AIR MALTA plc

Annual Report and Consolidated Financial Statements 31 March 2005

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Directors' report

The directors present their report and the audited financial statements of Air Malta plc for the period ended 31 March 2005.

Principal activities

The principal activity of the Air Malta group, as exercised by the holding company, is the undertaking of airline operations. Ancillary activities of the group include among other things ground handling operations, airport retailing, insurance, tourism related activity, the provision of tourist accommodation, and other investments. There are also a number of subsidiary and associated undertakings.

Change in accounting reference date

By virtue of a directors' resolution dated 24 June 2004, the directors of the company agreed to change the accounting reference date from 31 July to 31 March. The accounting period under review, which commenced on 1 August 2004, ended on 31 March 2005. Accordingly these financial statements report on the figures for the eight month period from 1 August 2004 to 31 March 2005, whilst comparative financial information covers the year from 1 August 2003 to 31 July 2004.

Review of the business and results

The profit and loss accounts of the group and company are set out on page 7.

During the financial period ended 31 March 2005, Air Malta's group turnover amounted to Lm77,651,000 (Lm123,769,000 in the year ended 31 July 2004). A loss before tax for the eight month period of Lm2,302,000 was recorded by the group, compared to a loss of Lm13,070,000 reported for the twelve month period to 31 July 2004.

The airline's turnover in the financial period amounted to Lm63,397,000, compared to Lm93,118,000 in the year ended 31 July 2004. The volume of passengers carried by the airline amounted to approximately 1.2 million (1.7 million for the year ended 31 July 2004).

The change in accounting period effected during the year detracts from comparability, and for this reason further information is included in this year's financial statements to disclose separately the financial results for the eight month period ended 31 March 2004 (see note 4 to the financial statements). This analysis discloses that the airline made an operating loss of Lm4,819,000 in the current financial year, compared to a higher loss of Lm7,784,000 in the comparable period the previous year.

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Directors' report – continued

Review of the business and results - continued

This improvement is perhaps the most significant message conveyed in this year's annual report. It is made more remarkable by the fact that during the period, higher fuel prices negatively impacted the airline's results by circa Lm3 million when compared to the eight month period ended 31 March 2004, of which only Lm1 million was recovered by fuel surcharges charged to passengers. Excluding this factor, there has therefore been an underlying improvement of circa Lm5 million in the airline's operating profitability.

Revenue growth has helped drive this improvement. A number of important new initiatives launched by the company have proved popular with passengers, for instance, the new structure of more flexible fares and the launch of the company's first intra EU service between Catania and Gatwick. France and Belgium proved to be particularly strong markets especially in the winter, as were a number of Eastern European markets, which registered strong increases. Substantial growth was also registered in charter business, in part due to a United Kingdom based operation of charter services to a number of holiday destinations. As a result, the number of passengers flown increased by 15% over the comparable eight month period in 2003/04.

The drive for revenue growth was accompanied by continued work to reduce the airline's operating costs. Cost efficiencies were recorded in various direct operating costs, including insurance expenses which decreased by Lm500,000 over the comparable eight month period in 2003/04; maintenance costs which decreased by approximately Lm1,900,000, reflecting the continued deployment of the company's new fleet; and a decrease in overtime costs of Lm446,000.

These cost reductions, and others, reflect the collective effort being made within the airline to correct the profitability imbalances recorded in recent years. The Board is confident that the momentum recorded in the period can be maintained. The memorandum of understanding concluded in 2004 created scope for changes in work practices and for payroll reduction measures with all the trade unions representing the company's employees. These agreements were concluded just before the peak summer months, and are expected to have a more marked impact on the current year's results as experience is gained, both by management and by employees, in their optimised operation.

Work also continued during the year to restructure the company's management. The chief officer appointment process was finalised, in some areas recruiting externally, and work was well underway to conclude all appointments at other levels. Changes and realignments have been implemented within management, aimed at ensuring high levels of internal communication and co-ordination; an environment encouraging initiative and change; effective delegation and the proper assumption of due responsibility at all levels; and accountability.

At a group level, results were adversely affected by changed circumstances faced by Air Supplies and Catering Company Limited following the cessation of duty free sales to EU destinations. Profitability at this company declined by Lm1,700,000. A process has commenced for the disposal of this business, and of Sterling Travel and Tourism Limited.

Directors' report – continued

Review of the business and results - continued

During the period, the group also incurred operating losses of Lm705,000 on hotel operations. These losses are expected to cease in the near future as the group's hotel subsidiaries are disposed of. The companies in question own valuable real estate and their disposal is expected to yield material cash inflows to the group.

The aircraft replacement program has continued during the course of the financial year, with an additional four aircraft delivered prior to the balance sheet date, while three aircraft from the old fleet were redelivered. The new aircraft offer a better product, cheaper operating and maintenance costs and the benefit of cost efficiencies arising from operating a common range of aircraft. The impact of these benefits has already been noted in this financial year and will continue to feature in the company's results in coming years.

During the period, the company has been successful in remarketing the Avro RJ aircraft. At the time of approving the issue of these financial statements, only one RJ70 had still to be successfully remarketed and negotiations for the leasing of this aircraft are at an advanced stage. The outcome on this remarketing program has been largely in line with the group's expectations, resulting in a minor release in provisions set up in earlier years of Lm365,000. This release has been countered by further impairment losses of Lm602,000 recorded on RJ spare engines on the basis of the expected resale value upon termination of the leases of the RJ fleet.

The company continues to monitor closely the developments in Italy with regards to the winding up of AZZURRAair, which was placed into insolvent liquidation following a court decree on 22 July 2004. Air Malta plc has been extending its full assistance to the liquidator in the course of his investigation into the factors leading to the company's failure.

This report has addressed the operation improvement being registered within the airline. The importance of sustaining the processes already commenced cannot be overemphasised. Although much improved, the airline's results are still in the red. Fuel prices have continued to rise, and fare surcharges continue to lag behind amid mounting concern at their potential negative impact on Malta's tourism industry. The recent strengthening of the USD against Euro will also have a negative impact on Air Malta's profitability.

These circumstances demand the continued support of all stakeholders in Air Malta plc, who have already demonstrated their understanding of the needs of the company. The Board remains confident that their support will continue to be forthcoming; and that Air Malta will in the immediate years ahead revert to profitability.

Directors' report – continued

Dividends

The directors do not recommend the payment of a dividend.

Directors

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

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

Auditors

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

On behalf of the board

Lawrence Zammit Chairman Paul Bonello Director

Registered office Head Office Luqa Malta

14 July 2005

Statement of directors' responsibilities

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

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

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

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

Report of the auditors

To the Members of Air Malta plc

We have audited the financial statements on pages 7 to 66. As described in the statement of directors' responsibilities on page 5, these financial statements are the responsibility of the company's directors. Our responsibility is to form an independent opinion, based on our audit, on these financial statements and to report our opinion to you.

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

In our opinion the financial statements give a true and fair view of the state of affairs of the company and group as at 31 March 2005 and of the results, the changes in equity and the cash flows for the period then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the Maltese Companies Act, 1995.



167 Merchants Street Valletta Malta

14 July 2005

Profit and loss accounts

		Gro	oup	Comp	oany
		Period from	_	Period from	•
		1 August		1 August	
		2004 to	Year ended	2004 to	Year ended
		31 March	31 July	31 March	31 July
	Notes	2005	2004	2005	2004
		Lm000	Lm000	Lm000	Lm000
Turnover	1	77,651	123,769	63,397	93,118
Cost of sales		(71,371)	(112,917)	(60,070)	(89,282)
Gross profit		6,280	10,852	3,327	3,836
Selling and distribution costs		(5,221)	(8,036)	(5,023)	(7,603)
Administrative expenses		(6,141)	(9,561)	(3,123)	(4,903)
Other operating items		256	912	-	-
Operating loss	3	(4,826)	(5,833)	(4,819)	(8,670)
Airline activities		(4,689)	(7,948)	(4,977)	(8,670)
Aircraft leasing		158	(.,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,,	158	-
Group companies		(295)	2,115	-	-
Operating loss	3	(4,826)	(5,833)	(4,819)	(8,670)
Investment income	6	3,393	131	3,991	2,544
Results of group and associated	O	3,373	131	3,771	2,511
undertakings	7	(147)	(2,162)	(1,014)	(3,167)
Interest receivable	8	468	858	602	1,168
Interest payable	9	(863)	(1,213)	(837)	(1,149)
Net losses on aircraft and		(003)	(1,213)	(037)	(1,14))
engine transactions	10	(327)	(4,851)	(327)	(4,851)
Loss on ordinary activities					
before tax		(2,302)	(13,070)	(2,404)	(14,125)
Tax on loss on ordinary activities	11	586	(2,033)	246	(501)
Loss on ordinary activities after tax Minority interest		(1,716) (65)	(15,103) (126)	(2,158)	(14,626)
Loss for the financial period/year		(1,781)	(15,229)	(2,158)	(14,626)
Earnings per share	13	(Lm0.16)	(Lm2.24)	(Lm0.19)	(Lm2.15)

Balance sheets

		Group		Company		
	NT .	31 March	31 July	31 March	31 July	
	Notes	2005 Lm000	2004 Lm000	2005 Lm000	2004 Lm000	
ASSETS		2111000	Linovo	Ziiiooo	Zimooo	
Fixed assets						
Intangible assets	14	194	254	-		
Tangible assets						
Property, plant and equipment	15	38,402	39,904	27,869	29,521	
Investment property	16	1,789	1,809	4,110	4,130	
	-	40,191	41,713	31,979	33,651	
Financial assets						
Investments in group undertakings Investments in associated undertakings	17 18	2,012	1,833	11,090 729	9,936 813	
Other financial investments	10	2,012	1,033	129	013	
- available-for-sale	19	49	3,256	49	3,256	
- originated loans and receivables	20	152	152	152	152	
		2,213	5,241	12,020	14,157	
Other non-current assets						
Deferred taxation	29	2,255	2,198	2,178	2,178	
Other debtors	25	2,701	3,671	2,701	3,671	
	-	4,956	5,869	4,879	5,849	
Current assets						
Debtors						
Trade debtors	24	15,000	19,822	13,460	16,993	
Amounts owed by group undertakings Amounts owed by associated undertakings		250	397	1,461	1,633 123	
Derivative financial instruments	26	2,647	2,111	2,647	2,111	
Financial investments – originated loans	0.1		2.402		2.492	
and receivables Current taxation	21	1,251	2,482 835	1,233	2,482 1,024	
Other debtors		2,594	4,427	1,749	4,058	
Prepayments		2,619	4,168	2,010	3,446	
	-	24,361	34,242	22,560	31,870	
Other current assets	-					
Stocks	23	1,732	2,128	1,132	1,414	
Cash at bank and in hand		23,945	29,723	17,951	21,603	
	-	25,677	31,851	19,083	23,017	
Total assets	-	97,592	119,170	90,521	108,544	
	•		•			

Balance sheets - continued

		Group		Company	
		31 March	31 July	31 March	31 July
	Notes	2005	2004	2005	2004
EQUITY AND LIABILITIES		Lm000	Lm000	Lm000	Lm000
Capital and reserves					
Called up issued share capital	32	11,115	11,115	11,115	11,115
Share premium	33	18,358	18,358	18,358	18,358
Revaluation reserve Hedging reserve	34 35	1,203	2,419 942	1,203	2,419 942
Capital reserve	35 36	1,203	942 466	1,203	942
Profit and loss account	30	(7,648)	(5,690)	(7,489)	(5,331)
		23,028	27,610	23,187	27,503
Minority interests		223	130	-	-
Provisions for liabilities and charges					
Provisions in respect of maintenance costs	30	3,259	4,680	3,259	4,680
Other provisions	31	8,161	11,663	8,161	11,663
		11,420	16,343	11,420	16,343
Creditors: amounts falling due after					
more than one year	27	12.055	12.565	12 201	10.254
Borrowings Other liabilities	27 28	13,057 1,039	13,565 478	12,201	12,354
		14,096	14,043	12,201	12,354
Creditors: amounts falling due within one					
year		4.0.40	2.155		1 100
Borrowings Trade creditors	27	4,049 10.465	3,177	2,373 15,773	1,428 16,841
Amounts owed to group undertakings		19,465	23,103	2,876	3,527
Amounts owed to associated undertakings		458	547	422	528
Sales in advance		14,421	19,593	12,824	17,231
Derivative financial instruments	26	774	387	774	387
Indirect taxes and social security		671	922	567	663
Other creditors		975	3,140	646	2,720
Accruals and deferred income		8,012	10,175	7,458	9,019
		48,825	61,044	43,713	52,344
Total creditors		62,921	75,087	55,914	64,698
Total equity and liabilities		97,592	119,170	90,521	108,544

The financial statements on pages 7 to 66 were authorised for issue by the board on 14 July 2005 and were signed on its behalf by:

Lawrence Zammit Chairman

Paul Bonello Director

Statements of changes in equity

Group	Notes	Share capital Lm000	Share premium Lm000	Revaluation reserve Lm000	Hedging reserve Lm000	Capital reserve Lm000	Profit and loss account Lm000	Total Lm000
Balance at 1 August 2003		5,000	11	2,434	2,101	466	9,591	19,603
Fair value losses on available-for- sale investments, net of deferred tax	34	-	-	(15)	-	-	-	(15)
Cash flow hedges, net of deferred tax	35	-	-	-	(1,159)	-	-	(1,159)
Currency translation differences		-	-	-	-	-	(52)	(52)
Net losses not recognised in profit and loss account	•	-	-	(15)	(1,159)	-	(52)	(1,226)
Issue of share capital	32, 33	6,115	18,347	-	-	-	-	24,462
Loss for the financial year		-	-	-	-	-	(15,229)	(15,229)
Balance at 31 July 2004	•	11,115	18,358	2,419	942	466	(5,690)	27,610
Balance at 1 August 2004								
Datance at 1 August 2004		11,115	18,358	2,419	942	466	(5,690)	27,610
Fair value gains on available-for- sale investments, net of deferred tax	34	11,115	18,358	2,419 1,031	942	466	(5,690)	27,610 1,031
Fair value gains on available-for-	34	11,115	18,358		942	466 - -	(5,690) - (177)	·
Fair value gains on available-for- sale investments, net of deferred tax	34		-	1,031	-	-	-	1,031
Fair value gains on available-for- sale investments, net of deferred tax Currency translation differences Net gains/(losses) not recognised in	34		-	1,031	261	-	(177)	1,031
Fair value gains on available-for- sale investments, net of deferred tax Currency translation differences Net gains/(losses) not recognised in profit and loss account Capital reserve arising on acquisition of minority interest	34		-	1,031	261	-	(177)	1,031 84 1,115
Fair value gains on available-for- sale investments, net of deferred tax Currency translation differences Net gains/(losses) not recognised in profit and loss account Capital reserve arising on acquisition of minority interest in group undertakings Amounts released on realisation of	34		-	1,031 - 1,031	261	-	(177)	1,031 84 1,115 (466)

Statements of changes in equity - continued

Company	Notes	Share capital Lm000	Share premium Lm000	Revaluation reserve Lm000	Hedging reserve Lm000	Profit and loss account Lm000	Total Lm000
Balance at 1 August 2003		5,000	11	2,434	2,101	9,295	18,841
Fair value losses on available-for- sale investments, net of deferred tax	34	-	-	(15)	-	-	(15)
Cash flow hedges, net of deferred tax	35	-	-	-	(1,159)	-	(1,159)
Net losses not recognised in profit and loss account	-	-	-	(15)	(1,159)	-	(1,174)
Issue of share capital	32, 33	6,115	18,347	-	-	-	24,462
Loss for the financial year		-	-	-	-	(14,626)	(14,626)
Balance at 31 July 2004	-	11,115	18,358	2,419	942	(5,331)	27,503
	•						
Balance at 1 August 2004		11,115	18,358	2,419	942	(5,331)	27,503
Fair value gains on available-for- sale investments, net of deferred tax	34	-	-	1,031	-	-	1,031
Cash flow hedges, net of deferred tax	35	-	-	-	261	-	261
Net gains not recognised in profit and loss account		-	-	1,031	261	-	1,292
Amounts released on realisation of investments		-	-	(3,450)	-	-	(3,450)
Loss for the financial period					-	(2,158)	(2,158)
Balance at 31 March 2005	-	11,115	18,358	-	1,203	(7,489)	23,187

Cash flow statements

Notes			Gro Period from 1 August	oup	Com Period from 1 August	pany
Notes			_	Year ended	_	Year ended
Lm000				•		•
Operating activities Cash (used in)/generated from operations 38 (5,873) 13,698 (3,602) 9,808 Interest paid and similar charges (616) (828) (580) (764) Investment and other income 497 1,002 632 4,394 Dividends received from associated undertakings 63 188 63 188 Tax paid (108) (10.915) (201) (10,463) Net cash (used in)/generated from operating activities (6,037) 3,145 (3,688) 3,163 Investing activities Purchase of tangible fixed assets (726) (4,913) (620) (4,716) Maintenance incurred on leased aircraft (5,114) (5,485) (5,114) (5,485) Proceeds from disposal of tangible fixed assets 27 61 4 5 Increase in financial assets 3,3559 (2,482) (5,276) (3,937) Proceeds from disposal of financial assets 9,238 191 9,238 191 Acquisition of group undertaking, net of cash acquired (858)		Notes				
Cash (used in)/generated from operations Interest paid and similar charges (616) (828) (580) (764) (3,602) (764) 9,808 (764) Interest paid and similar charges (100) investment and other income (100) investment and other income (100) investment and other income (100) investing activities (100) investing ac			Lm000	Lm000	Lm000	Lm000
undertakings 63 188 63 188 Tax paid (108) (10,915) (201) (10,463) Net cash (used in)/generated from operating activities (6,037) 3,145 (3,688) 3,163 Investing activities (726) (4,913) (620) (4,716) Maintenance incurred on leased aircraft (5,114) (5,485) (5,114) (5,485) Proceeds from disposal of tangible fixed assets 27 61 4 5 Increase in financial assets (3,559) (2,482) (5,276) (3,937) Proceeds from disposal of financial assets 9,238 191 9,238 191 Acquisition of group undertaking, net of cash acquired (858) (295) - - Loan repayments received 1,012 51 1,012 904 Net cash generated from/(used in) investing activities 2 (12,872) (756) (13,038) Financing activities - 192 - 192 New loans taken out 2,000 5,147 2,000	Cash (used in)/generated from operations Interest paid and similar charges Investment and other income	38	(616)	(828)	(580)	(764)
Tax paid (108) (10,915) (201) (10,463) Net cash (used in)/generated from operating activities (6,037) 3,145 (3,688) 3,163 Investing activities Purchase of tangible fixed assets (726) (4,913) (620) (4,716) Maintenance incurred on leased aircraft (5,114) (5,485) (5,114) (5,485) Proceeds from disposal of tangible fixed assets 27 61 4 5 Increase in financial assets (3,559) (2,482) (5,276) (3,937) Proceeds from disposal of financial assets 9,238 191 9,238 191 Acquisition of group undertaking, net of cash acquired (858) (295) Loan repayments received 1,012 51 1,012 904 Net cash generated from/(used in) investing activities 20 (12,872) (756) (13,038) Financing activities 20 (12,872) (756) (13,038) Financing activities 20 (1,479) (530) (797) - Dividends paid to minority shareholders (1,479) (530) (797) - Dividends paid to minority shareholders (125) (104) - - Net cash generated from financing activities 396 4,705 1,203 5,079 Movement in cash and cash equivalents (5,621) (5,022) (3,241) (4,796) Cash and cash equivalents at beginning of period/year 27,581 32,603 20,327 25,123			63	188	63	188
Net cash (used in)/generated from operating activities (6,037) 3,145 (3,688) 3,163 Investing activities Furchase of tangible fixed assets (726) (4,913) (620) (4,716) Maintenance incurred on leased aircraft (5,114) (5,485) (5,114) (5,485) Proceeds from disposal of tangible fixed assets 27 61 4 5 Increase in financial assets (3,559) (2,482) (5,276) (3,937) Proceeds from disposal of financial assets 9,238 191 9,238 191 Acquisition of group undertaking, net of cash acquired (858) (295) - - Loan repayments received 1,012 51 1,012 904 Net cash generated from/(used in) investing activities 20 (12,872) (756) (13,038) Financing activities Proceeds from issue of ordinary shares - 192 - 192 New loans taken out 2,000 5,147 2,000 4,887 Repayment of bank loans (1,479)						
Investing activities	-					
Purchase of tangible fixed assets (726) (4,913) (620) (4,716) Maintenance incurred on leased aircraft (5,114) (5,485) (5,114) (5,485) Proceeds from disposal of tangible fixed assets 27 61 4 5 Increase in financial assets (3,559) (2,482) (5,276) (3,937) Proceeds from disposal of financial assets 9,238 191 9,238 191 Acquisition of group undertaking, net of cash acquired (858) (295) - - Loan repayments received 1,012 51 1,012 904 Net cash generated from/(used in) investing activities 20 (12,872) (756) (13,038) Financing activities Proceeds from issue of ordinary shares - 192 - 192 New loans taken out 2,000 5,147 2,000 4,887 Repayment of bank loans (1,479) (530) (797) - Dividends paid to minority shareholders (125) (104) - -			(6,037)	3,145	(3,688)	3,163
Maintenance incurred on leased aircraft (5,114) (5,485) (5,114) (5,485) Proceeds from disposal of tangible fixed assets 27 61 4 5 Increase in financial assets (3,559) (2,482) (5,276) (3,937) Proceeds from disposal of financial assets 9,238 191 9,238 191 Acquisition of group undertaking, net of cash acquired (858) (295) - - Loan repayments received 1,012 51 1,012 904 Net cash generated from/(used in) investing activities 20 (12,872) (756) (13,038) Financing activities 2 192 - 192 New loans taken out 2,000 5,147 2,000 4,887 Repayment of bank loans (1,479) (530) (797) - Dividends paid to minority shareholders (125) (104) - - Net cash generated from financing activities 396 4,705 1,203 5,079 Movement in cash and cash equivalents at beginning of period/year	S					
Proceeds from disposal of tangible fixed assets 27					, ,	* * * * * * * * * * * * * * * * * * * *
27 61 4 5			(5,114)	(5,485)	(5,114)	(5,485)
Increase in financial assets (3,559) (2,482) (5,276) (3,937) Proceeds from disposal of financial assets 9,238 191 9,238 191 Acquisition of group undertaking, net of cash acquired (858) (295) - - Loan repayments received 1,012 51 1,012 904 Net cash generated from/(used in) investing activities 20 (12,872) (756) (13,038) Financing activities 20 (12,872) (756) (13,038) Financing activities 200 (12,872) (756) (13,038) Financing activities 2,000 5,147 2,000 4,887 Repayment of bank loans (1,479) (530) (797) - Dividends paid to minority shareholders (125) (104) - - Net cash generated from financing activities 396 4,705 1,203 5,079 Movement in cash and cash equivalents (5,621) (5,022) (3,241) (4,796) Cash and cash equivalents at beginning of period/year 27,581 32,603 20,327 25,123 Cash and cash equivalents at end of			27	61	1	5
Proceeds from disposal of financial assets 9,238 191 9,238 191 Acquisition of group undertaking, net of cash acquired (858) (295) - - Loan repayments received 1,012 51 1,012 904 Net cash generated from/(used in) investing activities 20 (12,872) (756) (13,038) Financing activities - 192 - 192 New loans taken out 2,000 5,147 2,000 4,887 Repayment of bank loans (1,479) (530) (797) - Dividends paid to minority shareholders (125) (104) - - Net cash generated from financing activities 396 4,705 1,203 5,079 Movement in cash and cash equivalents (5,621) (5,022) (3,241) (4,796) Cash and cash equivalents at beginning of period/year 27,581 32,603 20,327 25,123					' -	
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New loans taken out Repayment of bank loans (1,479) (530) (797) - Dividends paid to minority shareholders (125) (104) - Net cash generated from financing activities 396 4,705 1,203 5,079 Movement in cash and cash equivalents (5,621) (5,022) (3,241) (4,796) Cash and cash equivalents at beginning of period/year 27,581 32,603 20,327 25,123				100		102
Repayment of bank loans Dividends paid to minority shareholders (1,479) Dividends paid to minority shareholders (125) Net cash generated from financing activities 396 4,705 1,203 5,079 Movement in cash and cash equivalents (5,621) (5,022) (3,241) (4,796) Cash and cash equivalents at beginning of period/year 27,581 32,603 20,327 25,123			2 000		2 000	
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Net cash generated from financing activities 396 4,705 1,203 5,079 Movement in cash and cash equivalents (5,621) (5,022) (3,241) (4,796) Cash and cash equivalents at beginning of period/year 27,581 32,603 20,327 25,123					(171)	<u>-</u>
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Cash and cash equivalents at beginning of period/year 27,581 32,603 20,327 25,123 Cash and cash equivalents at end of	Net cash generated from financing activities		396	4,705	1,203	5,079
of period/year 27,581 32,603 20,327 25,123 Cash and cash equivalents at end of	Movement in cash and cash equivalents		(5,621)	(5,022)	(3,241)	(4,796)
			27,581	32,603	20,327	25,123
	-	39	21,960	27,581	17,086	20,327

Accounting policies

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

(a) Basis of accounting

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

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from these estimates.

By virtue of a directors' resolution dated 24 June 2004, the directors of the company agreed to change the accounting reference date from 31 July to 31 March. The accounting period under review, which commenced on 1 August 2004, ended on 31 March 2005. Accordingly these financial statements report on the figures for the eight month period from 1 August 2004 to 31 March 2005, whilst comparative financial information covers the year from 1 August 2003 to 31 July 2004.

(b) Consolidation

(1) Group undertakings

Group (or subsidiary) undertakings, which are those companies in which the group, directly or indirectly, has an interest of more than one half of the voting rights or otherwise has power to govern the financial and operating policies are consolidated.

The existence and effect of potential voting rights that are presently exercisable or presently convertible are considered when assessing whether the group controls another entity.

(b) Consolidation - continued

(1) **Group undertakings** - continued

Subsidiaries are consolidated from the date on which effective control is transferred to the group and are no longer consolidated from the date that control ceases. On acquisition of a subsidiary undertaking all of its assets and liabilities that exist at the date of acquisition are recorded at their fair values reflecting their condition at that date. The excess of the cost of acquisition over the fair value of the net assets of the subsidiary acquired is recorded as goodwill (refer to note (f) for the accounting policy on goodwill). All intercompany transactions and balances between group companies are eliminated. Where necessary, accounting policies of subsidiaries have been changed to ensure consistency with the policies adopted by the group. Separate disclosure is made of minority interests.

A listing of the group's principal subsidiaries is set out on pages 67 to 69.

(2) Associated undertakings

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

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.

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

A listing of the group's principal associates is set out on page 69.

(c) Foreign currencies

(1) Measurement currency

Items included in the financial statements of each entity in the group are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to that entity ("the measurement currency"). The consolidated financial statements are presented in Maltese Lira, which is the measurement currency of the parent.

(2) Transaction and balances

Foreign currency transactions are translated into the measurement currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions, and from the translation of monetary assets and liabilities denominated in foreign currencies, are recognised in the profit and loss account, except when deferred in equity as qualifying cash flow hedges. Such balances are translated at year end exchange rates. Translation differences on available-for-sale equities are included in the revaluation reserve in equity.

(3) Group companies

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

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

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

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

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

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

(d) Tangible fixed assets – property, plant and equipment - continued

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

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

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

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

(e) Tangible fixed assets – investment property

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

(f) Intangible assets

Goodwill represents the excess of the cost of an acquisition over the fair value of the group's share of the net assets of the acquired subsidiary or associated undertaking at the date of acquisition. Goodwill arising on acquisitions is amortised over 5 years using the straight-line method.

At each balance sheet date, the group assesses whether there is any indication of impairment. If such indications exist, an analysis is performed to assess whether the carrying amount of goodwill is fully recoverable. A write down is made if the carrying amount exceeds the recoverable amount.

The gain or loss on disposal of an entity includes the unamortised balance of goodwill relating to the entity disposed of.

(g) Impairment of long lived assets

Property, plant and equipment and other non-current assets, including goodwill and intangible assets are reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the carrying amount of the asset exceeds its recoverable amount which is the higher of an asset's net selling price and value in use. For the purposes of assessing impairment, assets are grouped at the lowest level for which there are separately identifiable cash flows.

(h) Other financial investments

The group classifies its investments into the following categories:

- (a) Available-for-sale investments include all securities 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.
- (b) Originated loans and receivables are financial assets created by the group by providing money to debtors, other than those that are originated with the intent to be sold immediately or in the short-term. They include, inter alia, securities acquired at original issuance, i.e. directly from the issuer.

The directors determine the appropriate classification of investments at the time of purchase and re-evaluate such designation on a regular basis. All purchases and sales of investments are recognised on the trade date, which is the date that the group commits to purchase or sell the assets. All investments are initially recorded at cost (which includes transaction costs). Available-for-sale investments are subsequently re-measured at fair value. Originated loans and receivables are carried at amortised cost using the effective yield method, less any provision for impairment. The fair value of quoted shares and securities classified as available-for-sale is based on quoted market prices at the balance sheet date. Unrealised gains and losses arising from changes in the fair value of available-for-sale investments are recognised in equity in a fair value reserve. When the investments are disposed or impaired, the related accumulated fair value adjustments in the revaluation reserve are included in the profit and loss account as gains or losses from investment securities. A financial asset is impaired if its carrying amount is greater than its estimated recoverable amount.

(i) Leased assets

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

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

(j) Maintenance of aircraft

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

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

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

(k) Stocks

Stocks are stated at the lower of cost and net realisable value. In general, cost is determined on a weighted average basis and includes transport and handling costs. Rotables, engines and major spares are accounted for as fixed assets and are depreciated on the same basis as the aircraft to which they relate.

(l) Debtors

Trade debtors are carried at anticipated realisable value. An estimate is made for doubtful debtors based on a review of all outstanding amounts at the year end. Bad debts are written off during the year in which they are identified.

(m) Cash and cash equivalents

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

(n) Deferred taxation

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying values for financial reporting purposes.

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

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

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

(o) Provisions

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

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

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

(p) Revenue recognition

Turnover is based on the invoiced value of carriage uplifted, aircraft leasing income, goods sold and services rendered, net of discounts, and exclusive of passenger and indirect taxes. Ticket sales are included under current liabilities as sales in advance until matched to uplift coupons. The gross sales value of any tickets remaining unused is taken to the profit and loss account as residual revenue to the extent to which no liability is expected to arise in relation thereto. Proceeds arising from the sale of fixed assets, including aircraft, are not included with turnover.

Other revenues earned by the group are recognised on the following bases:

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

(q) Sale and leaseback transactions

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

(r) Borrowing costs

Interest costs are taken to the profit and loss account.

(s) Derivative financial instruments and hedging

Derivative financial instruments including forward foreign exchange contracts, interest rate linked collar arrangements, interest rate swap agreements, commodity options (combined written and purchased options together with other options) and other derivative financial instruments, are initially recognised in the balance sheet at cost (including transaction costs) and are subsequently remeasured at their fair value.

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

(s) Derivative financial instruments and hedging - continued

All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

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, a forecast transaction or a firm commitment (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:

- (a) formal documentation of the hedging instrument, hedging item, hedging objective, strategy and relationship is prepared before hedge accounting is applied;
- (b) 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
- (c) 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 firm commitments or forecast transactions. The group also documents its assessment, both at the hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in cash flows of hedged items.

Changes in the fair value of derivatives that are designated and qualify as cash flow hedges and that prove to be highly effective in relation to the hedged risk, are recognised in the hedging reserve in equity. In respect of option contracts, designated as hedging instruments, the group splits fair value into the intrinsic value and time value components. Changes in the intrinsic value of options are designated as the hedging instrument, while the remaining component of the option (its time value) is excluded from the hedging relationship. Accordingly changes in the time value would be accounted for in the profit and loss account. Where the forecast transaction or firm commitment results in the recognition of an asset or of a liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability. Otherwise amounts deferred in equity are transferred to the profit and loss account and classified as revenue or expense in the periods during which the hedged firm commitment or forecast transaction affects the profit and loss account.

(s) Derivative financial instruments and hedging - continued

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

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

The fair values of derivative instruments held for trading and hedging purposes are disclosed in Note 26 to the financial statements.

(t) Comparatives

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

Notes to the financial statements

1. Segment information

	Airline activities Lm000	Hotels Lm000	Retail and other activities Lm000	Total Lm000
Period ended 31 March 2005				
Total gross segment sales Less: inter-segment sales	74,595 (3,037)	2,502 (213)	4,786 (982)	81,883 (4,232)
Turnover	71,558	2,289	3,804	77,651
Operating loss Investment income	(4,531)	(705)	410	(4,826) 3,393
Results of associated undertakings Interest receivable Interest payable	(361)	-	214	(147) 468 (863)
Net losses on aircraft and engine transactions	(327)	-	- 	(327)
Loss on ordinary activities before tax Tax on loss on ordinary activities			_	(2,302) 586
Loss on ordinary activities after tax Minority interest			_	(1,716) (65)
Loss for the financial period				(1,781)
Segment assets Elimination of group balances	80,033	8,553	7,061	95,647 (3,774)
Associates Unallocated assets	1,451	-	561	2,012 3,707
Total assets				97,592
Segment liabilities Elimination of group balances Unallocated liabilities	(56,247)	(1,112)	(3,650)	(61,009) 3,774 (17,106)
Total liabilities				(74,341)
Capital expenditure Depreciation Amortisation Impairment charges	684 1,753 60 602	32 298 - 70	10 24 -	726 2,075 60 672
Provisions for impairment of trade debtors	68	6	4	78

1. **Segment information** - continued

	Airline activities Lm000	Hotels Lm000	Retail and other activities Lm000	Total Lm000
Year ended 31 July 2004				
Total gross segment sales Less: inter-segment sales	114,448 (4,242)	4,281 (350)	10,872 (1,240)	129,601 (5,832)
Turnover	110,206	3,931	9,632	123,769
Operating loss Investment income	(8,077)	(550)	2,794	(5,833) 131
Results of associated undertakings Interest receivable Interest payable Net losses on aircraft and	(2,401)	-	239	(2,162) 858 (1,213)
engine transactions	(4,851)	-		(4,851)
Loss on ordinary activities before tax Tax on loss on ordinary activities			_	(13,070) (2,033)
Loss on ordinary activities after tax Minority interest				(15,103) (126)
Loss for the financial year			_	(15,229)
Segment assets Elimination of group balances	96,562	8,851	8,422	113,835 (5,421)
Associates Unallocated assets	1,359	-	474	1,833 8,923
Total assets			_	119,170
Segment liabilities Elimination of group balances Unallocated liabilities	(73,448)	(1,527)	(5,134)	(80,109) 5,421 (16,742)
Total liabilities			_	(91,430)
Capital expenditure Depreciation Amortisation Impairment charges	29,065 2,201 83 1,256	93 455 -	25 45 -	29,183 2,701 83 1,256
Provisions for impairment of trade debtors	97	37	23	157

1. **Segment information** - continued

Segment revenue and operating loss include transfers between business segments, which transfers are eliminated on consolidation. Segment assets include all operating assets used by a segment and consist principally of property, plant and equipment, stocks, debtors and operating cash, but exclude items such as current taxation, deferred taxation and investments.

Segment liabilities include all operating liabilities and consist principally of trade creditors and accrued liabilities, but exclude borrowings and current taxation. Capital expenditure comprises additions to property, plant and equipment and investment property.

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

	Period from	
	1 August	
	2004 to	Year ended
	31 March	31 July
	2005	2004
	Lm000	Lm000
Turnover on airline activities by route area reflecting the group's operational regions, as follows:		
Northern and Central Europe including UK	57,682	89,695
Mediterranean basin and Middle East	10,774	16,509
	68,456	106,204
Aircraft leasing revenue (Mediterranean basin)	560	-
Ground related & other revenue (Malta)	2,542	4,002
	71,558	110,206

2. Discontinuing operations

During the preceding financial year, the group publicly announced its intention to dispose of its hotel segment. The subsidiaries comprising this segment are reported in these consolidated financial statements as a discontinuing operation. The sales, results, cash flows and net assets of this segment were as follows:

	Period from	
	1 August	
	2004 to	Year ended
	31 March	31 July
	2005	2004
	Lm000	Lm000
Sales	2,502	4,265
Operating costs	(3,148)	(4,831)
Operating loss	(646)	(566)
Finance costs	(96)	(106)
Loss before tax	(742)	(672)
Tax	(1)	(342)
Loss after tax	(743)	(1,014)
Operating cash flows	(142)	(109)
Investing cash flows	490	(93)
Financing cash flows	(570)	(545)
Total cash flows	(222)	(747)
Property, plant and equipment	7,714	7,548
Current assets	755	1,056
Total assets	8,469	8,604
Total liabilities	(3,150)	(3,929)
Net assets	5,319	4,675

2. **Discontinuing operations** - continued

During the current financial period, the group also announced its plans to dispose of its controlling shareholdings in two subsidiaries, Air Supplies and Catering Company Limited and Sterling Travel & Tourism Limited, which are accordingly disclosed in these consolidated financial statements as discontinuing operations. These subsidiaries are reported within the 'Retail and other activities' segment in Note 1 to these financial statements. The sales, results, cash flows and net assets attributable to these discontinuing operations were as follows:

	Period from	
	1 August 2004 to	Year ended
	31 March	31 July
	2005	2004
	Lm000	Lm000
Sales	4,188	9,933
Operating costs	(4,249)	(8,231)
Operating result	(61)	1,702
Net finance income	5	24
(Loss)/profit before tax	(56)	1,726
Tax	4	(590)
(Loss)/profit after tax	(52)	1,136
Operating cash flows	(405)	1,718
Investing cash flows	18	32
Total cash flows	(387)	1,750
Fixed and other long-term assets	162	162
Current assets	1,554	2,312
Total assets	1,716	2,474
Total liabilities	(680)	(1,399)
Net assets	1,036	1,075

3. Operating loss

The operating loss is stated after charging/(crediting):

	Group		Company	
	Period from	•	Period from	- '
	1 August		1 August	
	2004 to	Year ended	2004 to	Year ended
	31 March	31 July	31 March	31 July
	2005	2004	2005	2004
	Lm000	Lm000	Lm000	Lm000
Aircraft fuel and oils	10,976	12,225	10,976	12,104
Aircraft operating lease rentals (vide also Notes				
10 and 31)	8,606	12,982	8,606	12,634
Aircraft maintenance	7,005	12,996	7,005	12,996
En route charges	6,189	8,991	6,189	8,991
Aircraft depreciation	671	817	671	817
Impairment charges in respect of aircraft and				
flight equipment (included in 'Cost of sales')	-	250	-	250
Depreciation other than aircraft depreciation	1,314	1,729	927	1,178
Staff costs (Note 5)	17,593	28,305	15,045	23,923
Exchange differences	(361)	(705)	385	(675)
Gain on disposal of assets				
other than aircraft	(1)	(1)	(2)	(3)
Residual revenues	(1,477)	(1,618)	(1,477)	(1,618)
Amortisation of intangible assets				
(included in 'Administrative expenses')	60	83	-	-
Increase in provisions for impairment				
of trade debtors	78	157	68	97

Auditors' remuneration

	Period from	
	1 August	
	2004 to	Year ended
	31 March	31 July
	2005	2004
	Lm000	Lm000
Audit services – statutory		
- Parent company auditors	38	38
- Other auditors of other group undertakings	50	45
Other services		
- Parent company auditors		
- other assurance services	14	21
- tax and other services	38	38
- Other auditors of other group undertakings		
- tax and other services	14	34

3. Operating loss - continued

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

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

Taxation services include compliance services such as tax return preparation, and advisory services such as consultation on tax matters, tax advice relating to transactions, and other tax planning and advice. Other services primarily include advisory services related to transaction support.

In addition to the amounts disclosed in the table above, fees amounting to Lm40,000 (2004: Lm62,000) have been paid to the parent company auditors in respect of secondment of staff to the company's internal audit function. These staff members reported directly to the company's Head Internal Audit and the Audit Committee accordingly. As from June 2005 the parent company's internal audit function has been staffed solely by recruited full timers, and accordingly the secondment arrangement ceased.

4. Analysis of operating loss

	Period from	Period from	Period from	
	1 August 2004	1 August 2003	1 April 2004	Year ended
Group	to 31 March	to 31 March	to 31 July	31 July
•	2005	2004	2004	2004
	Lm000	Lm000	Lm000	Lm000
Turnover	77,651	75,119	48,650	123,769
Cost of sales	(71,371)	(70,291)	(42,626)	(112,917)
Gross profit	6,280	4,828	6,024	10,852
Selling and distribution costs	(5,221)	(5,010)	(3,026)	(8,036)
Administrative expenses	(6,141)	(6,145)	(3,416)	(9,561)
Other operating items	256	588	324	912
Operating loss	(4,826)	(5,739)	(94)	(5,833)

4. Analysis of operating loss - continued

	Period from	Period from	Period from	
	1 August 2004	1 August 2003	1 April 2004	Year ended
Company	to 31 March	to 31 March	to 31 July	31 July
	2005	2004	2004	2004
	Lm000	Lm000	Lm000	Lm000
Turnover	63,397	54,639	38,479	93,118
Cost of sales	(60,070)	(54,433)	(34,849)	(89,282)
Gross profit	3,327	206	3,630	3,836
Selling and distribution costs	(5,023)	(4,691)	(2,912)	(7,603)
Administrative expenses	(3,123)	(3,299)	(1,604)	(4,903)
Operating loss	(4,819)	(7,784)	(886)	(8,670)

5. Staff costs

	Gro	Group		pany
	Period from		Period from	
	1 August		1 August	
	2004 to	Year ended	2004 to	Year ended
	31 March	31 July	31 March	31 July
	2005	2004	2005	2004
	Lm000	Lm000	Lm000	Lm000
Wages and salaries	16,446	26,675	14,085	22,658
Social security costs	1,147	1,630	960	1,265
	17,593	28,305	15,045	23,923

Included in staff costs for the current financial year are termination benefits amounting to Lm248,000 (2004: Lm793,000).

Average number of persons employed during the year:-

By class of business:

	Group		Company	
	Period from		Period from	
	1 August		1 August	
	2004 to	Year ended	2004 to	Year ended
	31 March	31 July	31 March	31 July
	2005	2004	2005	2004
Airline activities, including aircraft leasing	1,854	1,956	1,771	1,873
Hotels	334	351	-	-
Retail and other activities	121	136	-	-
	2,309	2,443	1,771	1,873

5. Staff costs - continued

By category:

	Group		Company	
	Period from		Period from	
	1 August		1 August	
	2004 to	Year ended	2004 to	Year ended
	31 March	31 July	31 March	31 July
	2005	2004	2005	2004
Direct	966	1,011	626	661
Indirect	928	971	885	930
Administrative	415	461	260	282
	2,309	2,443	1,771	1,873

6. Investment income

Group		Company	
Period from	_	Period from	
1 August		1 August	
2004 to	Year ended	2004 to	Year ended
31 March	31 July	31 March	31 July
2005	2004	2005	2004
Lm000	Lm000	Lm000	Lm000
_	_	524	2,202
-	-	74	221
3,340	-	3,340	-
53	131	53	121
3,393	131	3,991	2,544
	Period from 1 August 2004 to 31 March 2005 Lm000	Period from 1 August 2004 to Year ended 31 March 2005 2004 Lm000 Lm000 3,340 53 131	Period from Period from 1 August 1 August 2004 to Year ended 2004 to 31 March 31 July 31 March 2005 2004 2005 Lm000 Lm000 Lm000 - - 524 - - 74 3,340 - 3,340 53 131 53

7. Results of group and associated undertakings

3 1	Gı	Group		ipany
	Period from	-	Period from	
	1 August		1 August	
	2004 to	Year ended	2004 to	Year ended
	31 March	31 July	31 March	31 July
	2005	2004	2005	2004
	Lm000	Lm000	Lm000	Lm000
Provisions against group and associated undertakings Share of results and other losses of associated undertakings	(147)	(2,162)	(1,014)	(3,167)
	(147)	(2,162)	(1,014)	(3,167)

The figures disclosed in the table above include a loss of Lm454,000 (2004: Lm2,067,000) in respect of AZZURRAair S.p.A. (Note 18).

8. Interest receivable

	Group		Company	
	Period from	_	Period from	
	1 August		1 August	
	2004 to	Year ended	2004 to	Year ended
	31 March	31 July	31 March	31 July
	2005	2004	2005	2004
	Lm000	Lm000	Lm000	Lm000
Interest receivable and similar income from group undertakings	_	_	219	386
Interest receivable and similar income from				
associated undertakings	29	62	24	80
Interest receivable from bank deposits	439	684	359	590
Other interest receivable and similar income	-	112	-	112
	468	858	602	1,168

9. Interest payable

	Group		Company	
	Period from		Period from	
	1 August		1 August	
	2004 to	Year ended	2004 to	Year ended
	31 March	31 July	31 March	31 July
	2005	2004	2005	2004
	Lm000	Lm000	Lm000	Lm000
Interest payable on bank loans and overdrafts	503	578	409	446
Interest payable on other loans	7	-	-	-
Interest payable to group undertakings	-	-	75	105
Interest payable to associated undertakings	11	18	11	18
Effects of unwinding non-current provisions Bank charges and similar expenses, including	247	385	247	385
exchange differences on financing activities	95	232	95	195
	863	1,213	837	1,149

10. Net losses on aircraft and engine transactions

	Group		Company	
	Period from]	Period from	
	1 August		1 August	
	2004 to	Year ended	2004 to	Year ended
	31 March	31 July	31 March	31 July
	2005	2004	2005	2004
	Lm000	Lm000	Lm000	Lm000
Decrease/(increase) in provisions on onerous contracts (Note 31) Impairment and depreciation charges in respect of aircraft and flight equipment	365 (692)	(3,703) (1,148)	365 (692)	(3,703) (1,148)
	(327)	(4,851)	(327)	(4,851)

The seven AVRO RJ aircraft previously owned by Air Malta plc were sold in September 2002 and leased back for periods with staggered expiry dates up to February 2008. Subsequent to this transaction, there was a deterioration in the earnings potential of these aircraft. As a result, provisions on onerous contracts amounting to Lm10,703,000 have been made in previous financial statements to reflect the extent to which future lease commitments on the aircraft were expected to exceed the income estimated to be generated therefrom, account also being taken of all relevant costs.

At the time of approving the issue of these financial statements, one AVRO RJ70 has still to be remarketed. Future operating lease rental commitments payable on the RJ aircraft which have not been provided for on the basis of current assumptions on remarketing, total Lm4,300,000.

During the year, the company incurred an impairment loss and depreciation charges of Lm692,000 (2004: Lm1,148,000) on RJ rotables and spare engines which are currently no longer required for operational purposes.

11. Tax on loss on ordinary activities

	Group		Company	
	Period from	_	Period from	-
	1 August		1 August	
	2004 to	Year ended	2004 to	Year ended
	31 March	31 July	31 March	31 July
	2005	2004	2005	2004
	Lm000	Lm000	Lm000	Lm000
Current taxation	(308)	548	3	258
Group relief	-	-	-	(396)
Deferred taxation (Note 29)	(306)	1,463	(249)	639
Share of tax of associates	28	22	-	-
	(586)	2,033	(246)	501

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

	Group		Company	
	Period from 1 August 2004 to 31 March 2005 Lm000	Year ended 31 July 2004 Lm000	Period from 1 August 2004 to 31 March 2005 Lm000	Year ended 31 July 2004 Lm000
Loss on ordinary activities before tax	(2,302)	(13,070)	(2,404)	(14,125)
Tax on loss on ordinary activities at the statutory rate of 35%	(806)	(4,575)	(841)	(4,944)
Deferred tax asset on capital losses not recognised	-	1,108	-	1,108
Deferred tax asset in respect of unutilised tax losses and unabsorbed capital allowances not recognised	2,556	1,622	2,401	1,622
Unrecognised temporary differences and other movements, mainly attributable to tangible fixed assets and provisions on	,		,	
onerous contracts	(819)	4,010	(631)	2,825
Overprovision in respect of prior years Income taxed at reduced rates	(406) (1,111)	(132)	(1,175)	(110)
Tax (credit)/charge	(586)	2,033	(246)	501

12. Directors' emoluments

	Gı	roup Company		npany
	Period from	_	Period from	
	1 August		1 August	
	2004 to	Year ended	2004 to	Year ended
	31 March	31 July	31 March	31 July
	2005	2004	2005	2004
	Lm000	Lm000	Lm000	Lm000
Emoluments of directors of Air Malta plc:				
Total fees and other emoluments charged				
in these financial statements	11	17	11	17
Benefits in kind as computed for				
Income Tax purposes	2	2	2	2
	13	19	13	19

Insurance premia of Lm95,000 (2004: Lm127,000) have been paid during the year in respect of professional indemnity cover in favour of the directors of Air Malta plc and other officers.

In addition to the above emoluments, fees amounting to Lm21,000 (2004: Lm38,000) were earned by other officers (mainly officers of the group), not directors of Air Malta plc, in their capacity as directors appointed by Air Malta plc on the boards of group and associated companies.

13. Earnings per share

Earnings per share is based on the loss after taxation attributable to the ordinary shareholders of Air Malta plc divided by the weighted average number of ordinary shares in issue during the year.

	Group		Com	pany
	Period from		Period from	
	1 August		1 August	
	2004 to	Year ended	2004 to	Year ended
	31 March	31 July	31 March	31 July
	2005	2004	2005	2004
Net loss attributable to ordinary				
shareholders (in Lm000)	(1,781)	(15,229)	(2,158)	(14,626)
Weighted average number of ordinary				
shares in issue (in thousands)	11,115	6,788	11,115	6,788
Earnings per share	(Lm0.16)	(Lm2.24)	(Lm0.19)	(Lm2.15)
shareholders (in Lm000) Weighted average number of ordinary shares in issue (in thousands)	(1,781) 11,115	(15,229) 6,788	(2,158) 11,115	(14,626) 6,788

14. Intangible assets

	Group Goodwill Lm000
Period ended 31 March 2005 Opening net book amount Amortisation charge	254 (60)
Closing net book amount	194
At 31 March 2005 Cost Accumulated amortisation Net book amount	451 (257) 194
At 31 July 2004 Cost Accumulated amortisation Net book amount	451 (197) 254

15. Property, plant and equipment

Group	Office land & buildings Lm000	Aircraft & flight equipment - own use Lm000	Aircraft & flight equipment - leased out Lm000	Hotels & related assets Lm000	Retail and other Lm000	Total Lm000
Period ended 31 March 2005						
Opening net book amount	24,795	3,952	1,073	7,691	2,393	39,904
Additions	39	388	-	32	247	706
Fair value adjustment on acquisition of minority				502		522
interest	-	-	-	523	(106)	523
Disposals	-	-	(602)	(26) (14)	(106)	(132) (672)
Impairment charges Depreciation charge	(376)	(663)	(99)	(239)	(56) (658)	(672) $(2,035)$
Depreciation released	(370)	(003)	(99)	(239)	(038)	(2,033)
on disposals	_	_	_	26	80	106
Exchange differences	_	_	_	-	2	2
Exemange differences						
Closing net book amount	24,458	3,677	372	7,993	1,902	38,402
At 31 March 2005						
Cost	27,923	10,127	9,553	16,662	13,557	77,822
Accumulated depreciation and impairment charges	(3,465)	(6,450)	(9,181)	(8,669)	(11,655)	(39,420)
Net book amount	24,458	3,677	372	7,993	1,902	38,402
At 31 July 2004 Cost Accumulated depreciation and impairment charges	27,884 (3,089)	9,739 (5,787)	9,553 (8,480)	16,133 (8,442)	13,414 (11,021)	76,723 (36,819)
Net book amount	24,795	3,952	1,073	7,691	2,393	39,904

15. Property, plant and equipment - continued

Company	Office land & buildings Lm000	Aircraft & flight equipment - own use Lm000	Aircraft & flight equipment - leased out Lm000	Other Lm000	Total Lm000
Period ended 31 March 2005					
Opening net book amount	22,471	3,953	1,073	2,024	29,521
Additions	39	388	-	173	600
Disposals	-	-	-	(47)	(47)
Impairment charges	-	-	(602)	-	(602)
Depreciation charge	(365)	(663)	(99)	(521)	(1,648)
Depreciation released on disposals	-	-	-	45	45
Closing net book amount	22,145	3,678	372	1,674	27,869
At 31 March 2005 Cost	25,585	10,127	3,331	11,487	50,530
Accumulated depreciation and impairment charges	(3,440)	(6,449)	(2,959)	(9,813)	(22,661)
Net book amount	22,145	3,678	372	1,674	27,869
At 31 July 2004 Cost Accumulated depreciation and	25,546	9,739	3,331	11,361	49,977
impairment charges	(3,075)	(5,786)	(2,258)	(9,337)	(20,456)
Net book amount	22,471	3,953	1,073	2,024	29,521

The impairment charges recognised during the current financial year and disclosed in the tables above arose as a consequence of the directors' assessment of the recoverable amount of aircraft and flight equipment in view of the unlikely use of certain assets for operational purposes. These assets have been written down to their estimated recoverable amounts, determined at the individual asset level and representing net selling price, assessed by reference to market prices for equivalent assets.

16. Investment property

	Group Lm000	Company Lm000
Period ended 31 March 2005		
Opening net book amount	1,809	4,130
Additions	20	20
Depreciation charge	(40)	(40)
Closing net book amount	1,789	4,110
At 31 March 2005		
Cost	1,842	4,174
Accumulated depreciation	(53)	(64)
Net book amount	1,789	4,110
		_
At 31 July 2004		
Cost	1,822	4,154
Accumulated depreciation	(13)	(24)
Net book amount	1,809	4,130

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

17. Investments in group undertakings

Company	Shares in group undertakings Lm000	Loans to group undertakings Lm000	Total Lm000
Period ended 31 March 2005			
Opening net book amount	4,911	5,025	9,936
Additions	847	870	1,717
Dividends received (vide Note below)	(140)	-	(140)
Movement in provisions	(1,512)	1,089	(423)
Closing net book amount	4,106	6,984	11,090
At 31 March 2005			
Cost	5,878	9,156	15,034
Provisions for impairment	(1,772)	(2,172)	(3,944)
Net book amount	4,106	6,984	11,090
Year ended 31 July 2004			
Opening net book amount	5,794	5,501	11,295
Additions	-	1,455	1,455
Repayment of loans	-	(811)	(811)
Dividends received (vide Note below)	(900)	-	(900)
Reduction in share capital	(3)	-	(3)
Movement in provisions	20	(1,120)	(1,100)
Closing net book amount	4,911	5,025	9,936
At 31 July 2004			
Cost	5,171	8,286	13,457
Provisions for impairment	(260)	(3,261)	(3,521)
Net book amount	4,911	5,025	9,936

During the financial year ending 31 March 2005, dividends received from a subsidiary undertaking amounting to Lm140,000 (2004: Lm900,000) have been accounted for as a recovery of the cost of the company's investment in this group undertaking.

Loans to group undertakings are unsecured and repayable on demand. At 31 March 2005, loans to group undertakings amounting to Lm6,709,071 (2004: Lm5,008,688) are subject to a fixed interest rate of 4.5% (2004: 4.5%) per annum.

18. Investments in associated undertakings

Group	Shares in associated undertakings Lm000	Loans to associated undertakings Lm000	Total Lm000
Period ended 31 March 2005			
Opening net book amount	1,781	52	1,833
Additions	-	1,065	1,065
Repayment of loans Share of results and provisions	354	(1,012)	(1,012) 354
Share of tax	(28)	- -	(28)
Movement in provisions	(32)	(105)	(137)
Net dividends received from			
associated undertakings	(63)	-	(63)
Closing net book amount	2,012	-	2,012
At 31 March 2005			
Cost	977	1,078	2,055
Share of undertakings' profits and reserves	1,067	- (1.070)	1,067
Provisions for impairment	(32)	(1,078)	(1,110)
Net book amount	2,012	-	2,012
Year ended 31 July 2004			
Opening net book amount	2,070	147	2,217
Repayment of loans	-	(51)	(51)
Currency translation differences Share of results and provisions	(4)	(44)	(44)
Share of tax	(22)	-	(4) (22)
Reclassification of investment in associated	()		(==)
undertaking as a group undertaking Net dividends received from	(75)	-	(75)
associated undertakings	(188)	-	(188)
Closing net book amount	1,781	52	1,833
At 31 July 2004			
Cost	977	1,025	2,002
Share of undertakings' profits and reserves	804	(072)	804
Provisions for impairment		(973)	(973)
Net book amount	1,781	52	1,833

18. Investments in associated undertakings - continued

	Shares in associated	Loans to associated	
Company	undertakings	undertakings	Total
	Lm000	Lm000	Lm000
Period ended 31 March 2005			
Opening net book amount	721	92	813
Additions	-	1,065	1,065
Repayment of loans	-	(1,012)	(1,012)
Movement in provisions		(137)	(137)
Closing net book amount	721	8	729
At 31 March 2005			
Cost	721	1,118	1,839
Provisions for impairment	-	(1,110)	(1,110)
Net book amount	721	8	729
Year ended 31 July 2004			
Opening net book amount	721	185	906
Repayment of loans	-	(51)	(51)
Currency translation differences	-	(42)	(42)
Closing net book amount	721	92	813
At 31 July 2004			
Cost	721	1,065	1,786
Provisions for impairment		(973)	(973)
Net book amount	721	92	813

On 9 September 2003, Air Malta plc entered into an agreement, conditional on certain terms, to sell its 49% interest in AZZURRAair S.p.A. to the investors who had acquired the remaining 51% of the company. The contracted terms were not met by the purchasers and the transfer of title was accordingly not completed.

Subsequent to this, on 10 December 2003, the directors appointed by Air Malta plc on the board of AZZURRAair S.p.A. resigned from office, owing to the failure of the new investors to deliver on their contractual obligations to provide for the financial support for, and investment in, AZZURRAair S.p.A. In view of this, the directors could not ensure that AZZURRAair S.p.A. would abide by its continued obligations to third parties. Air Malta plc henceforth had no further involvement in the direction of the company.

18. Investments in associated undertakings - continued

AZZURRAair was placed into insolvent liquidation following a court degree on 22 July 2004. Air Malta plc has been extending its full assistance to the liquidator in the course of his investigation into the factors leading to the company's failure.

As in all cases of insolvent liquidation, the possibility arises of clawback and similar actions being taken against third parties that have received payments from the insolvent company in certain circumstances. Air Malta plc is of the opinion that it has conducted its affairs with AZZURRAair in a prudent manner in compliance with applicable laws and sees no cause for further losses arising in this context.

Provisions have been recognised in the financial statements for all losses expected, at the time of approving the financial statements, to be incurred by Air Malta plc in relation to AZZURRAair S.p.A. and to guarantees and commitments given in relation thereto as follows:

	Group and Company	
	31 March	31 July
	2005	2004
	Lm000	Lm000
Losses arising in respect of guarantees, other commitments and expenses Movements arising on defaults of aircraft lease obligations with regards to maintenance and redelivery	240	548
	214	1,519
	454	2,067

The provisions unutilised at the financial year end are disclosed in the group and company balance sheets as follows:

	Group and Company	
	31 March	31 July
	2005	2004
	Lm000	Lm000
Included with other provisions (Note 31)	454	2,067

Loans to associated undertakings and other loans in respect of such undertakings are unsecured, repayable on demand and interest free.

19. Other financial investments – available-for-sale

Group and Company	Quoted shares Lm000	Quoted debt securities Lm000	Total Lm000
Period ended 31 March 2005			
Opening net book amount	3,256	-	3,256
Net gains from changes in fair value Disposals	1,031 (4,238)	-	1,031 (4,238)
Disposais	(4,236)	-	(4,236)
Closing net book amount	49	-	49
At 31 March 2005			
Cost	49	-	49
Revaluation reserve		-	-
Net book amount	49	-	49
Year ended 31 July 2004			
Opening net book amount	3,285	88	3,373
Disposals Nucleon Control of Cont	- (20)	(87)	(87)
Net losses from changes in fair value	(29)	(1)	(30)
Closing net book amount	3,256	-	3,256
At 31 July 2004			
Cost	843	-	843
Revaluation reserve	2,413	-	2,413
Net book amount	3,256	-	3,256

20. Other financial investments – originated loans and receivables

Group	Quoted debt securities Lm000	Other instruments Lm000	Total Lm000
Period ended 31 March 2005 Opening and closing net book amount	152	-	152
At 31 March 2005 Cost Impairment losses	152	197 (197)	349 (197)
Net book amount	152	-	152
Year ended 31 July 2004 Opening net book amount Disposals Movement in impairment losses Closing net book amount At 31 July 2004 Cost Impairment losses Net book amount	256 (104) - 152 152	13 - (13) - 197 (197)	269 (104) (13) 152 349 (197) 152
Maturity of fixed income debt securities:		31 March 2005 Lm000	31 July 2004 Lm000
Over 5 years		152	152
Weighted average effective interest rates	_	5.9%	5.9%

20. Other financial investments – originated loans and receivables - continued

Company	Quoted debt securities
Period ended 31 March 2005 Opening and closing net book amount	Lm000
At 31 March 2005 Cost	152
Year ended 31 July 2004 Opening net book amount Disposals	256 (104)
Closing net book amount	152
At 31 July 2004 Cost	152

The maturity and weighted average effective interest rates of these instruments as at the balance sheet dates are disclosed in the tables above.

21. Financial investments – originated loans and receivables

1 maneral my esaments of Sinated Today and Teed (asies		
		Malta
		Government
Group and Company		Treasury
		bills
		Lm000
Period ended 31 March 2005		
Opening cost and net book amount		2,482
Additions		2,494
Amortisation of discount		24
Disposals		(5,000)
Closing cost and net book amount		-
Year ended 31 July 2004 Additions at cost		2,482
Closing cost and net book amount		2,482
	31 March	31 July
	2005	2004
Weighted average effective interest rate	-	2.9%

22. Financial investments – available-for-sale

I mancial my obtilioned a valuable for bare	
	Malta
	Government
	Treasury
	bills
	Lm'000
Period ended 31 March 2005	
Additions	1,994
Amortisation of discount	6
Disposals	(2,000)
	-

23. Stocks

	Gro	up	Comp	any
	31 March	31 July	31 March	31 July
	2005	2004	2005	2004
	Lm000	Lm000	Lm000	Lm000
Aircraft engineering spares	798	872	798	872
Other stocks	934	1,256	334	542
	1,732	2,128	1,132	1,414

24. Trade debtors

Titue debiois	Group		Company	
	31 March	31 July	31 March	31 July
	2005	2004	2005	2004
	Lm000	Lm000	Lm000	Lm000
Trade debtors - gross	16,107	20,851	14,322	17,787
Less: provisions for impairment of trade debtors	(1,107)	(1,029)	(862)	(794)
Trade debtors - net	15,000	19,822	13,460	16,993

25. Other non-current debtors

	Group and	Group and Company	
	31 March	31 July	
	2005	2004	
	Lm000	Lm000	
Security deposits and outstanding proceeds arising from operating lease agreements	2,529	3,571	
Other long-term deposits	172	100	
	2,701	3,671	

The security deposits will be refunded to the company on termination of the company's fleet lease period up to March 2020. Any repayment of proceeds arising from sale and leaseback agreements entered into will be affected in line with the replacement schedule of the company's fleet up to April 2008.

26. Derivative financial instruments

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

	Group and Company Fair values	
At 31 March 2005	Assets Lm000	Liabilities Lm000
Derivatives held for hedging (cash flow hedges) Foreign exchange derivatives - currency forwards	23	(717)
Interest rate derivatives - interest rate swaps	-	(57)
Fuel price hedging derivatives - commodity swaps - combined bought call and written put options - other options	1,608 969 47	- - -
	2,624	-
Total derivative assets/(liabilities)	2,647	(774)
At 31 July 2004	Assets Lm000	Liabilities Lm000
Derivatives held for hedging (cash flow hedges) Foreign exchange derivatives - currency forwards - currency options	88	(169) (87)
	88	(256)
Interest rate derivatives - interest rate swaps - interest rate linked option arrangements	156	(131)
Fuel price hedging derivatives	156	(131)
- commodity swaps - combined bought call and written put options - other options	1,263 482 122	- - -
	1,867	-
Total derivative assets/(liabilities)	2,111	(387)

26. Derivative financial instruments - continued

The currency forward contracts outstanding as at 31 March 2005 are in respect of:

Contract terms	Lm000
Forward purchase of USD14.9 million against EUR (at contracted rates averaging USD1 : EUR0.809)	(317)
Forward sale of GBP3.3 million against EUR (at contracted rates averaging GBP1 : EUR1.401)	(65)
Forward sale of GBP1.9 million against MTL (at contracted rates averaging GBP1 : MTL0.610)	(8)
Forward sale of GBP16.7 million against USD (at contracted rates averaging GBP1 : USD1.817)	(301)
Forward sale of MTL4 million against USD (at contracted rates averaging MTL1 : USD3.004)	(3)
	(694)

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

The notional principal amount of the outstanding pay-fixed, receive-floating interest rate swap contract at the balance sheet date is USD10 million. The contract matures in September 2005 with variable rate reset and net settlements on a quarterly basis. The fixed rate leg of the swap is subject to an interest rate of 5.32% and the variable rate leg is based on USD 3 month Libor. The forecast transactions which have been designated as the hedged items are variable interest payments on borrowings with critical terms and conditions which are identical to the terms of the swap contract as outlined above.

As at 31 July 2004, the company's interest rate linked option arrangement consisted of three unexpired purchased call options with a cap of 5.10% with different commencement dates ranging from September 2004 to January 2005 and all deals having a twelve year maturity. Every deal had a unique fixing date which is the commencement date and the reference rate of interest is the 10 year USD Treasury bill yield. If on the fixing date, the 10 year USD Treasury rate fixes above the cap, the counterparty will pay the company an amount equivalent to one eighth of 0.01% of the notional amount of the respective deal multiplied by the number of basis points above the cap on a monthly basis, for the entire term of the deal. Accordingly on fixing date, all future monthly settlements under the respective contract would be known for the entire term. These options have expired during the current financial period without being exercised.

26. Derivative financial instruments - continued

The company had entered into this arrangement so as to hedge against forecast fluctuations in variable lease payments in respect of operating lease agreements for eight aircraft. The critical terms and conditions of the derivative contracts outlined above are identical to those of the respective lease agreements. Accordingly, settlement amounts under the derivative contracts affected on a monthly basis would match variations in the monthly variable lease payments.

The terms and approximate notional amounts of the combined bought call and written put fuel price options held for hedging purposes outstanding at 31 March 2005 are as follows:

Contract cover	Notional amount	Fluctuation band	Fair value Lm000
Seven month period to 31 October 2005	USD4,400,000	\$40 - \$35	557
Six month period to 31 March 2005	USD2,300,000	\$40 - \$32.5	41
Seven month period to 31 October 2005	USD4,800,000	\$45 - \$35	371
			969

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

Contract cover	Notional amount	Settlement terms	Fair value Lm000
Six month period to 30 September 2005	USD3,100,000	Pay-fixed (\$237), receive-floating	1,474
Six month period to 31 March 2005	USD1,600,000	Pay-fixed (\$38.59), receive-floating	134
			1,608

26. Derivative financial instruments - continued

The other fuel derivatives held by the company outstanding as at 31 March 2005 comprise a bought call option with an approximate notional amount of USD2,600,000 and strike price of \$60, covering the five month period to 31 March 2006.

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

The terms and conditions of the derivative instruments outstanding as at 31 July 2004 are disclosed in the consolidated financial statements of the preceding financial year.

27. Borrowings

	Group		Company	
	31 March	31 July	31 March	31 July
	2005	2004	2005	2004
	Lm000	Lm000	Lm000	Lm000
Short-term falling due within one year				
Bank overdrafts	1,985	2,142	865	1,276
Bank loans	2,061	1,032	1,508	152
Other loans	3	3	-	-
Short-term borrowings	4,049	3,177	2,373	1,428
Long-term				
Bank loans	13,053	13,559	12,201	12,354
Other loans	4	6	•	-
Long-term borrowings	13,057	13,565	12,201	12,354
Total borrowings	17,106	16,742	14,574	13,782

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

27. Borrowings - continued

	Gro	ір	Comp	any
	31 March	31 July	31 March	31 July
	2005	2004	2005	2004
	Lm000	Lm000	Lm000	Lm000
Maturity of long-term borrowings				
Between 1 and 2 years	508	508	-	152
Between 2 and 5 years	12,502	12,994	12,201	12,202
Over 5 years	47	63	-	-
	13,057	13,565	12,201	12,354

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

	Grou	ıp	Comp	any
	31 March	31 July	31 March	31 July
	2005	2004	2005	2004
	%	%	% %	%
Bank overdrafts	3.4	3.1	3.0	2.8
Bank loans	3.7	3.4	3.7	3.3

28. Other liabilities

	Group		Company	
	31 March	31 July	31 March	31 July
	2005	2004	2005	2004
	Lm000	Lm000	Lm000	Lm000
Amounts falling due after more than one				
year				
Other creditors	1,039	478	-	-

29. Deferred taxation

Deferred taxation reflects all temporary differences under the liability method using a principal tax rate of 35% (2004: 35%).

The movement on deferred taxation is as follows:

	Group Lm000	Company Lm000
At 1 August 2003	(3,022)	(2,178)
Tax effect of remeasurement of financial assets (Note 34)	(15)	(15)
Tax effect of remeasurement of derivatives (Note 35)	(624)	(624)
Profit and loss account (Note 11)	1,463	639
At 31 July 2004	(2,198)	(2,178)
Tax effect of remeasurement of financial assets (Note 34)	110	110
Tour effect of management of desirations (Nate 25)	139	139
Tax effect of remeasurement of derivatives (Note 35)	139	137
Profit and loss account (Note 11)	(306)	(249)

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

	Group		Company	
	31 March	31 July	31 March	31 July
	2005	2004	2005	2004
	Lm000	Lm000	Lm000	Lm000
Deferred tax assets Deferred tax liabilities	(2,869) 614	(2,673) 475	(2,792) 614	(2,653) 475
Net balance sheet amount	(2,255)	(2,198)	(2,178)	(2,178)

29. **Deferred taxation** - continued

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

Group	At 1 August 2004 Lm000	Credited to profit and loss account Lm000	Credited to equity Lm000	At 31 March 2005 Lm000
Deferred tax liabilities Remeasurement of derivative instruments	475	-	139	614
Deferred tax assets				
Provisions	(100)	(35)	-	(135)
Temporary differences on fixed assets	(357)	-	-	(357)
Remeasurement of financial assets	(130)	-	110	(20)
Unabsorbed capital allowances and tax losses				
carried forward	-	(271)	-	(271)
Unabsorbed capital losses carried forward	(2,086)	-	-	(2,086)
	(2,673)	(306)	110	(2,869)
Net deferred tax	(2,198)	(306)	249	(2,255)

Deferred tax assets are recognised for tax losses carried forward to the extent that realisation of the related tax benefit through future taxable profits is probable. The group has unrecognised tax losses and unabsorbed capital allowances of Lm17,174,000 (2004: Lm8,904,000) to carry forward against future taxable income and which have no expiry date. In addition, the group has an unrecognised capital loss of Lm23,797,000 (2004: Lm24,272,000). This loss can be carried forward indefinitely against future capital profits. Accordingly, the group has a potential deferred tax asset amounting to Lm14,340,000 which has not been recognised in these financial statements.

29. Deferred taxation - continued

Company	At 1 August 2004 Lm000	Credited to profit and loss account Lm000	Credited to equity Lm000	At 31 March 2005 Lm000
Deferred tax liabilities				
Remeasurement of derivative instruments	475	-	139	614
Deferred tax assets Provisions Remeasurement of financial assets	(65) (104)	- (6)	- 110	(65)
Unabsorbed capital allowances and tax losses carried forward	-	(243)	<u>-</u>	(243)
Unabsorbed capital losses carried forward	(2,086)	-	_	(2,086)
Temporary differences on fixed assets	(398)	-	-	(398)
	(2,653)	(249)	110	(2,792)
Net deferred tax	(2,178)	(249)	249	(2,178)

30. Provisions in respect of maintenance costs

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

The amount of the provisions at 31 March 2005 and 31 July 2004 represent the excess of amounts charged to the profit and loss account over the actual costs incurred.

	Group and Company	
	Period from	
	1 August	
	2004 to	Year ended
	31 March	31 July
	2005	2004
	Lm000	Lm000
At beginning of year	4,680	2,135
Charged to profit and loss account:		
 Additional provisions, including effects of unwinding non-current provisions 	3,693	8,030
Used during year	(5,114)	(5,485)
At end of year	3,259	4,680

31. Other provisions

		Provisions against commitments	
	Provisions	and guarantees	
0 10	on onerous	issued in favour of	TD 4.1
Group and Company	contracts Lm000	AZZURRAair S.p.A. Lm000	Total Lm000
	2111000	Zinooo	Zillooo
At 1 August 2003	7,000	2,843	9,843
Charged to profit and loss account:			
- Additional provisions	3,703	2,067	5,770
- Effects of unwinding non-current provisions	295		205
(Note 9)	385	-	385
Used during year	(2,283)	(2,052)	(4,335)
At 31 July 2004	8,805	2,858	11,663
(Credited)/charged to profit and loss account:			
- Additional provisions	(365)	454	89
- Effects of unwinding non-current provisions	247		247
(Note 9)	247	-	247
Used during year	(3,128)	(710)	(3,838)
At 31 March 2005	5,559	2,602	8,161

32. Share capital

Group and	Group and Company	
31 March	31 July	
2005	2004	
Lm000	Lm000	
35,000	35,000	
11,115	11,115	
	31 March 2005 Lm000	

By virtue of a resolution dated 16 April 2004, the company's shareholders approved the increase in issued ordinary share capital of 6,115,478 shares with a nominal value of Lm1 each. This increase in share capital has principally financed the transfer of an emphyteutical conversion on property from the Government.

33. Share premium account

	Group and Company Period from	
	1 August 2004 to Year end	
	31 March	31 July
	2005	2004
	Lm000	Lm000
At beginning of year	18,358	11
Issue of ordinary share capital		18,347
At end of year	18,358	18,358

34. Revaluation reserve

Group and Company	Marketable securities Lm000
At 1 August 2003	2,434
Net losses from changes in fair value Deferred income tax	(30) 15
At 31 July 2004	2,419
Net gains from changes in fair value Amount released on realisation of investments Deferred income tax (Note 29)	1,031 (3,340) (110)
At 31 March 2005	

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

35. Hedging reserve

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

Group and Company	Currency forwards and options Lm000	Commodity options and swaps Lm000	Interest rate swaps Lm000	Interest rate linked option arrangement Lm000	Total Lm000
At 1 August 2004					
Gross amounts of (losses)/gains Deferred income tax	(168) 59	1,477 (517)	(16) 6	156 (55)	1,449 (507)
	(109)	960	(10)	101	942
Movements in period ended 31 March 2005					
(Losses)/gains from changes in fair value	(1,178)	2,528	2	(156)	1,196
Deferred income tax (Note 29)	412	(885)	-	55	(418)
	(766)	1,643	2	(101)	778
Transferred to net profit	652	(1,523)	75	-	(796)
Deferred income tax (Note 29)	(228)	533	(26)	-	279
	424	(990)	49	-	(517)
At 31 March 2005					
Gross amounts of (losses)/gains	(694)	,	61	-	1,849
Deferred income tax	243	(869)	(20)	-	(646)
	(451)	1,613	41	-	1,203

35. Hedging reserve - continued

neaging reserve - continued		Commodity	Interest	Interest rate linked	
Group and Company	Currency Forwards Lm000	options and swaps Lm000	rate swaps Lm000	option arrangement Lm000	Total Lm000
At 1 August 2003					
Gross amounts of (losses)/gains Deferred income tax	(117) 40	682 (238)	(171) 60	2,838 (993)	3,232 (1,131)
	(77)	444	(111)	1,845	2,101
Movements in year ended 31 July 2004					
(Losses)/gains from changes in fair value	(864)	2,321	5	(2,682)	(1,220)
Deferred income tax (Note 29)	303	(813)	(2)	938	426
	(561)	1,508	3	(1,744)	(794)
Transferred to net profit	813	(1,526)	150	-	(563)
Deferred income tax (Note 29)	(284)	534	(52)	-	198
	529	(992)	98	-	(365)
At 31 July 2004					
Gross amounts of (losses)/gains	(168)	1,477	(16)	156	1,449
Deferred income tax	59	(517)	6	(55)	(507)
	(109)	960	(10)	101	942

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

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

The net fair value gains at 31 March 2005 on the open interest rate swap agreement will be transferred to the profit and loss account during the remaining term of the contract up to September 2005. As at the balance sheet date, this contract is designated as hedging anticipated variable interest payments which will also accrue over the term of the derivative contract.

36. Capital reserve

The capital reserve arises on consolidation following the acquisition of minority interests in group undertakings. This capital reserve cannot be distributed by way of dividend.

Group	Lm000
At 1 August 2003 and 31 July 2004	466
Arising on acquisition of minority interest in group undertakings Profit and loss account	(488) 22
At 31 March 2005	-

37. Financial instruments

Hedging policy and derivative financial instruments

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

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

Currency risk

The group manages currency risk by maintaining, as far as possible, its net foreign currency financial position in line with the components of the Maltese Lira basket.

The expected future cash flows in individual major currencies usually over the coming twelve months are budgeted and analysed, and the company hedges the respective net currency exposure in major currencies by entering into forward foreign exchange contracts, representing commitments to purchase foreign currency amounts covering the net exposure at a pre-established exchange rate. The company also utilises foreign currency options. The respective currency exposure is usually hedged for a period of up to 24 months. In accordance with the requirements of IAS 39, the group designates forecast transactions amounting to the net exposure in individual currencies as hedged items. These forecast transactions, qualifying as highly probable, would typically include the group's purchases of airline services, fuel, lease expenditure, insurances and a number of other aircraft related operating costs. These expenses are routinely denominated in USD, which currency accounts for a relatively minor portion of the group's revenues. Forecast transactions designated as hedged items could also include revenues denominated in Euro and GBP.

37. Financial instruments - continued

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

Interest rate risk

The group's significant interest-bearing financial instruments mainly comprise bank borrowings and deposits held with banks, which substantially are subject to floating interest rates. The group's borrowings include foreign currency facilities at variable interest rates which are based on reference rates as USD and Euro Libor. The group uses interest rate swaps, as cash flow hedges of future variable interest payments, which have the economic effect of converting these long-term borrowings from floating rate instruments to fixed rate loans. Under the interest rate swaps, the group agrees with the derivative counterparties to exchange at specified intervals (mainly quarterly or on a six monthly basis), the difference between fixed contract rates and variable rate interest amounts calculated by reference to the agreed notional principal amounts. Variable interest payments may be hedged up to 100% and are usually hedged for the entire duration of the floating rate borrowings.

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

Fuel price risk

During the financial year ended 31 March 2005, the share of fuel expenses as disclosed in Note 3 to the financial statements accounted for approximately 9% (2004: 9%) of the total operating expenses of the group. Significant changes in crude oil, jet fuel and other fuel product prices may have a substantial effect on the group's results. Different hedging instruments with regard to the crude oil and fuel products markets are used to limit the fuel price risk. These instruments mainly comprise combined purchased call and written put options, together with other options and commodity swap agreements.

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

37. Financial instruments - continued

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

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

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

Credit risk

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

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

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

Recognisable risks are accounted for by allowances on debtors.

The credit risk from derivative financial instruments lies in the insolvency of the contracting party and as a consequence, in the amount of the sum, on balance, of positive market values vis-à-vis the respective business partners. Transactions are concluded with first rate counterparties only while counterparty limits are defined so that the risk of loss is actually low.

37. Financial instruments - continued

Liquidity risk

To identify future liquidity requirements on a timely basis, the company estimates its expected financial requirement over a twelve month period. According to the forecast current at the time of preparing these financial statements, additional financing facilities, other than those facilities already in place, are expected to be required over the coming year.

Fair values

The fair value of publicly traded available-for-sale investments is based on quoted market prices at the balance sheet date. The fair value of derivative financial instruments is determined in accordance with the group accounting policy disclosed on page 21.

At 31 March 2005 and 31 July 2004, the carrying amounts of the group's other financial assets and liabilities approximated their fair values.

38. Cash (used in)/ generated from operations

Reconciliation of operating loss to cash (used in)/generated from operations:

	Group Period from		Company Period from		
	1 August 2004 to 31 March 2005	Year ended 31 July 2004	1 August 2004 to 31 March 2005	Year ended 31 July 2004	
	Lm000	Lm000	Lm000	Lm000	
Operating loss	(4,826)	(5,833)	(4,819)	(8,670)	
Adjustments for:					
Depreciation of property, plant and				4.0=4	
equipment	1,945	2,546	1,558	1,971	
Impairment charge on assets other than aircraft (Note 15)	70	250	_	250	
Depreciation of investment property (Note 16)	40	13	40	24	
Movement in capital reserve	22	-	-	_	
Maintenance charges	3,693	8,030	3,693	8,030	
Amortisation of intangible asset	60	83	-	-	
Exchange movement on retranslation of					
foreign subsidiary balances	(177)	(261)	-	-	
Gain on disposal of tangible assets other	(1)	(1)	(2)	(2)	
than aircraft	(1)	(1)	(2)	(3)	
Changes in working capital:					
Stocks	396	916	282	263	
Debtors	9,661	1,164	9,457	(246)	
Creditors	(12,918)	11,126	(9,973)	12,524	
Provisions used during year	(3,838)	(4,335)	(3,838)	(4,335)	
Cash (used in)/generated from operations	(5,873)	13,698	(3,602)	9,808	

39. Cash and cash equivalents

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

	Grou	Group		any
	31 March	31 July	31 July 31 March	
	2005	2004	2005	2004
	Lm000	Lm000	Lm000	Lm000
Cash at bank and in hand	23,945	29,723	17,951	21,603
Bank overdrafts	(1,985)	(2,142)	(865)	(1,276)
	21,960	27,581	17,086	20,327

As at 31 March 2005, balances amounting to Lm4,400,000 were pledged as cash collateral with bankers as security for banking and other facilities utilised. Bank and cash balances include an amount of Lm1,029,316 (2004: Lm1,324,743) which is held in overseas bank accounts subject to currency restrictions which lead to delays in remittance to Malta.

40. Capital commitments

	Gro	up	Company		
	31 March 2005 Lm000	31 July 2004 Lm000	31 March 2005 Lm000	31 July 2004 Lm000	
Capital expenditure in respect of property, plant and equipment: Authorised and contracted for	835	107	835	107	

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

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

	31 March	31 July
	2005	2004
	Lm000	Lm000
Not later than 1 year	13,623	14,290
Later than 1 year and not later than 5 years	44,373	47,305
Over 5 years	72,483	77,069
	130,479	138,664

The group's lease commitments include lease payment obligations amounting to Lm113,430,000 (2004: Lm114,340,000) which have been based on the fixed base rent payable outlined in the lease agreements. However, the lease payments may vary in accordance with the movements in the 10 year USD Treasury yield rate.

42. Contingent liabilities

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

	31 March	31 July
	2005	2004
	Lm000	Lm000
Guarantees in respect of other group and		
associated undertakings	2,283	3,080
Indemnities to certain banks for guarantees		
principally given to the Civil Aviation		
Authority of the United Kingdom	4,687	5,010
Other indemnities, bank guarantees and		
documentary credits	5,455	6,933

43. Related party transactions

During the course of its operations, the company carries out business with entities owned by the Government of Malta who has a 96% holding in the company and who is represented on the board of directors.

Amounts charged by the group to an associated undertaking, AZZURRAair S.p.A., with respect to the lease of aircraft for the year ended 31 July 2004 amounted to Lm873,000.

The Air Malta group

Group and associated undertakings within the group as at 31 March 2005 were the following:

Group and associated undertakings within the gre	Gro		Com		Country of	
Group undertakings	% hol		% hol		incorporation	
	2005	2004	2005	2004		
Airline activities						
Air Malta plc Head Office, Luqa	N/A	N/A	N/A	N/A	Malta	
Holiday Malta Company Limited Air Malta House, 314/316 Upper Richmond Road, Putney, London	100	100	100	100	United Kingdom	
Peregrine Aviation Leasing Company Limited WIL House, Shannon Business Park Shannon Co. Clare, Ireland	100	100	100	100	Ireland	
Malta Falcon Finance Limited (in liquidation) Air Malta Buildings, Vjal l-Avjazzjoni, Luqa	100	100	100	100	Malta	
Malta Air Charter Company Limited Air Malta Buildings, Vjal l-Avjazzjoni, Luqa	100	100	100	100	Malta	
The Holiday Travel Club Limited Air Malta House, 314/316 Upper Richmond Road, Putney, London (held by Holiday Malta Company Limited)	75	75	-	-	United Kingdom	
The Holiday Travel Club Transport Limited Air Malta House, 314/316 Upper Richmond Road, Putney, London (held by The Holiday Travel Club Limited)	75	75	-	-	United Kingdom	
Holiday Malta GmbH Niederroder Weg 14, 63150 Heusenstamm, Germany (held by Holiday Malta Company Limited)	72	72	-	-	Germany	
Holiday Malta (Russia) Limited Air Malta Head Office, Luqa LQA 05, Malta (held by Holiday Malta Company Limited)	100	100	-	-	Malta	
G.W. Munzone S.r.l. Corso Martiri della Liberta, 188 95131 Catania, Sicily (held by Holiday Malta Company Limited)	60	60	-	-	Italy	
Travel 2000 S.r.l. Corso Martiri della Liberta, 184 95131 Catania, Sicily (held by G.W. Munzone S.r.l.)	60	60	-	-	Italy	
Holiday Malta (Hellas) Tourism S.A. 91, Alexandras Ave, 11474 Athens, Greece (held by Holiday Malta Company Limited)	96	96	-	-	Greece	

The Air Malta group - continued

Group undertakings – continued		Group Cor holding % h 5 2004 2005			Country of incorporation
Airline activities					
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
Hotels					
Airport Hotel Company Limited Air Malta Buildings, Vjal l-Avjazzjoni, Luqa	100	100	100	100	Malta
Hal Ferh Company Limited Air Malta Buildings, Vjal l-Avjazzjoni, Luqa	100	81	100	81	Malta
Selmun Palace Hotel Company Limited Air Malta Buildings, Vjal l-Avjazzjoni, Luqa	100	90	100	90	Malta
Tigne Development Company Limited Air Malta Buildings, Vjal l-Avjazzjoni, Luqa	100	100	100	100	Malta
Retail and other activities					
Air Supplies and Catering Company Limited Air Malta Buildings, Vjal l-Avjazzjoni, Luqa	100	100	100	100	Malta
KM Holdings plc (in liquidation) Air Malta Buildings, Vjal l-Avjazzjoni, Luqa	100	100	100	100	Malta
Maltex Co. Ltd. Air Malta Buildings, Vjal l-Avjazzjoni, Luqa	100	100	100	100	Malta
Medisle Holidays Company Limited Air Malta Buildings, Vjal l-Avjazzjoni, Luqa	100	100	100	100	Malta
Osprey Insurance Brokers Company Limited Air Malta Buildings, Vjal l-Avjazzjoni, Luqa	100	100	100	100	Malta
Shield Insurance Co. (Guernsey) Limited PO Box 130 Court, St. Peter Port, Guernsey	100	100	100	100	Guernsey

The Air Malta group - continued

Group undertakings – continued	Group % holding				Country of incorporation
Retail and other activities - continued	2005	2004	2005	2004	F
Sterling Travel & Tourism Limited Air Malta Buildings, Vjal l-Avjazzjoni, Luqa	100	100	100	100	Malta
Associated companies					
Accor Air Malta Company Limited Air Malta Buildings, Vjal l-Avjazzjoni Luqa	40	40	40	40	Malta
Air International Services S.r.l. Corso Martiri della Liberta, Catania, Sicily, Italy	49	49	49	49	Italy
A.M.G. Limited (in liquidation) Air Malta Buildings, Vjal l-Avjazzjoni, Luqa	45	45	45	45	Malta
AZZURRAair S.p.A. Viale Papa Giovanni XXIII, 48 24121 Bergamo	49	49	49	49	Italy
Chinese-Maltese Services Co. Ltd. (in liquidation) c/o Malta Investment Management Co. Ltd. Trade Centre, San Gwann Industrial Estate, San Gwann	49	49	49	49	Malta
Cottonera Properties Co. Ltd. (in liquidation) c/o Malta Investment Management Co. Ltd. Trade Centre, San Gwann Industrial Estate, San Gwann	49	49	49	49	Malta
Flight Catering Co. Ltd. Air Malta Buildings, Vjal l-Avjazzjoni, Luqa	30	30	30	30	Malta
Lufthansa Technik (Malta) Ltd. Malta International Airport, Gudja	49	49	49	49	Malta
Malpro Limited Air Malta Buildings, Vjal l-Avjazzjoni, Luqa	50	50	50	50	Malta
Mediterranean Aviation Company Limited Flat 2, Valletta Buildings, South Street, Valletta	25	25	25	25	Malta
Medpromo Co. Ltd. (in liquidation) 34, Windsor Terrace, Sliema	49	49	49	49	Malta
Sabratha Duty Free Co. Ltd. Air Supplies, Malta International Airport, Gudja (held by Air Supplies and Catering Company Limited)	50	50	-	-	Malta
World Aviation Systems Limited 20, Republic Street, Valletta	50	50	50	50	Malta