>(139)</b>	<b>(977)</b>

## **2. Financial risk management - continued**

### **2.1 Financial risk factors - continued**

#### **(c) Liquidity risk - continued**

The Group's derivative financial liabilities as at 31 March 2012, which will be settled on a net basis are not deemed material for the purpose of disclosing the contractual undiscounted cash flows.

### **2.2 Capital risk management**

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

Consistent with others in the industry, the Group usually monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (as shown in the consolidated statement of financial position) less cash and cash equivalents. Total capital is calculated as equity as shown in the consolidated statement of financial position plus net debt. In view of the fact that the Group has negative equity or net liability position as at 31 March 2012, the Group's gearing ratio is not currently deemed to be a relevant benchmark for capital management. The current and prior year adverse financial results have impacted the financial position of the Group in particular the equity levels.

As outlined in Note 1.1.1, subsequent to 31 March 2012 the European Commission has approved the Company's Restructuring Plan. This Restructuring Plan sets out the turnaround strategy for Air Malta p.l.c. for the five-year period FY2012 to FY2016. This strategy is set out over five years after a careful assessment by management of the shortest time required to restore the long-term viability and capital position of the Company, keeping in mind possible future operating conditions. Included within the Restructuring Plan are long-term financing arrangements that will address the Capital position of the Company during the five year period. In particular, apart from the improvement in trading performance and operating cash flows together with management of borrowings as reflected under the Liquidity risk management section above, the equity base of the Company will be strengthened through the following:

- Government will make a fresh commercial loan of €52 million to the Company. These funds will be used by the Company to pay back the Rescue Aid Loan in line with Rescue and Restructuring Guidelines. The commercial loan will be converted to equity in the later part of the 5 year plan.
- The Company will allocate €78 million of fresh equity to Government. The capital will be called up in tranches in due course in accordance with the program established in the Restructuring Plan.

## **2. Financial risk management - continued**

### **2.3 Fair values of financial instruments**

At 31 March 2012 and 2011 the carrying amounts of cash at bank, receivables, payables, accrued expenses and short-term borrowings reflected in the financial statements are reasonable estimates of fair value in view of the nature of these instruments or the relatively short period of time between the origination of the instruments and their expected realisation.

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

Information on the fair value of the Group's term placements with banks is disclosed in Note 16. The fair value of derivative financial instruments is determined in accordance with the Group's accounting policy disclosed in Note 1.24. Fair values are determined using forward exchange market rates at the end of the reporting period for forward foreign exchange contracts and using dealer quotes from counterparties or valuation techniques, including discounted cash flow models, for other derivative contracts (see Notes 11 and 22). The valuation techniques used are supported by observable market prices or rates since their variables include only data from observable markets.

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

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

At 31 March 2012, all the Group's derivative financial instruments disclosed in Note 11 are categorised as level 2 instruments, since these contracts are fair valued through valuation techniques utilising data solely from observable markets. The fair value of all the Group's available-for-sale assets is approximated by the carrying amount of these assets and accordingly no fair value changes have been reflected. The fair values utilised in this respect have been estimated on the basis of techniques utilising observable inputs categorised as level 2 inputs.

## **3. Critical accounting estimates and judgements**

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



### 3. Critical accounting estimates and judgements - continued

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

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

### 4. Segment reporting

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

### 5. Property, plant and equipment

#### Group

	Land and buildings €000	Aircraft and flight equipment €000	Other assets €000	Total €000
<b>At 1 April 2010</b>				
Cost or valuation	69,141	25,677	22,754	117,572
Accumulated depreciation and impairment losses	(258)	(20,366)	(19,706)	(40,330)
Net book amount	68,883	5,311	3,048	77,242
<b>Year ended 31 March 2011</b>				
Opening net book amount	68,883	5,311	3,048	77,242
Adjustment arising on revaluation (Note 21)	(13,482)	-	-	(13,482)
Additions	107	6,168	646	6,921
Reclassification to investment property (Note 6)	(468)	-	-	(468)
Transfer to assets classified as held for sale (Note 18)	(504)	-	(193)	(697)
Disposals	-	(12,612)	(895)	(13,507)
Depreciation charge	(1,202)	(629)	(888)	(2,719)
Depreciation released on disposals	-	2,439	791	3,230
Closing net book amount	53,334	677	2,509	56,520
<b>At 31 March 2011</b>				
Cost or valuation	53,334	19,233	22,312	94,879
Accumulated depreciation and impairment losses	-	(18,556)	(19,803)	(38,359)
Net book amount	53,334	677	2,509	56,520

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

	Land and buildings €000	Aircraft and flight equipment €000	Other assets €000	Total €000
<b>Year ended 31 March 2012</b>				
Opening net book amount	53,334	677	2,509	56,520
Additions	-	195	7	202
Transfer to assets classified as held for sale (Note 18)	-	-	(9)	(9)
Disposals	(50,723)	-	(41)	(50,764)
Depreciation charge	(47)	(300)	(848)	(1,195)
Depreciation released on disposals	-	-	39	39
Other movements	(11)	-	-	(11)
Closing net book amount	<b>2,553</b>	<b>572</b>	<b>1,657</b>	<b>4,782</b>
<b>At 31 March 2012</b>				
Cost or valuation	2,600	19,428	22,269	44,297
Accumulated depreciation and impairment losses	(47)	(18,856)	(20,612)	(39,515)
Net book amount	<b>2,553</b>	<b>572</b>	<b>1,657</b>	<b>4,782</b>

The Group's land and buildings were revalued on 31 March 2010 by an independent professionally qualified valuer. Valuations were made on the basis of open market value at that date taking cognisance of the specific location of the properties, the size of the sites and the availability of similar properties in the area. At 31 March 2010, the book value of the properties had been adjusted to the land and building's carrying amount and the resultant surplus, net of applicable deferred taxation, had been credited to the revaluation reserve in shareholders' equity (Note 21).

On 7 December 2011, the Company entered into an irrevocable Promise of Sale Agreement with the Government of Malta in respect of the principal elements of its land and buildings category. The carrying amounts of the Group's land and buildings as at 31 March 2011 have been adjusted to take into account the sale prices contracted within the Promise of Sale Agreement, which prices are considered by the directors to reflect the fair values of land and buildings as at 31 March 2011. A downward adjustment to the carrying amount of property, plant and equipment of €13.5 million was required in this respect as at 31 March 2011, with related adjustments to the revaluation reserve and deferred taxation (Notes 21 and 25).

During the current financial year, the Company has derecognised the property elements which are the subject of the irrevocable Promise of Sale Agreement from its statement of financial position in view of the terms of this agreement which have in substance shifted the risks and rewards inherent in the assets to the Government. Accordingly, receivables from Government attributable to this transaction, amounting to €46,200,000, have been recognised in the Company's statement of financial position (Note 12).

## 5. Property, plant and equipment - continued

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

In view of the Group's intentions in prior year, to dispose of its tour operator business and in the current year to dispose of its insurance broker business, property, plant and equipment attributable to this operation, have been transferred to assets classified as held for sale .

### Company

	Land and buildings €000	Aircraft and flight equipment €000	Other assets €000	Total €000
<b>At 1 April 2010</b>				
Cost or valuation	67,972	25,463	21,557	114,992
Accumulated depreciation and impairment losses	(113)	(20,152)	(18,711)	(38,976)
Net book amount	67,859	5,311	2,846	76,016
<b>Year ended 31 March 2011</b>				
Opening net book amount	67,859	5,311	2,846	76,016
Adjustment arising on revaluation (Note 21)	(13,482)	-	-	(13,482)
Additions	107	6,168	605	6,880
Reclassification to investment property (Note 6)	(468)	-	-	(468)
Disposals	-	(12,612)	(855)	(13,467)
Depreciation charge	(1,193)	(629)	(887)	(2,709)
Depreciation released on disposals	-	2,439	791	3,230
Closing net book amount	52,823	677	2,500	56,000
<b>At 31 March 2011</b>				
Cost or valuation	52,823	19,019	21,307	93,149
Accumulated depreciation and impairment losses	-	(18,342)	(18,807)	(37,149)
Net book amount	52,823	677	2,500	56,000

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

	Land and buildings €000	Aircraft and flight equipment €000	Other assets €000	Total €000
<b>Year ended 31 March 2012</b>				
Opening net book amount	52,823	677	2,500	56,000
Additions	-	195	7	202
Disposals	(50,223)	-	(41)	(50,264)
Depreciation charge	(47)	(300)	(848)	(1,195)
Depreciation released on disposals	-	-	39	39
Closing net book amount	<b>2,553</b>	<b>572</b>	<b>1,657</b>	<b>4,782</b>
<b>At 31 March 2012</b>				
Cost or valuation	2,600	19,214	21,273	43,087
Accumulated depreciation and impairment losses	(47)	(18,642)	(19,616)	(38,305)
Net book amount	<b>2,553</b>	<b>572</b>	<b>1,657</b>	<b>4,782</b>

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

	<b>Group</b>		<b>Company</b>	
	<b>2012</b>	2011	<b>2012</b>	2011
	<b>€000</b>	€000	<b>€000</b>	€000
Cost	<b>2,145</b>	54,378	<b>2,145</b>	53,209
Accumulated depreciation	<b>(272)</b>	(14,145)	<b>(272)</b>	(13,991)
Net book amount	<b>1,873</b>	40,233	<b>1,873</b>	39,218

**6. Investment property**

	<b>Group €000</b>	<b>Company €000</b>
<b>At 1 April 2010</b>		
Cost	11,545	12,054
Fair value gains	8,236	8,236
Carrying amount	<u>19,781</u>	<u>20,290</u>
<b>Year ended 31 March 2011</b>		
Opening carrying amount	19,781	20,290
Reclassification from property, plant and equipment (Note 5)	468	468
Losses from changes in fair value	(4,426)	(4,426)
Other movements	(346)	(355)
Closing carrying amount	<u>15,477</u>	<u>15,977</u>
<b>At 31 March 2011</b>		
Cost	12,030	12,530
Fair value gains	3,447	3,447
Carrying amount	<u>15,477</u>	<u>15,977</u>
<b>Year ended 31 March 2012</b>		
Opening carrying amount	15,477	15,977
Disposals	(15,477)	(15,977)
Other movements	47	47
Closing carrying amount	<u>47</u>	<u>47</u>
<b>At 31 March 2012</b>		
Cost and carrying amount	<u>47</u>	<u>47</u>

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

**6. Investment property - continued**

As also highlighted in Note 5, on 7 December 2011, the Company entered into an irrevocable Promise of Sale Agreement with the Government of Malta in respect of the principal elements of its investment property. The carrying amounts of the Group's investment property as at 31 March 2011 have been adjusted to take into account the sale price contracted within the Promise of Sale Agreement, which prices are considered by the directors to reflect the fair values of the land and buildings as at 31 March 2011. A downward adjustment to the carrying amount of investment property of €4.4 million was required in this respect, with related adjustments to the pre-tax results and deferred taxation (Note 25).

During the current financial year, the Company has derecognised the property elements which are the subject of the irrevocable Promise of Sale Agreement from its statement of financial position in view of the terms of this agreement which have in substance shifted the risks and rewards inherent in the assets to the Government. Accordingly, receivables from Government attributable to this transaction have been recognised in the Company's statement of financial position (Note 12).

The following amounts have been recognised in profit or loss:

	<b>Group and Company</b>	
	<b>2012</b>	<b>2011</b>
	<b>€000</b>	<b>€000</b>
Rental income from investment property	<b>600</b>	600

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

	<b>Group</b>		<b>Company</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
	<b>€</b>	<b>€</b>	<b>€</b>	<b>€</b>
Cost	<b>47</b>	12,755	<b>47</b>	13,604
Accumulated depreciation	-	(1,417)	-	(1,511)
Net book amount	<b>47</b>	11,338	<b>47</b>	12,093

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

	<b>At 31 March</b>	<b>At 31 March</b>	<b>At 1 April</b>
	<b>2012</b>	<b>2011</b>	<b>2010</b>
	<b>€000</b>	<b>€000</b>	<b>€000</b>
Carrying amounts	-	15,460	16,065

## 7. Intangible assets

<b>Emission rights and credits for own use</b>	<b>Group and Company</b>	
	<b>In tonnes</b>	<b>€'000</b>
<b>Year ended 31 March 2012</b>		
Emission rights and credits granted	211,617	2,036
Emission rights and credits purchased	21,795	108
<b>Total emission rights granted and purchased</b>	<b>233,412</b>	<b>2,144</b>
 Estimated usage of emission rights and credits until 31 March 2012	 (58,353)	 (536)

With effect from 1 January 2012, air transport has been included in the EU's Emissions Trading Scheme and an aircraft operator is obliged to provide an emissions permit for each tonne of carbon dioxide emitted. In principle, all aircraft operators that perform flights which depart from or arrive at an airport situated in the territory of a Member State of the European Union is required to participate in the EU Emissions Trading Scheme, in respect of carbon dioxide emissions.

Every airline participating in the emissions trading system has a limited quantity of emission allowances at its disposal for every calendar year starting as from 1 January 2012, as defined by Article 3e of Directive 2003/87/EC of the European Parliament and of the Council (2011/638/EU). The competent authority has computed the free allocation of allowances to Air Malta p.l.c.. Emissions surpassing this allotment have to be covered by the purchase of additional certificates.

Under EU ETS legislation, an aircraft operator is required to surrender an amount of allowances equivalent to the quantity of actual emissions reported in the annual emission reports. Surrendering of allowances must take place by not later than 30 April each year in respect of the reported emissions of the previous year.

As at 31 March 2012, deferred income in respect of emission rights and credits granted to the Company amounted to €1,527,000. Also, the liability of the Company as at 31 March 2012 in relation to emissions made until that date amounted to €536,000, as reflected in the table above.

**8. Investments in subsidiaries**

**Company**

	Shares in subsidiaries €000	Loans to subsidiaries €000	Total €000
<b>At 1 April 2010</b>			
Cost	5,867	437	6,304
Provisions for impairment	(1,761)	-	(1,761)
Carrying amount	4,106	437	4,543
<b>Year ended 31 March 2011</b>			
Opening carrying amount	4,106	437	4,543
Repayment of loans	-	(189)	(189)
Transfer to assets classified as held for sale (Note 18)	(2,243)	(248)	(2,491)
Closing carrying amount	1,863	-	1,863
<b>At 31 March 2011</b>			
Cost	2,207	-	2,207
Provisions for impairment	(344)	-	(344)
Carrying amount	1,863	-	1,863
<b>Year ended 31 March 2012</b>			
Opening carrying amount	1,863	-	1,863
Transfer to assets classified as held for sale (Note 18)	(58)	-	(58)
Closing carrying amount	1,805	-	1,805
<b>At 31 March 2012</b>			
Cost	2,102	-	2,102
Provisions for impairment	(297)	-	(297)
Carrying amount	1,805	-	1,805

The net investments transferred to assets classified as held for sale during the current and preceding financial years relate to the Company's investments attributable to the Group's insurance broking and tour operator businesses respectively, which the Group intends to dispose of.



**9. Investments in associates**

**Group**

	Shares in associates €000	Loans to associates €000	Total €000
<b>At 1 April 2010</b>			
Cost	99	259	358
Share of undertakings' post acquisition profits and reserves	(19)	-	(19)
Carrying amount	80	259	339
<b>Year ended 31 March 2011</b>			
Opening carrying amount	80	259	339
Transfer to assets classified as held for sale (Note 18)	(87)	-	(87)
Repayment of loans	-	(46)	(46)
Share of results	658	-	658
Dividends received	(225)	-	(225)
Closing carrying amount	426	213	639
<b>At 31 March 2011</b>			
Cost	12	213	225
Share of undertakings' post acquisition profits and reserves	414	-	414
Carrying amount	426	213	639
<b>Year ended 31 March 2012</b>			
Opening carrying amount	426	213	639
Dividends received	(210)	-	(210)
Transfer to assets classified as held for sale (Note 18)	(216)	(213)	(429)
Closing carrying amount	-	-	-

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

During the year ended 31 March 2012 the Company formulated its intentions to dispose of its investment in World Aviation Group Limited, and accordingly the investment was transferred to assets classified as held for sale. As a result, this investment is not accounted for under the equity method of accounting in these consolidated financial statements.

The Group's share of results of its principal associate, and its share of the respective assets and liabilities were not deemed material for disclosure purposes, taking into account the Group's intentions highlighted above.

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

**9. Investments in associates - continued**

**Company**

	Shares in associates €000	Loans to associates €000	Total €000
<b>At 1 April 2010</b>			
Cost and Carrying amount	99	259	358
<b>Year ended 31 March 2011</b>			
Opening carrying amount	99	259	358
Transfer to assets classified as held for sale (Note 18)	(87)	-	(87)
Repayment of loans	-	(46)	(46)
Closing carrying amount	12	213	225
<b>At 31 March 2011</b>			
Cost and carrying amount	12	213	225
<b>Year ended 31 March 2012</b>			
Opening carrying amount	12	213	225
Transfer to assets classified as held for sale (Note 18)	(12)	(213)	(225)
Closing carrying amount	-	-	-

Loans to associates were unsecured and repayable on demand. At 31 March 2012, these loans were subject to a weighted average effective interest rate of 1% (2011: 1%) per annum.

**10. Available-for-sale financial assets**

**Group**

	Equity instruments €000	Quoted debt securities €000	Total €000
<b>At 1 April 2010</b>			
Amortised cost	2,727	-	2,727
Provisions for impairment	(459)	-	(459)
Carrying amount	2,268	-	2,268
<b>Year ended 31 March 2011</b>			
Opening carrying amount	2,268	-	2,268
Additions at cost	1,091	504	1,595
Disposals	(1,839)	-	(1,839)
Increase in provision for impairment	(581)	-	(581)
Other movements	(8)	-	(8)
Closing carrying amount	931	504	1,435
<b>At 31 March 2011</b>			
Amortised cost	1,971	504	2,475
Provisions for impairment	(1,040)	-	(1,040)
Carrying amount	931	504	1,435
<b>Year ended 31 March 2012</b>			
Opening carrying amount	931	504	1,435
Additions at cost	952	-	952
Disposals	(1,366)	-	(1,366)
Increase in provision for impairment	(162)	-	(162)
Transfer to assets classified as held for sale (Note 18)	(258)	-	(258)
Other movements	12	12	24
Closing carrying amount	109	516	625
<b>At 31 March 2012</b>			
Amortised cost	1,311	516	1,827
Provisions for impairment	(1,202)	-	(1,202)
Carrying amount	109	516	625

**10. Available-for-sale financial assets - continued**

Analysis of total available-for-sale financial assets:

	Equity instruments €000
<b>At 31 March 2012</b>	
Non-current	107
Current	518
	<b>625</b>
<b>At 31 March 2011</b>	
Non-current	268
Current	1,167
	<b>1,435</b>

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

The weighted average effective interest rates of quoted debt securities as at 31 March 2012 was 3.75% (2011: 3.75%). The fair value of the Group's quoted debt securities as at the end of the reporting period was not significantly different from the carrying amount.

**Company**

	Equity instruments €000
<b>At 1 April 2010</b>	
Cost and carrying amount	688
<b>Year ended 31 March 2011</b>	
Opening carrying amount	688
Increase in provision for impairment	(581)
Closing carrying amount	107
<b>At 31 March 2011</b>	
Cost	688
Provisions for impairment	(581)
Carrying amount	107
<b>Year ended 31 March 2012</b>	
Opening and closing carrying amounts	107
<b>At 31 March 2012</b>	
Cost	688
Provisions for impairment	(581)
Carrying amount	107

**10. Available-for-sale financial assets - continued**

Analysis of total available-for-sale financial assets:

	Equity instruments €000
<b>At 31 March 2012 and 2011</b>	
Non-current	<u>107</u>

**11. Derivative financial instruments**

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

	<b>Group and Company</b> Fair values	
	Assets €000	Liabilities €000
<b>At 31 March 2012</b>		
<b>Derivatives held for hedging (cash flow hedges)</b>		
Foreign exchange derivatives		
- currency forwards	1,393	(172)
Fuel price hedging derivatives		
- commodity swaps	3,679	(140)
<b>Total derivative assets/(liabilities) – Current</b>	<b>5,072</b>	<b>(312)</b>
<b>At 31 March 2011</b>		
<b>Derivatives held for hedging (cash flow hedges)</b>		
Foreign exchange derivatives		
- currency forwards	235	(788)
Fuel price hedging derivatives		
- combined options	140	-
- commodity swaps	275	(7)
	415	(7)
<b>Total derivative assets/(liabilities) – Current</b>	<b>650</b>	<b>(795)</b>

# 11. Derivative financial instruments - continued

The currency forward contracts outstanding as at 31 March 2012 have the following contract terms:

	Fair value - assets/ (liabilities) €000
Forward sale of EUR47.3 million against USD (at average contracted rate of EUR1:USD1.3657)	1,295
Forward sale of GBP7 million against EUR (at average contracted rate of EUR1:GBP0.8452)	(74)
	<u>1,221</u>

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

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

	Fair value - assets/ (liabilities) €000
Forward sale of EUR31.2 million against USD (at average contracted rate of EUR1:USD1.3634)	(760)
Forward sale of GBP4.0 million against EUR (at average contracted rate of EUR1:GBP0.8436)	207
	<u>(553)</u>

The terms and approximate notional amounts of the hedging commodity derivatives outstanding as at 31 March 2012 are as follows:

Commodity swap agreements:

Contract cover	Notional amount	Settlement terms	Fair value - assets/ (liabilities) €000
Two month period to 30 June 2012	USD1,516,000	Pay-fixed (\$124.3), receive-floating	(27)
Four month period to 31 October 2012	USD6,512,000	Pay-fixed (\$109.3 - \$122.4 range), receive-floating	291
Seven month period to 31 October 2012	USD22,844,000	Pay-fixed (\$98.9 - \$104.8 range), receive-floating	3,050
Five month period to 31 March 2013	USD6,727,000	Pay-fixed (\$100.5 - \$119.4 range), receive-floating	225
			<u>3,539</u>

#### 11. Derivative financial instruments - continued

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

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

Combined bought call options and written call options at higher strike:

Contract cover	Notional amount	Strike prices	Fair value - assets €000
Two month period to 31 May 2011	USD1,086,000	\$95.10/115.00	140

Commodity swap agreements:

Contract cover	Notional amount	Settlement terms	Fair value - assets/ (liabilities) €000
Two month period to 31 May 2011	USD1,077,000	Pay-fixed (\$94.37), receive-floating	183
Three month period to 30 June 2011	USD746,000	Pay-fixed (\$105), receive-floating	59
Three month period to 30 June 2011	USD783,000	Pay-fixed (\$110.3), receive-floating	33
Five month period to 31 August 2011	USD2,582,000	Pay-fixed (\$116.98), receive-floating	(7)
			268

#### 12. Amounts owed by ultimate shareholder

These amounts receivable from the Government of Malta are in respect of proceeds due to the Company as a result of the irrevocable promise of sale agreement with the Government in relation to the disposal of the Company's main property (Notes 5 and 6) for the amount of €66.2 million. During the current year, an amount of €20 million was received by the Company on account and the resultant balance of €46.2 million is receivable by 31 December 2014.

**13. Other receivables**

	<b>Group and Company</b>	
	<b>2012</b>	<b>2011</b>
	<b>€000</b>	<b>€000</b>
Non-current:		
Security deposits arising from operating lease agreements	<b>4,955</b>	4,658
Other long-term deposits and receivables	<b>585</b>	280
	<b>5,540</b>	4,938

Security deposits, amounting to €4,955,000 (2011: €4,658,000), will be refunded to the Company on termination of the Company's fleet and engine lease periods up to March 2020.

Other long-term deposits and receivables are principally receivable within five years (2011: five years) from the end of the reporting period.

**14. Inventories**

	<b>Group and Company</b>	
	<b>2012</b>	<b>2011</b>
	<b>€000</b>	<b>€000</b>
Aircraft engineering spares	<b>1,275</b>	1,579
Other stocks	<b>125</b>	132
	<b>1,400</b>	1,711

**15. Trade receivables**

	<b>Group</b>		<b>Company</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
	<b>€000</b>	<b>€000</b>	<b>€000</b>	<b>€000</b>
Trade receivables – gross	<b>27,761</b>	25,285	<b>27,761</b>	25,340
Less: provisions for impairment of trade receivables	<b>(4,067)</b>	(3,536)	<b>(4,067)</b>	(3,536)
Trade receivables – net	<b>23,694</b>	21,749	<b>23,694</b>	21,804



## 16. Term placements with banks

These term placements comprise bank deposits with contractual terms of three months or more. The placements mature within thirty-four (2011: thirty-four) months from the end of the reporting period. Interest receivable is presented within 'Finance income' (Note 32). The weighted average effective interest rate on these assets as at 31 March 2012 was 2.35% (2011: 2.38%). The fair value of the Group's term bank placements as at that date was not significantly different from the carrying amount.

	<b>Group</b>	
	<b>2012</b>	<b>2011</b>
	<b>€000</b>	<b>€000</b>
Maturity of deposits with banks:		
- within one year	<b>2,139</b>	4,617
- between one and two years	<b>439</b>	1,239
	<b>2,578</b>	5,856

## 17. Cash and cash equivalents

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

	<b>Group</b>		<b>Company</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
	<b>€000</b>	<b>€000</b>	<b>€000</b>	<b>€000</b>
Attributable to continuing operations:				
Cash at bank and in hand	<b>20,326</b>	23,531	<b>17,574</b>	22,915
Bank overdrafts (Note 24)	<b>(156)</b>	(845)	<b>(156)</b>	(845)
	<b>20,170</b>	22,686	<b>17,418</b>	22,070
Attributable to discontinued operations:				
Cash at bank and in hand	<b>1,663</b>	1,363	-	-
Bank overdrafts (Note 18)	<b>(850)</b>	(827)	-	-
	<b>813</b>	536	-	-
Total cash and cash equivalents	<b>20,983</b>	23,222	<b>17,418</b>	22,070

The Group's bank balances reflected in the table above are call accounts and deposits with contractual terms of three months or less. Bank and cash balances include an amount of €2,190,000 (2011: €934,000) that is held in overseas bank accounts subject to currency restrictions which lead to delays in remittance to Malta.

**18. Assets classified as held for sale and discontinued operations**

**18.1 Amounts presented in the income statement**

	<b>Group</b>		<b>Company</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
	<b>€000</b>	<b>€000</b>	<b>€000</b>	<b>€000</b>
Loss after tax of discontinued operations (see Note 18.1.1)	<b>(2,879)</b>	(1,625)	-	-
Post-tax dividend income receivable from assets classified as held for sale during the current year – attributable to discontinued operations	-	-	<b>1,295</b>	-
Post-tax gain recognised on disposal of associate (see Note 18.1.2)	-	221	-	221
Movement in provisions attributable to subsidiaries classified as held for sale (see Note 18.1.3)	-	-	<b>(6,295)</b>	(10,730)
Loss for the year from discontinued operations	<b>(2,879)</b>	(1,404)	<b>(5,000)</b>	(10,509)

18.1.1 During the current financial year, the Group resolved to dispose of its insurance broking subsidiary, Osprey Insurance Brokers Company Ltd. In the prior reporting period, the Group resolved to dispose of its tour operator business, which comprises Holiday Malta Company Limited, based in the United Kingdom, and its subsidiary undertakings. In prior years, the Group had also publicly announced its intention to dispose of its hotel property. The subsidiaries comprising the tour operator, hotel and insurance broker are reported in these consolidated financial statements as discontinued operations in accordance with the requirements of IFRS 5 'Non-current assets held for sale and discontinued operations'. The financial information relating to the hotel, tour operator and insurance broking businesses has been presented in the note on an aggregated basis in view of the fact that the nature of each respective activity is related to the other discontinued activities. Also, no separate activity is deemed sufficiently material on an individual basis for the sake of ensuring that disclosures within this Note support a true and fair view of the results and financial position of the Group.

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

**18.1 Amounts presented in the income statement - continued**

An analysis of the result of the discontinued operations is as follows:

	<b>2012</b> <b>€000</b>	<b>2011</b> <b>€000</b>
Revenue	<b>10,724</b>	15,035
Operating costs	<b>(13,511)</b>	(16,514)
Operating loss	<b>(2,787)</b>	(1,479)
Finance income	<b>107</b>	10
Finance costs	<b>(137)</b>	(207)
Loss before tax of discontinued operations	<b>(2,817)</b>	(1,676)
Tax	<b>(62)</b>	51
Loss after tax of discontinued operations	<b>(2,879)</b>	(1,625)
Operating cash flows	<b>(2,824)</b>	606
Investing cash flows	<b>400</b>	576
Financing cash flows	<b>1,003</b>	(51)
Total cash flows	<b>(1,421)</b>	1,131

Expenses by nature

	<b>2012</b> <b>€000</b>	<b>2011</b> <b>€000</b>
Flight, accommodation and related costs	<b>7,730</b>	8,529
Hotel direct operating costs	<b>-</b>	528
Employee benefit expense (Note 29)	<b>1,350</b>	2,853
Depreciation of property, plant and equipment	<b>24</b>	101
Marketing and advertising costs	<b>475</b>	786
Net movement in provisions for impairment of trade receivables	<b>13</b>	(250)
Impairment of property and related charges	<b>1,336</b>	-
Other expenses	<b>2,583</b>	3,967
<b>Total operating costs</b>	<b>13,511</b>	16,514

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

**18.1 Amounts presented in the income statement - continued**

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

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

18.1.3 The movement in provisions attributable to subsidiaries classified as held for sale comprise provisions on equity investments in the companies and on loans to such entities (Note 18.2.2) together with provisions on amounts receivable from such subsidiaries. During the preceding financial year, a provision of €2,609,000 was reflected in relation to such receivables, which provision was reversed during the current year upon the writing off the balance of €2,704,000 owed by the subsidiary. Also, during the current financial year further provisions amounting to €1,715,000 have been registered in relation to other amounts receivable from this subsidiary.

**18.2 Amounts presented in the statement of financial position**

**18.2.1 Group**

	2012 €000	2011 €000
<b>Assets classified as held for sale:</b>		
Assets attributable to hotel, tour operator and insurance broking businesses		
- Property, plant and equipment	4,030	5,364
- Trade and other receivables	1,862	1,188
- Other assets	386	-
- Cash and bank balances	1,663	1,362
Investments in associate (see Note below)	429	-
	<b>8,370</b>	<b>7,914</b>
<b>Liabilities directly associated with assets classified as held for sale:</b>		
Liabilities attributable to hotel, tour operator and insurance broking businesses		
- Bank borrowings	3,570	2,663
- Trade and other payables	5,288	5,177
	<b>8,858</b>	<b>7,840</b>

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

**18.2 Amounts presented in the statement of financial position - continued**

During the current financial year, the company formulated its intentions to dispose of its investment in World Aviation Group Limited, and accordingly the investment was transferred to assets classified as held for sale (refer to Note 9). The investments reclassified comprise the Group's equity investment carried at €216,000 (based on equity accounting up to reclassification) and loans with a carrying amount of €213,000.

**18.2.2 Company**

**Assets classified as held for sale:**

	Shares in subsidiaries €000	Loans to subsidiaries €000	Shares in associates €000	Loans to associates €000	Total €000
<b>Year ended 31 March 2012</b>					
Opening carrying amount	-	4,323	-	-	4,323
Additions	-	162	-	-	162
Reclassified from Investments in subsidiaries	58	-	-	-	58
Reclassified from Investments in associates	-	-	12	213	225
Increase in provisions for impairment	-	(4,485)	-	-	(4,485)
Loan written off	-	(312)	-	-	(312)
Reversal of provision on loan written off	-	312	-	-	312
Closing carrying amount	<b>58</b>	<b>-</b>	<b>12</b>	<b>213</b>	<b>283</b>
<b>Year ended 31 March 2011</b>					
Opening carrying amount	-	9,872	-	-	9,872
Additions	-	80	-	-	80
Reclassified from Investments in subsidiaries	2,243	248	-	-	2,491
Reclassified from Investments in associates	-	-	87	-	87
Increase in provisions for impairment	(2,243)	(5,877)	-	-	(8,120)
Disposals	-	-	(87)	-	(87)
Closing carrying amount	<b>-</b>	<b>4,323</b>	<b>-</b>	<b>-</b>	<b>4,323</b>

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

**18.2 Amounts presented in the statement of financial position - continued**

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

	Shares in subsidiaries €000	Loans to subsidiaries €000	Total €000
<b>Year ended 31 March 2012</b>			
At beginning of year	(6,423)	(6,429)	(12,852)
Net movement in provisions for impairment	-	(4,173)	(4,173)
At end of year	<b>(6,423)</b>	<b>(10,602)</b>	<b>(17,025)</b>
	Shares in subsidiaries €000	Loans to subsidiaries €000	Total €000
<b>Year ended 31 March 2011</b>			
At beginning of year	(2,763)	(552)	(3,315)
Reclassified from Investments in subsidiaries	(1,417)	-	(1,417)
Increase in provisions for impairment	(2,243)	(5,877)	(8,120)
At end of year	<b>(6,423)</b>	<b>(6,429)</b>	<b>(12,852)</b>

At 31 March 2011, loans to subsidiaries amounting to €312,000 were unsecured, repayable on demand and subject to a weighted average effective interest rate of 3.95% per annum. All other loans to subsidiaries at 31 March 2011 were unsecured, repayable on demand and interest-free.

Loans to associates are unsecured and repayable on demand. At 31 March 2012, these loans are subject to a weighted average effective interest rate of 1.5% (2011: 1%) per annum.

**19. Share capital**

	<b>Group and Company</b>	
	<b>2012</b>	<b>2011</b>
	<b>€000</b>	<b>€000</b>
<b>Authorised</b>		
35,000,000 (2011: 35,000,000) ordinary shares of €2.329373 each	<b>81,528</b>	81,528
<b>Issued and fully paid</b>		
11,115,478 (2011: 11,115,478) ordinary shares of €2.329373 each	<b>25,892</b>	25,892

**20. Share premium**

	<b>Group and Company</b>	
	<b>2012</b>	<b>2011</b>
	<b>€000</b>	<b>€000</b>
At beginning and end of year	<b>42,762</b>	42,762

## 21. Revaluation reserve

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

	<b>Group and Company</b>	
	<b>2012</b>	<b>2011</b>
	<b>€000</b>	<b>€000</b>
At beginning of year	<b>13,868</b>	17,778
Adjustments to surplus arising on revaluation	-	(13,482)
Deferred income tax on adjustments to surplus (Note 25)	-	4,719
Reversal of deferred income tax arising on revaluation (Note 25)	-	4,853
At end of year	<b>13,868</b>	13,868

The reserve will be transferred to accumulated losses upon execution of contract of sale. The tax impact relating to this component of other comprehensive income is presented in the above table. The revaluation reserve is non-distributable.

## 22. Hedging reserve

### Group and Company

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

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

**22. Hedging reserve – continued**

	Currency forwards €000	Fuel options and swaps €000	Total €000
<b>At 1 April 2011</b>			
Gross amounts of (losses)/gains	(553)	366	(187)
<b>Movements in year ended 31 March 2012</b>			
Net gains from changes in fair value	1,760	4,033	5,793
Deferred income tax	(422)	(1,540)	(1,962)
	1,338	2,493	3,831
<b>Reclassified to profit or loss as a reclassification adjustment</b>	14	(859)	(845)
Deferred income tax	(5)	301	296
	9	(558)	(549)
<b>At 31 March 2012</b>			
Gross amounts of gains	1,221	3,540	4,761
Deferred income tax	(427)	(1,239)	(1,666)
	<b>794</b>	<b>2,301</b>	<b>3,095</b>

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

The net fair value gains as at 31 March 2012 on open forward foreign exchange contracts which hedge anticipated future foreign currency transactions will be reclassified from the hedging reserve to profit or loss as a reclassification adjustment when the forecast transactions occur, at various dates up to one year from the end of the reporting period.

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

**23. Other reserve**

**Group**

The other reserve arose on consolidation following the acquisition of non-controlling interests in subsidiaries.

	2012 €000	2011 €000
At beginning and end of year	(3,497)	(3,497)



## 24. Borrowings

	<b>Group and Company</b>	
	<b>2012</b>	<b>2011</b>
	<b>€000</b>	<b>€000</b>
<b>Current</b>		
Bank overdrafts	156	845
Bank loans	4,000	7,142
Borrowings from ultimate shareholder	52,000	41,000
	<b>56,156</b>	<b>48,987</b>
<b>Non-current</b>		
Bank loans	10,000	4,000
<b>Total borrowings</b>	<b>66,156</b>	<b>52,987</b>

The Government of Malta, under the terms of Act XVIII of 2010 entitled 'An Act to authorise and regulate the raising of loans for the purposes of entering into re-lending agreements with Air Malta p.l.c.', has consented, following the approval of the European Commission, to the request made by the company, under the European community Guidelines on State Aid for Rescuing and Restructuring Firms in Difficulty (2004/C 244/02), to be granted a loan of €52,000,000 to enable the company to meet its short-term liquidity requirements and enable it to continue its operations until the Restructuring Plan has been put into place. As at the reporting date, €52,000,000 worth of drawdown has been made.

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

During the current financial year, the Company obtained further banking facilities for the amount of €30,000,000 which facilities are to be repaid from the proceeds of sale of the properties that are the subject of the Promise of Sale Agreement with the Government of Malta within a period not exceeding three years. These facilities are secured by a general hypothec supported by a special hypothec on the Group and Company's immovable property.

Furthermore, as at 31 March 2012, banking facilities of the Group and Company for an amount of €13,976,000 are partly secured by a general hypothec supported by a special hypothec on immovable property held by a subsidiary. Bank loans taken out by subsidiaries are secured by charges over their assets and are also supported by guarantees from the holding Company (also refer to borrowings presented in Note 18).

## 24. Borrowings - continued

The Group's and Company's bank borrowings are subject to floating interest rates. The weighted average effective interest rates for borrowings at the end of the reporting period are as follows:

	<b>Group and Company</b>	
	<b>2012</b>	<b>2011</b>
	<b>%</b>	<b>%</b>
Bank overdrafts	3.12	4.72
Bank loans	4.65	5.95
Borrowings from ultimate shareholder	6.49	6.49

Maturity of non-current borrowings:

	<b>Group and Company</b>	
	<b>2012</b>	<b>2011</b>
	<b>€000</b>	<b>€000</b>
Between one and two years	-	4,000
Between two and three years	10,000	-
	<b>10,000</b>	<b>4,000</b>

## 25. Deferred taxation

Deferred income taxes are calculated on all temporary differences under the liability method and are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled based on tax rates (and tax laws) that have been enacted by the end of the reporting period. The principal tax rate used is 35% (2011: 35%).

### Group

The movement on the deferred tax account is as follows:

	<b>Deferred tax assets</b>			<b>Deferred tax liabilities</b>			
	Provisions & other related items €000	Unabsorbed tax losses carried forward €000	Unabsorbed capital losses carried forward €000	Remeasurement of derivative instruments €000	Fair valuation of investment property €000	Revaluation of property, plant and equipment €000	<b>Net €000</b>
<b>Balance at 1 April 2011</b>	186	-	-	-	-	-	186
Credited/(charged) to profit or loss	(62)	1,699	-	-	-	-	1,637
Credited/(debited) to other comprehensive income in equity	-	-	-	(1,699)	-	-	(1,699)
<b>Balance at 31 March 2012</b>	<b>124</b>	<b>1,699-</b>	<b>-</b>	<b>(1,699)</b>	<b>-</b>	<b>-</b>	<b>124</b>

## 25. Deferred taxation - continued

Included in the Group's deferred tax assets as at 31 March 2012 is a balance of €124,000 (2011: €62,000) relating to discontinued operations.

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

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

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

Deferred tax assets are recognised to the extent that realisation of the related tax benefit through future taxable profits is probable. At 31 March 2012 and 2011, the Group had the following unutilised tax credits and deductible temporary differences in respect of which deferred taxation has not been recognised:

	2012 €000	2011 €000
Unutilised tax credits arising from:		
Unabsorbed tax losses and capital allowances	210,314	145,948
Unabsorbed capital losses	46,597	45,597
Deductible temporary differences arising principally from non-current assets and provisions	65,101	53,061

Accordingly, the Group has a potential deferred tax asset amounting to €112,705,000 (2011: €85,962,000) which has not been recognised in these financial statements. Whereas tax losses and capital losses have no expiry date and may be carried forward indefinitely, unabsorbed capital allowances are forfeited upon cessation of the trade. Capital losses may be offset solely against future capital gains.

**25. Deferred taxation - continued**

**Company**

The movement on the deferred tax account is as follows:

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

	Deferred tax assets		Deferred tax liabilities			Net €000
	Unabsorbed tax losses carried forward €000	Unabsorbed capital losses carried forward €000	Remeasurement of derivative instruments €000	Fair valuation of investment property €000	Revaluation of property plant and equipment €000	
<b>Balance at 1 April 2011</b>	-	-	-	-	-	-
Credited/(charged) to profit or loss	1,699	-	-	-	-	1,699
Credited/(debited) to other comprehensive income in equity	-	-	(1,699)	-	-	(1,699)
<b>Balance at 31 March 2012</b>	1,699	-	(1,699)	-	-	-

**26. Provisions in respect of maintenance costs**

**Group and Company**

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

**26. Provisions in respect of maintenance costs - continued**

**Group and Company - continued**

The amount of the provisions at 31 March 2012 and 2011 represent the excess of amounts charged to profit or loss over the actual costs incurred.

	<b>2012</b>	<b>2011</b>
	<b>€000</b>	<b>€000</b>
<b>Year ended 31 March</b>		
At beginning of year	<b>36,292</b>	28,576
Charged to profit or loss:		
- Additional provisions, including effects of unwinding non-current provisions	<b>12,825</b>	13,437
Used during year	<b>(8,421)</b>	(5,721)
At end of year	<b>40,696</b>	36,292
 Analysis of total provisions:		
	<b>2012</b>	<b>2011</b>
	<b>€000</b>	<b>€000</b>
<b>At 31 March</b>		
Non-current	<b>37,190</b>	32,885
Current	<b>3,506</b>	3,407
	<b>40,696</b>	36,292

Through its aircraft lease agreements, the Company entered into an arrangement with the lessors to pay in advance maintenance reserves so as to meet maintenance and re-delivery lease conditions. As at 31 March 2012, these reserves which are reflected with the provisions disclosed above, amounted to €44,476,000 (2011: €39,265,000). Furthermore, the Company has agreed to provide to the lessor irrevocable letters of credit as security to cover costs related to maintenance of engines. At 31 March 2012, the amounts in this respect amounted to €45,423,000 (2011: €35,477,000) (Note 38).

**27. Other provisions**

**Group and Company**

€000

At 1 April 2010, 31 March 2011 and  
31 March 2012

**418**

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

**28. Information on operating results**

**28.1 Revenue and Other operating income from continuing operations**

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

	<b>Group</b>	
	<b>2012</b>	2011
	<b>€000</b>	€000
Revenue on airline activities	<b>200,538</b>	190,123
Aircraft leasing revenue	<b>3,616</b>	1,896
Ground related and other revenue	<b>9,922</b>	9,567
	<b>214,076</b>	201,586

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Other operating income recognised in the preceding financial year principally comprised gains on disposal of engines realised through sale and leaseback arrangements.

## 28. Information on operating results

### 28.2 Expenses by nature

	Group		Company	
	2012	2011	2012	2011
	€000	€000	€000	€000
Aircraft fuel and oils	66,399	52,468	66,399	52,468
Aircraft operating lease rentals	30,206	30,137	30,206	30,137
Aircraft maintenance	22,622	21,344	22,622	21,344
Other flight related costs	49,832	48,048	50,159	53,958
Restructuring costs (Note 28.3.1)	4,239	31,700	4,239	31,700
Marketing, distribution and representation costs	9,802	11,071	9,802	11,071
Depreciation of property, plant and equipment (Note 5)	1,195	2,719	1,195	2,709
Employee benefit expense (Note 29)	42,759	46,715	42,759	46,715
Net movement in provisions for impairment of trade receivables (included in 'Administrative expenses')	732	680	732	680
Exchange differences	437	788	437	788
Other expenses	18,728	22,006	19,710	23,310
<b>Total cost of sales, selling and distribution costs and administrative expenses</b>	<b>246,951</b>	<b>267,676</b>	<b>248,260</b>	<b>274,880</b>

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

### 28.3 Restructuring costs

#### 28.3.1 Restructuring costs recognised in profit or loss

	Cost of sales €'000	Selling and distribution costs €'000	Administrative expenses €'000	Total €'000
<b>At 31 March 2012</b>				
Costs related to:				
Professional and related fees	-	-	4,239	4,239
	-	-	4,239	4,239
<b>At 31 March 2011</b>				
Costs related to:				
Voluntary redundancy and early retirement schemes	19,125	4,719	4,356	28,200
Professional and related fees	-	-	3,500	3,500
	19,125	4,719	7,856	31,700

The amounts recognised as expenditure during the current financial year comprise additional professional fees, service charges and other related fees incurred in the implementation of the Restructuring Plan.

**28. Information on operating results – continued**

**28.3 Restructuring costs - continued**

*28.3.2 Provision in respect of restructuring costs*

As at 31 March 2011, the Company had reflected as a provision in its statement of financial position the estimated impact of restructuring costs attributable to voluntary and early retirement schemes established as part of the Restructuring Plan. The estimated impact of €28.2 million had been reflected as a current provision.

	2012 €000	2011 €000
At beginning of year	28,200	-
Charged to profit or loss	-	28,200
Reclassification of amounts previously presented within other liabilities	4,914	-
Utilised during the year	(6,300)	-
At end of year	<u>26,814</u>	<u>28,200</u>

The adjusted provision covers:

- obligations under voluntary and early retirement schemes as a result of the restructuring process;
- one-time payment obligations emanating from restructuring agreements; and
- obligations to effect payments to a limited number of former staff members actually entitled to benefits under previous early retirement schemes.

These obligations are intrinsically linked to the implementation of the Company's Restructuring Plan and accordingly are considered as restructuring costs. The obligations emanating from voluntary and early retirement schemes are treated as termination benefits for accounting purposes.

After the end of the reporting period, 467 staff members have been granted entitlement to the voluntary and early retirement schemes established as part of the Restructuring Plan.

Until 31 March 2012, the Company has effected payments amounting to €6.3 million, to a company which is controlled by the Government of Malta, in relation to the administration of the voluntary and early retirement schemes referred to previously.

During the current financial year, the Company has continued to implement a number of projects earmarked as part of the restructuring process. Estimated future costs related to these projects amount to approximately to €7.6 million, but such expenses have not been reflected in the provision for restructuring costs as at 31 March 2012 in view of the timing of the decisions relating to such projects. These expenses are expected to be incurred during the financial years ending 31 March 2013 and 2014.



**28. Information on operating results – continued**

**28.4 Auditors' fees**

Fees charged by auditors for services rendered during the financial periods ended 31 March 2012 and 2011 relate to the following:

	<b>Group</b>	
	<b>2012</b>	<b>2011</b>
	<b>€000</b>	<b>€000</b>
Audit services – annual statutory		
- Parent Company auditors:		
- Company	<b>155</b>	<b>166</b>
- subsidiaries	<b>90</b>	<b>90</b>
Other services		
- Parent Company auditors: Company	<b>8</b>	<b>7</b>
- tax advisory and compliance services	<b>29</b>	<b>19</b>
- other non-audit services		

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.

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

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

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

**29. Employee benefit expense**

	<b>Group</b>		<b>Company</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
	<b>€000</b>	<b>€000</b>	<b>€000</b>	<b>€000</b>
Wages and salaries	<b>41,728</b>	46,889	<b>40,463</b>	44,324
Social security costs	<b>2,381</b>	2,679	<b>2,296</b>	2,391
	<b>44,109</b>	49,568	<b>42,759</b>	46,715

Costs in relation to voluntary and early retirement schemes are reflected in Note 28.3 to the financial statements.

Employee benefit expense included in the Group's figures above relating to discontinued operations amount to €1,350,000 (2011: €2,853,000).

During the current financial year, the Group incurred staff termination costs (not reflected in the table above) amounting to €179,000 as a result of the cessation of operations of a subsidiary.

**29. Employee benefit expense - continued**

Average number of persons employed during the year:

	<b>Group</b>		<b>Company</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
<b>By category</b>				
Cost of sales	<b>986</b>	1,084	<b>943</b>	996
Administrative	<b>159</b>	187	<b>145</b>	161
Selling and distribution	<b>146</b>	148	<b>146</b>	148
	<b>1,291</b>	1,419	<b>1,234</b>	1,305

Group figures in respect of employee numbers, disclosed in the table above, include 57 (2011: 114) employees attributable to discontinued operations.

**30. Investment and other related income**

	<b>Group</b>		<b>Company</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
	<b>€000</b>	<b>€000</b>	<b>€000</b>	<b>€000</b>
Gross dividends receivable from investments in subsidiaries	-	-	<b>3,896</b>	-
Gross dividends receivable from investments in associates	-	-	-	225
Other movements attributable to other financial assets	<b>(172)</b>	26	<b>(204)</b>	33
Provision for impairment of available-for-sale investment	<b>(162)</b>	(581)	-	(581)
	<b>(334)</b>	(555)	<b>3,692</b>	(323)

**31. Results of subsidiaries and associates**

	<b>Group</b>		<b>Company</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
	<b>€000</b>	<b>€000</b>	<b>€000</b>	<b>€000</b>
Share of results of associates and related amounts	-	655	-	-

**32. Finance income**

	<b>Group</b>		<b>Company</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
	<b>€000</b>	<b>€000</b>	<b>€000</b>	<b>€000</b>
Interest receivable and similar income from subsidiaries	-	-	11	11
Interest receivable and similar income from associates	3	3	3	2
Interest receivable from bank deposits	325	176	170	22
Exchange differences on bank deposits	(297)	(14)	(297)	(17)
	<b>31</b>	<b>165</b>	<b>(113)</b>	<b>18</b>

Company figures disclosed above in respect of interest receivable and similar income from subsidiaries include amounts of €11,000 (2011: €11,000) relating to discontinued operations. Interest income earned by the Group attributable to discontinued operations is disclosed in Note 18 to the financial statements.

**33. Finance costs**

	<b>Group</b>		<b>Company</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
	<b>€000</b>	<b>€000</b>	<b>€000</b>	<b>€000</b>
Interest payable on bank loans and overdrafts	514	952	514	952
Interest payable to subsidiaries	-	-	19	10
Interest payable to shareholder (Note 24)	3,316	476	3,316	476
Bank charges and similar expenses, including exchange differences on borrowings	741	254	741	254
	<b>4,571</b>	<b>1,682</b>	<b>4,590</b>	<b>1,692</b>

Company figures disclosed above in respect of interest payable to subsidiaries do not include amounts relating to discontinued operations. Interest costs incurred by the Group, mainly arising from bank financing, attributable to these discontinued operations is disclosed in Note 18 to the financial statements.

**34. Taxation**

	<b>Group</b>		<b>Company</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
	<b>€000</b>	<b>€000</b>	<b>€000</b>	<b>€000</b>
Current taxation:				
Current tax expense	<b>(347)</b>	<b>340</b>	<b>-</b>	<b>-</b>
Deferred taxation:				
Deferred tax charge	<b>(1,637)</b>	<b>10,602</b>	<b>(1,699)</b>	<b>10,583</b>
	<b>(1,984)</b>	<b>10,942</b>	<b>(1,699)</b>	<b>10,583</b>
Attributable to:				
Continuing operations (reflected on face of income statement)				
- current taxation	<b>(347)</b>	<b>410</b>	<b>-</b>	<b>-</b>
- deferred taxation (Note 25)	<b>(1,699)</b>	<b>10,583</b>	<b>(1,699)</b>	<b>10,583</b>
	<b>(2,046)</b>	<b>10,993</b>	<b>(1,699)</b>	<b>10,583</b>
Discontinued operations				
- current taxation	<b>-</b>	<b>(70)</b>	<b>-</b>	<b>-</b>
- deferred taxation (Note 25)	<b>62</b>	<b>19</b>	<b>-</b>	<b>-</b>
	<b>62</b>	<b>(51)</b>	<b>-</b>	<b>-</b>
	<b>(1,984)</b>	<b>10,942</b>	<b>(1,699)</b>	<b>10,583</b>

### 34. Taxation - continued

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

	<b>Group</b>		<b>Company</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
	<b>€000</b>	<b>€000</b>	<b>€000</b>	<b>€000</b>
Loss before tax from continuing operations	(37,630)	(65,897)	(35,051)	(67,762)
Loss before tax from discontinued operations (Note 18)	(2,817)	(1,455)	(5,000)	(10,509)
Loss before tax for the year	<b>(40,447)</b>	<b>(67,352)</b>	<b>(40,051)</b>	<b>(78,271)</b>
Tax on loss before tax at the statutory rate of 35%	<b>(14,156)</b>	<b>(23,573)</b>	<b>(14,018)</b>	<b>(27,395)</b>
Tax effect of:				
Income not subject to tax	(581)	-	-	-
Deferred tax asset in respect of unutilised tax losses arising in prior years recognised in current year	(1,699)	-	(1,699)	-
Deferred tax asset in respect of unutilised tax losses and unabsorbed capital allowances arising during the current year not recognised	13,124	13,080	12,024	12,637
Adjustment to deferred tax asset in respect of unutilised tax losses recognised in prior financial periods	-	10,583	-	10,583
Unrecognised temporary differences and other movements, mainly attributable to tangible non-current assets and provisions	2,546	10,932	2,088	14,917
Income effectively taxed at reduced rates	(1,218)	(80)	(94)	(159)
<b>Tax charge in the accounts</b>	<b>(1,984)</b>	<b>10,942</b>	<b>(1,699)</b>	<b>10,583</b>

### 35. Directors' emoluments

	<b>Group and Company</b>	
	<b>2012</b>	<b>2011</b>
	<b>€000</b>	<b>€000</b>
<b>Emoluments of directors of Air Malta p.l.c.:</b>		
Total fees and other emoluments charged in these financial statements	<b>45</b>	<b>66</b>

Insurance premium of €168,000 (2011: €159,000) has been paid during the year in respect of professional indemnity cover relating to the liability of the directors of Air Malta p.l.c. and other officers.

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

### 36. Cash used in operations

Reconciliation of operating loss to cash used in operations:

	<b>Group</b>		<b>Company</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
	<b>€000</b>	<b>€000</b>	<b>€000</b>	<b>€000</b>
Operating loss from continuing operations	<b>(32,756)</b>	(64,480)	<b>(34,040)</b>	(65,765)
Operating loss from discontinued operations (Note 18)	<b>(2,787)</b>	(1,479)	<b>(6,295)</b>	(10,509)
<b>Operating loss for the year</b>	<b>(35,543)</b>	(65,959)	<b>(40,335)</b>	(76,274)
Adjustments for:				
Depreciation of property, plant and equipment (Note 5)	<b>1,219</b>	2,811	<b>1,195</b>	2,709
Gains on disposal of assets classified as held for sale	-	-	-	(221)
Impairment of property and related charges	<b>1,336</b>	-	-	-
Gains on disposal of tangible non-current assets	-	(4,257)	-	(4,296)
Net movement in provisions for impairment of trade receivables	<b>746</b>	930	<b>733</b>	680
Losses from changes in fair value of investment property	-	4,426	-	4,426
Movement in provisions in respect of maintenance costs	<b>12,825</b>	13,437	<b>12,825</b>	13,437
Movement in provision for restructuring costs	-	28,200	-	28,200
Effects of exchange rate movements	<b>167</b>	(96)	-	-
Other movements related to investment property	<b>(56)</b>	346	<b>(45)</b>	355
Movement in provisions for impairment relating to investments in subsidiaries	-	-	<b>4,173</b>	8,120
Loans granted to subsidiaries written off	-	-	<b>312</b>	-
Movement in provisions for impairment of amounts receivable from subsidiary	-	-	<b>(894)</b>	2,610
Amounts receivable from subsidiary written off	-	-	<b>2,704</b>	-
Changes in working capital:				
Inventories	<b>311</b>	196	<b>311</b>	121
Trade and other receivables	<b>(1,393)</b>	3,068	<b>(5,716)</b>	4,162
Trade and other payables	<b>(1,170)</b>	4,180	<b>886</b>	3,548
Provisions in respect of maintenance costs used during the year	<b>(8,421)</b>	(5,721)	<b>(8,421)</b>	(5,721)
Provision in respect of restructuring costs used during the year	<b>(6,300)</b>	-	<b>(6,300)</b>	-
<b>Cash used in operations</b>	<b>(36,279)</b>	(18,439)	<b>(38,572)</b>	(18,144)

### 37. Commitments

#### *Capital and other commitments*

	<b>Group and Company</b>	
	<b>2012</b>	<b>2011</b>
	<b>€000</b>	<b>€000</b>
Capital expenditure in respect of property, plant and equipment:		
- Authorised and contracted for	<b>553</b>	<b>8</b>
- Authorised and not yet contracted for	<b>2,847</b>	<b>-</b>
Other commitments	<b>15,119</b>	<b>36,291</b>
	<b>18,519</b>	<b>36,299</b>

Other commitments arise from agreements with related and other parties entered into by the Group principally in respect of the temporary emphyteusis on the property, outsourcing of the IT and other related functions, together with the provision of commercial business improvement consultancy services. The commitments as at 31 March 2011 reflected in the table above that are attributable to the temporary emphyteusis, which property is covered by the irrevocable Promise of Sale Agreement entered into during the current year referred to in Note 5, amount to €19,927,000 (primarily included within "Later than five years" in table below).

The future expected payments under these contractual arrangements are as follows:

	<b>Group and Company</b>	
	<b>2012</b>	<b>2011</b>
	<b>€000</b>	<b>€000</b>
Not later than one year	<b>5,858</b>	<b>5,545</b>
Later than one year and not later than five years	<b>8,251</b>	<b>9,557</b>
Later than five years	<b>1,010</b>	<b>21,189</b>
	<b>15,119</b>	<b>36,291</b>

#### *Operating lease commitments – where a Group undertaking is the lessee*

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

	<b>Group and Company</b>	
	<b>2012</b>	<b>2011</b>
	<b>€000</b>	<b>€000</b>
Not later than one year	<b>29,305</b>	<b>28,329</b>
Later than one year and not later than five years	<b>106,312</b>	<b>114,588</b>
Later than five years	<b>17,637</b>	<b>34,549</b>
	<b>153,254</b>	<b>177,466</b>

**37. Commitments - continued**

*Operating lease commitments – where a Group undertaking is the lessor*

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

	<b>Group and Company</b>	
	<b>2012</b>	<b>2011</b>
	<b>€000</b>	<b>€000</b>
Not later than one year	<b>2,179</b>	2,043
Later than one year and not later than five years	<b>2,197</b>	4,136
	<b>4,376</b>	6,179

**38. Contingencies**

The Group's contingent liabilities as at 31 March include:

	<b>2012</b>	<b>2011</b>
	<b>€000</b>	<b>€000</b>
Bank guarantees, documentary credits and other indemnities (refer to Note 17 and 26)	<b>49,654</b>	36,617

As at the end of the reporting period, the Company has contingent liabilities amounting to €1,795,000 (2011: €1,795,000) in respect of guarantees given to secure the banking facilities of subsidiaries.

**39. Related party transactions**

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

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

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



### 39. Related party transactions - continued

Except for transactions disclosed or referred to previously, principally borrowings from the principal shareholder (Note 24), the following significant operating transactions, which were carried out with the respective categories of related parties, have a material effect on the operating results and financial position of the Group.

	<b>Group</b>		<b>Company</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
	<b>€000</b>	<b>€000</b>	<b>€000</b>	<b>€000</b>
Government and other entities controlled by Government:				
- Sales of services	<b>2,972</b>	2,401	<b>2,882</b>	2,312
- Purchases of materials and services	<b>40,739</b>	41,097	<b>38,401</b>	40,833
	<b>43,711</b>	43,498	<b>41,283</b>	43,145
Subsidiaries				
- Sales of services	-	-	<b>5,895</b>	5,910
- Purchases of services	-	-	<b>1,599</b>	4,371
	-	-	<b>7,494</b>	10,281
Associates				
- Sales of services	<b>1,040</b>	1,320	<b>1,040</b>	1,320
- Purchases of services	<b>2,741</b>	3,190	<b>2,610</b>	2,990
	<b>3,781</b>	4,510	<b>3,650</b>	4,310
Key management personnel				
- Sales of services	<b>14</b>	9	<b>14</b>	9

On 7 December 2011, the Company entered into an irrevocable Promise of Sale Agreement with the Government in relation to the disposal of the Company's main property for the amount of €66.2 million (refer to Notes 5 and 6).

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

Expenditure amounting to €895,000 (2011: €848,000) has been recharged by the parent Company to associates and other related parties.

Remuneration and other benefits payable to key management personnel, which comprise the Company's directors, are disclosed in Note 35 to these financial statements.

Interest receivable from related parties and interest payable to related parties are disclosed in Notes 32 and 33 respectively.

#### 40. Statutory information

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

#### 41. The Air Malta Group

Subsidiaries and associates within the Group as at 31 March 2012 and 2011 were the following:

##### 41.1 Subsidiaries

	Group % holding		Company % holding		Country of incorporation
	2012	2011	2012	2011	
Air Malta p.l.c. Air Malta Buildings, Head Office, Luqa	N/A	N/A	N/A	N/A	Malta
Holiday Malta Company Limited Air Malta House, 314/316 Upper Richmond Road, Putney, London	100	100	100	100	United Kingdom
Malta Air Charter Company Limited Air Malta Buildings, Vjal I-Avjazzjoni, Luqa (struck off on 19 August 2010)	-	-	-	-	Malta
Holiday Malta Transport Company Limited Air Malta House, 314/316 Upper Richmond Road, Putney, London (held by Holiday Malta Company Limited)	100	100	-	-	United Kingdom
The Holiday Travel Club Company Limited Air Malta House, 314/316 Upper Richmond Road, Putney, London (held by Holiday Malta Company Limited)	100	100	-	-	United Kingdom
Holiday Malta (Russia) Limited Air Malta Buildings, Vjal I-Avjazzjoni, Luqa (held by Holiday Malta Company Limited)	100	100	-	-	Malta
Holiday Malta (Italia) S.r.l. Via Giacomo Leopardi 7, 95127 Catania, Sicily (held by Holiday Malta Company Limited) (in liquidation)	100	100	-	-	Italy

#### 41. The Air Malta Group - continued

##### 41.1 Subsidiaries - continued

Subsidiaries and associates within the Group as at 31 March 2012 and 2011 were the following:

	Group % holding		Company % holding		Country of incorporation
	2012	2011	2012	2011	
Holiday Malta (Hellas) Tourism EPE 91, Alexandras Ave, 11474 Athens (held by Holiday Malta Company Limited)	100	100	-	-	Greece
The Holiday Travel Club Transport Company Limited Air Malta House, 314/316 Upper Richmond Road, Putney, London (held by The Holiday Travel Club Company Limited)	100	100	-	-	United Kingdom
Travel 2000 S.r.l. Via Giacomo Leopardi 7, 95127 Catania, Sicily (held by Holiday Malta (Italia) S.r.l.) (in liquidation)	100	100	-	-	Italy
Selmun Palace Hotel Company Limited Air Malta Buildings, Vjal I-Avjazzjoni, Luqa	100	100	100	100	Malta
Airport Services Company Limited Air Malta Buildings, Vjal I-Avjazzjoni, Luqa (in liquidation)	100	100	100	100	Malta
Osprey Insurance Brokers Company Ltd Air Malta Buildings, Vjal I-Avjazzjoni, Luqa	100	100	100	100	Malta
Shield Insurance Company Limited Air Malta Buildings, Vjal I-Avjazzjoni, Luqa	100	100	100	100	Malta

**41. The Air Malta Group - continued**

**41.2 Associates**

	<b>Group % holding</b>		<b>Company % holding</b>		<b>Country of incorporation</b>
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>	
AZZURRAair S.p.A. Viale Papa Giovanni XXIII, 48 24121 Bergamo (in liquidation)	<b>49</b>	<b>49</b>	<b>49</b>	<b>49</b>	Italy
Cottonera Properties Co. Ltd. c/o Malta Investment Management Co. Ltd. Trade Centre, San Gwann Industrial Estate, San Gwann (in liquidation)	<b>49</b>	<b>49</b>	<b>49</b>	<b>49</b>	Malta
World Aviation Group Limited Floor 1, Aviation Centre, Luqa	<b>50</b>	<b>50</b>	<b>50</b>	<b>50</b>	Malta