AIR MALTA plc

Annual Report and Consolidated Financial Statements 31 March 2008

Company Registration Number: C 2685

Directors' report

The directors present their report and the audited financial statements of Air Malta plc for the year ended 31 March 2008.

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, tour operations, call centre and other tourism related activities, the provision of tourist accommodation, insurance and the provision of revenue accounting services. During the current financial year, the group pursued its efforts to discontinue its hotel activities. The group holds investments in a number of subsidiary and associated undertakings.

Review of the business and results

General

Despite a slowing global economy, record fuel prices, a weak sterling and increased competition, the group's operating results have this year improved over the previous year's performance.

Total passenger numbers carried by the airline have this year continued to increase and totalled 2,149,827, an increase of 7% over the previous year. The number of passengers carried from the Malta base increased by 5% and represent 55% of the total number of passengers handled by Malta International Airport. Traffic figures rose throughout the year and the growth rate peaked in winter when traffic increased by 15% when compared to same period previous year. The decline in yield is similar to the general trend in the airline industry.

The airline's revenues, in line with the commitment made in the Industrial Agreement signed in 2004 with the four trade unions representing the company's employees, have shot up by €57,000,000 over the past four years. In spite of the increased activity over the past four years, direct operating costs (excluding fuel), selling and distribution expenses and overheads have all decreased considerably when compared to 2004; CASK (excluding fuel) has been reduced from €¢5 in 2004 to €¢4.1 in 2008. Unfortunately the savings realised over the past four years were not enough to compensate for an increase in fuel costs of over €30,000,000 for the Malta base over the same period.

The company continues with its efforts to reduce costs and pursue its strategy to increase its operational revenues and broaden its customer base. Air Malta has meticulously invested in apposite ICT systems that enable the company to face up to new market challenges. There has been major investment in revenue management software and skills together with significant improvements and streamlining of the company's selling and distribution channels. In its efforts to focus on its core operating activities, the company continued to move out of those activities that do not add value to its airline operations.

The strategic direction of the company is to continue providing reliable and value for money air transportation to passengers and cargo to/from Malta as well as from other points within Europe that offer opportunities for growth and profitability. The Board of Directors is committed to achieving long term sustainability for the airline for the benefit of the Maltese economy and society at large. This means that Air Malta needs to be developed into a performance driven organisation to enhance the value for our shareholders through brand enhancement, to enhance the value for our customers through a superior service at competitive pricing, and to enhance the value for our employees through motivation and development.

Directors' report - continued

Financial Results

The profit and loss accounts of the group and company are set out on page 17.

During the financial year ended 31 March 2008, Air Malta's group turnover amounted to €301,925,000, an increase of €11,883,000 on the €290,042,000 group turnover reported in the previous year. The group has this year incurred a €8,148,000 loss from continued operations compared to the €8,060,000 loss recorded in the previous year. During this year the group has registered a significant gain of €19,188,000 from discontinued operations which have resulted in the group reporting a €11,040,000 profit for the financial year under review against the €11,638,000 group loss reported last year.

The airline's turnover for the financial year ended 31 March 2008 amounted to €273,744,000, which when compared to the €260,700,000 turnover recorded in the previous year, results in an increase of €13,044,000. This equates to a 5% increase in turnover. The company realised an operating loss of €8,301,000 in the current financial year as against the €12,351,000 operating loss incurred in the previous year. The operating losses reported for the comparative financial year ended 31 March 2007, include a one time payment of €4,913,000 in respect of voluntary redundancy scheme payments. The company's loss for the year from continuing operations, including financing costs and other investment income, amount to €9,197,000 (€8,209,000 loss reported in previous year).

The company has this year recognised a €12,838,000 gain from the disposal of its shareholding in one of its hotels. The profits arising from such sale are reported under the results from discontinued operations. The total reported profit of the company for the financial year ended 31 March 2008 amounts to €3,641,000 as opposed to a loss of €8,209,000 incurred in the comparative year.

Fuel now accounts for 24% of the airline's operating costs. Crude prices continued to surge throughout the year reaching unprecedented levels towards the end of the financial year. In terms of fuel costs, the fuel market spot price increased by 10% when compared to the previous year. The company has successfully managed to contain the negative impact on its operating results by means of securing effective fuel hedges.

The significant movements in the exchange rates of the sterling and the US dollar with the euro resulted in a favourable realised underlying gain of €900,000 on the airline's operating results. During the year, the airline benefited from reduced costs resulting from the continued weakening of the US dollar which compensated for the loss of revenue sustained as a result of a weakening sterling. At the same time, the impact of the exchange rate volatility on the company's results was contained by means of forward contracts.

In the year under review the company completed the phasing out of its AVRO RJ fleet. In July 2007, the company sold the last 4 AVRO RJs that were still held by the company. Today, Air Malta no longer owns, leases or operates any AVRO RJ aircraft.

With respect to the group's performance, Air Malta's tour operating arm, Holiday Malta, has continued to feel the pressure from the shift in consumer demand and drop in margins due to the highly competitive nature of the industry. Holiday Malta has however placed itself in an ideal position to take advantage of the consumer demands for dynamic internet based packaging and increased direct bookings. During the financial year under review the Holiday Malta group has undergone a restructuring exercise to curtail its costs and upgrade its sales distribution channels.

Directors' report - continued

Financial Results - continued

Osprey Insurance Brokers Company Ltd has registered a profit before tax of €427,268 which is in line with previous year's results. This is a positive result when considering the prevailing soft market which has had a significant impact on premium levels and the disposal of subsidiary companies which previously placed their insurance policies with Osprey. Shield Insurance Co. Ltd has had another positive year with a profit of €1,076,368 resulting from a steady premium income and very low claims activities. Low re-insurance costs arising from significant retentions have contributed to this result.

Revenue Enhancement Measures

Over the past years, as had been envisaged in the 2004 rescue plan, various changes and investment in the company's commercial and distribution channels have been introduced. The initiatives taken include; fine tuning the strategy on fares especially public fares, introducing one way fares, investment in revenue management tools, accelerating the e-ticketing process and facilitating e-commerce predominantly through the airline's website together with investing in a state of the art call centre. Air Malta also anticipated the market shift to direct sales and repositioned itself accordingly. Unlike other airlines, Air Malta has not shunned other means of distribution like Tour Operators, Travel Agents and Incentive Organisers but continues to co-operate with all entities that provide business to the mutual benefit of the airline and the agents.

The company's revenues have this year increased by €13,000,000 when compared to previous year. Schedule passenger revenue remained virtually at previous year's level whereas charter traffic contributed towards a €9,600,000 increase in revenue over last year. Although passenger traffic figures have increased substantially, the drop in yields due to increased capacity by other airlines did not generate additional revenues from scheduled traffic. Air Malta's yields and revenues have this year also been negatively impacted by the depreciation of the sterling against the euro.

Revenue derived from the leasing out of aircraft has this year increased by €4,500,000 whereas ground operation revenues dropped by €1,000,000 when compared to previous year. The company successfully leased out three aircraft, one A319 and two A320s during the lean winter season. The drop in ground operation revenues is mainly due to contracting at highly competitive prices rather than as a result of loss in market share.

Air Malta has this year continued in its drive to invest in revenue maximising initiatives. The highly competitive market we operate in has led the company to simplify its pricing structures and further enhance its sales distribution channels. With regards to pricing, Air Malta embarked on a simplified three tier pricing structure with which the customer can easily identify. The new fare structures, as is industry practice, start low and escalate in line with the demand for the flight. Furthermore, the new pricing structure facilitates the application of revenue management software and principles to maximise the airline's revenues whilst maintaining market competitive fares.

Directors' report - continued

Revenue Enhancement Measures - continued

Investment in ICT is being made to achieve strategic competitive advantage in the management of air travel services. In May 2007, Air Malta overhauled its website to a more user friendly version providing customers with transparency in the choice of fares, dates and travelling conditions. Besides enabling passengers to choose the cheapest flight available and book seats, hotels, car hire and insurance, the new website is also capable of checking-in customers departing from various airports; including Malta as from July 2008. Web bookings have towards the end of the financial year surpassed the 20% mark of total bookings. A new portal is also being developed to handle corporate customers, tour operators and travel agencies in view to improve processing efficiencies. Likewise, through state of the art call handling technology, Air Malta's call centre has gained higher levels of efficiency in handling sales calls in all of the major languages prevalent in its markets.

The above investment in technology to upgrade the company's sales distribution channels has been supported with an evermore dynamic sales force. Various administrative and accounting functions previously carried out at outstation offices have over the last year been migrated back to Head Office. The Outstation offices are now predominantly geared up to sell, with regular sales visits being made to travel agents and online agents throughout the year. A new Groups Management System (GMS) was introduced during the year to facilitate the administration of group sales and ICT sales. New methods of allocating seats to tour operators have been introduced to minimise the late return of unsold seats.

During the year under review, the company invested in various focused marketing campaigns. Marketing initiatives mainly targeted the short break holiday makers, especially in the shoulder and low seasons. The market has generally reacted positively to the company's tactical advertising. Each campaign was closely monitored to optimise the return on the company's spend.

Air Malta has continued to endeavour to enter into various Interline e-Ticketing agreements with other carriers in an effort to offer a seamless service to its clients connecting with other carriers. The company has also benefited from the exposure it has gained from the code share agreements in place with Lufthansa, Air One and Turkish Airlines amongst others. Air Malta's code-share cooperation with Lufthansa has so far rendered remarkable results on the Frankfurt and Munich routes which are selling well to passengers connecting to German domestic, European and intercontinental flights.

Air Malta has positioned itself as a Value Focussed Carrier in its market niche. This defines the airline as capable of offering low fares whilst maintaining the same comfort and security levels offered by larger network carriers.

Cost Cutting and Efficiency Improvement Measures

Air Malta has by the end of this year managed to consolidate its fleet to a one type Airbus A320 family aircraft. This was achieved after two Airbus A320 were delivered to Air Malta and the last two Boeing 737-300s being successfully redelivered to Ansett Worldwide. The conversion to a single type fleet required intensive pilot conversion training over the past few years to switch from Boeing 737 pilots to Airbus A320/A319. The consolidated fleet will now permit Engineering to streamline its activities and spares provisioning to ensure optimal savings. Furthermore Air Malta now has a single pool of common rated pilots which gives it lower complexity and higher flexibility in crewing than in previous years, increasing cost efficiency.

Direct operating costs have this year increased by €11,000,000 due to a larger fleet being flown during the period under review; in fact CASK has this year decreased marginally when compared to previous year. An additional aircraft was utilized on the Malta based network in summer 2007 whereas an extra aircraft was operated on the UK base operation.

Directors' report - continued

Cost Cutting and Efficiency Improvement Measures - continued

Aviation insurance costs have this year decreased by €830,000. In real terms the savings are actually higher since the above savings were obtained after insuring a newer and higher valued aircraft fleet together with an increase in revenue passenger kilometers. The savings came as a result of a successful strategy in the placing of Air Malta's various policies by its subsidiary insurance companies without any deterioration in coverage terms and conditions. The company has managed to maximise on the soft cycle of the aviation insurance market and at the same time has maintained its long relationship with its lead insurer.

During the year under review an Operational Control Centre was established at the Aviation Centre. All the three core operational sections Flight Dispatch, Crew Dispatch and System Coordination finally came together to take over the control of the Air Malta operations. In parallel, a new Crew Self Briefing system started operating from MIA, relieving this function from the Flight Dispatchers who were now ready to become Operation Controllers. The project ensured the integration of operational systems and through a parallel business process reengineering exercise, a more effective and efficient operations control is being achieved.

Intensive preparations by Engineering, Ground Operations, Flight Operations and Security sections were carried out during the year for an IATA Operational Safety Audit (IOSA) audit which took place in April 08. The IOSA audit was concluded successfully and Air Malta has obtained an IOSA accreditation valid up to July 2010. The company opted to carry out an IOSA audit since its accreditation certifies the high operational and safety standards sustained by the airline, an important requirement for the airline to enter into Code Share agreements with other reputable airlines. Similar to other years, the Engineering department has ensured that the Dispatch Technical Reliability of the Air Malta fleet was maintained throughout the year above 99% which is in excess of the industry standard.

In spite of the increased activity, ground services costs in the Malta base were reduced by €2,000,000 during the year. This significant cost reduction mainly resulted from payroll savings as a result of last year's VRS, together with further overtime cost savings arising from improved work practices and better deployment of staff. The company has also invested to modernise its ground equipment in order to improve its operational efficiency together with upgrading the service being provided to our customers.

Excluding an €860,000 increase in flight operations payroll due to increased flying, total payroll savings amounted to €1,500,000 during the current year. The payroll savings were mainly achieved as a result of last year's VRS, the reduction in staff at the outstation offices, the outsourcing of the revenue accounting function together with further staff deployment efficiency measures implemented during the year.

A Crew Management System contract was signed with Sabre Rocade in October 2007 to replace the in-house Crew Rostering System. The new CMS will fully integrate with other software in use in Air Malta namely the Flight Scheduling Software and the Operations Control Software. This will therefore ensure better and more cost effective crew management. A state of the art Flight Operations Web Portal was established that will guarantee easy communication with both the Flight Crew and the Cabin Crew and reduce the amount of printed documentation that is issued to all the staff.

The company successfully negotiated collective agreements with the Association of Aviation Engineers and the Airline Pilots' Association that were signed in December 2007 and January 2008 respectively. After lengthy negotiations both agreements have ensured increased productivity which was reflected in improved remuneration packages for the employees. Negotiations with the GWU and the Union of Cabin Crew are still ongoing. In all the collective agreements being negotiated by the company the underlying principle has been to secure higher productivity and efficiencies in exchange for better conditions offered to the company's employees.

Directors' report - continued

Cost Cutting and Efficiency Improvement Measures - continued

Administrative overheads have continued to decrease when compared to previous years' levels, where the main savings were derived from payroll and the outsourcing of the revenue accounting function. Next year the savings from the outsourcing of revenue accounting will be higher as unlike the year under review, a full year's savings will be realised.

Further savings were realised by means of reallocating back office work from the outstation offices to Head Office and thus reducing staff at the outstations. Such savings will be greater in coming years due to one time termination benefits that had to be settled this year. A number of outstation offices have also this year been reallocated to smaller offices. Rationalisation of rented office space has this year rendered a cost saving of €450,000.

Throughout the year the company has also continued to reap considerable savings from various outsourcing agreements entered into in previous years, such as; catering, cleaning of aircraft, in-flight entertainment and the outsourcing of the ICT function to SITA. The company has this year sought to consolidate these savings whilst ensuring that high quality service standards are maintained by the service providers.

Air Malta will continue to strive to cut down on its cost base whilst seeking to further improve its operational efficiencies.

Focus on core operations

In line with its stated policy of divesting itself from non-core activities, on 27th April 2007, Air Malta signed the share transfer agreement whereby it transferred the entire equity it held in Tigne Development Co Ltd which used to operate the Crowne Plaza Hotel in Tigne. This was done in line with a public tender that was issued by the Lands Department for the sale of the site occupied by the Hotel. The sale of the company's shares in Tigne Development Co Ltd generated proceeds of €31,000,000 arising from the consideration for the sale of its shares as well as the repayment of the shareholder loans made to the hotel over the years.

Efforts are still ongoing for the sale of Selmun Palace Hotel Co Ltd and Hal Ferh Co. Ltd. It is expected that these companies / properties would be disposed of during the financial year ending 31 March 2009.

In December 2007 negotiations commenced with the Company's partners in Mediterranean Aviation Co Ltd (Medavia) for the sale of the 25% stake which Air Malta holds in Medavia. On 11th July 2008, that is post balance sheet date, these negotiations were concluded and a share sale agreement was signed by the company for the entire 25% shareholding. This transaction generated inflows to the company of just under €5,000,000.

Future Prospects

The current market scenario in which we are operating is difficult. Fuel prices are high, the drop in the value of sterling is negatively impacting our revenues from the UK market, and competitive pressures are negatively affecting yields. However, a number of factors have and are being taken to mitigate these factors.

Directors' report - continued

Future Prospects - continued

During the past two years, the airline's network has been refocused on a small number of high potential markets that can sustain frequent flights, such as London, Paris, Munich, and Rome, while regional routes such as Bologna, Glasgow and others have been suspended or converted to charters. Routes within 2.5 hours flying from Malta are favoured over traditional UK regional points because of lower fuel costs and higher Euro yields. Along with the network changes, there has been a totally new pricing and revenue management approach with the help of Sabre Consulting. New distribution tools, such as the internet booking engine are quickly replacing traditional higher cost channels.

In Winter 2007/08, Air Malta successfully grew traffic by 15%. Building on this success, Winter 2008/09 will be approached with the same aggressive pricing and advertising approach and it is expected that positive gains can be achieved again. The focus of the commercial strategy is to grow the shoulder periods before and after summer, when Malta has especially favourable weather, and when numerous urban dwellers in northern Europe seek a 3 to 5 day break in the Mediterranean. Marketing efforts in May and June were highly successful in 2008, and it is expected that double digit growth can be achieved again in 2009. Except in the UK, Malta is a relatively unknown destination for short holidays, and with effective marketing, there is every reason to believe that traffic to the island can be increased with short holiday makers.

The airline will stick to the proven network, pricing, and marketing strategies and take care not to start risky new routes in thin markets. Air Malta's commercial success will depend very much on driving maximum year round value out of its rich urban short-break markets within the 2.5 hours flying range from Malta.

In February 2008, Air Malta's management embarked on a company wide project to target a further decrease in its operational costs that could be maintained in subsequent years. The airline is not after short term cost cutting measures which could possibly erode or adversely affect its revenue earning capability. Each initiative is being supported by a rigorous cost/benefit analysis and a brief for implementation.

Sustained cost reduction together with enhancing the Company's revenue streams are crucial to ensure that Air Malta can continue to offer a competitive proposition to its customers. The economic challenges that are currently faced by the airline, especially the record surge in fuel prices in June 2008, accentuate the need for a relentless and sustained focus on cost reduction. These initiatives, together with the continued disposal of non-core assets, will further sustain the Group's available liquidity.

Corporate Governance Statement

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

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

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

Directors' report - continued

The Board

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

After the financial year end, on 23rd June 2008, the shareholder appointed a new Board of Directors which continues to be chaired by Mr. Lawrence Zammit. Mr. Joe Fenech Conti and Mr. Paul Bonello were reconfirmed as Directors of Air Malta plc with the former being appointed Deputy Chairman. The shareholder also appointed Ms. Alison Attard, Mr. Anton Attard, Ms. Henriette Busuttil and Mr. Clyde Micallef as Directors of Air Malta plc.

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

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

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

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

Directors' report - continued

Responsibilities of the Board

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

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

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

Relations with Shareholders

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

Remuneration

The Board believes that due to the fact that the Board is entirely composed of non-executive Directors, there is no scope in forming a separate Remuneration Committee. The Directors' remuneration is fixed by the shareholders. Directors' remuneration is disclosed in Note 12 to the Financial Statements. The Board determines the remuneration and performance related bonuses of the CEO, the Chief Officers and other senior management of the Company, none of whom are directors.

Committees established by the Board

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

Directors' report - continued

Audit Committee and Auditors

The Audit Committee meets regularly and has clear terms of reference, as approved by the Board of Directors, in relation to its authority and duties. The Audit Committee reports directly to the Board of Directors. The ultimate responsibility for delegated functions rests with the Board. The Audit Committee is made up of four non-executive Directors and continues to be chaired by Mr. Paul Bonello, a certified public accountant. On 31st July 2008, Ms. Alison Attard, Mr. Anton Attard and Mr. Clyde Micallef were appointed as Audit Committee members to replace Mr. Joe Fenech Conti, Mr. Michael Soler and Mr. Noel Radmilli.

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

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

Internal Audit

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

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

External Audit

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

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

Directors' report - continued

Corporate Management Board

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

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

ICT Governance Committee

The purpose of this Committee is to provide direction to ensure that IT is aligned with current and future business strategies and to assist the Board in governing and overseeing the Company's IT related issues. The ICT Governance Committee is to ensure that the Board has the information it needs to make informed decisions that are essential to achieve the ultimate objectives of IT governance which are;

- the alignment of ICT and the business
- the delivery of value by ICT to the business
- the sourcing and use of ICT resources
- the management of ICT related risks, and
- the measurement of ICT performance

The ICT Governance Committee is chaired by a Director of the Board. The other members include the Chief Officer Commercial, the Chief Officer IT, Corporate Services & Subsidiaries, the Chief Officer Internal Audit, and the General Managers responsible for IS strategy and systems. Bi-monthly meetings are held and minutes are forwarded to the Chairman of the Board and the CEO.

Works Council

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

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

Directors' report - continued

Investments Committee

The key objectives and responsibilities of the Investments Committee relate to:

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

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

Fuel Hedging Committee

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

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

Purchasing Committee

The Purchasing Committee keeps under review the Company's procurement policies, procedures, practices and regulations with a view to achieving optimum value for money in terms of cost and quality and to ensure maximum accountability and transparency.

The Committee is chaired by the CEO and its members comprise of; the Chief Officer IT, Corporate Services & Subsidiaries, the Chief Officer Finance, the General Manager Corporate Services, the Purchasing Manager, and an Engineering Manager. The Committee meets regularly, at least on a monthly basis, and minutes are kept by the Committee's appointed Secretary.

Directors' report - continued

Internal Controls

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

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

The Board confirms that the above processes were in place throughout the year under review and up to the date of approval of the financial statements and that the information it received was sufficient to enable it to review the effectiveness of the Company's system of internal control. The Board shall continue to monitor the appropriateness of the internal control systems in place in light of adjourning such controls to best current practice.

Dividends

The directors do not recommend the payment of a dividend.

Directors' report - continued

Directors

The directors of the holding company who held office during the year under review and as at the date of signing of the audited financial statements are:

Lawrence Zammit – Chairman
Joe Fenech Conti – Deputy Chairman
Paul Bonello
Eucharist Mizzi (resigned on 23rd June 2008)
Noel Radmilli (deceased on 17th April 2008)
Michael Soler (resigned on 23rd June 2008)
Alison Attard (appointed on 23rd June 2008)
Anton Attard (appointed on 23rd June 2008)
Henriette Busuttil (appointed on 23rd June 2008)
Clyde Micallef (appointed on 23rd June 2008)

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

16 September 2008

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

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

Independent auditor's report

To the Shareholders of Air Malta plc

We have audited the consolidated and the stand-alone parent company financial statements of Air Malta plc (the "financial statements") on pages 17 to 88 which comprise the consolidated and parent company balance sheets as at 31 March 2008 and the consolidated and parent company profit and loss accounts, statements of changes in equity and cash flow statements for the year then ended and a summary of significant accounting policies and other explanatory notes.

Directors' Responsibility for the Financial Statements
The directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and the requirements of the Maltese Companies Act, 1995. As described in the statement of directors' responsibilities on page 15, this responsibility includes designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

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

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

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

Opinion
In our opinion, the financial statements give a true and fair view of the financial position of the group and the parent company as at 31 March 2008, and of the group's and the parent company's financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the requirements of the Maltese Companies Act, 1995.

PricewaterhouseCoopers

PRICEWATERHOUSECOOPERS
167 Merchants Street
Valletta
Malta

16 September 2008

Profit and loss accounts

		Year ended 31 March			
		Group		Company	
	Notes	**2008**	2007	**2008**	2007
		€000	€000	**€000**	€000
Continuing operations:					
Turnover	2	**301,925**	290,042	**273,744**	260,700
Cost of sales		**(273,253)**	(266,378)	**(252,177)**	(244,912)
Gross profit		**28,672**	23,664	**21,567**	15,788
Selling and distribution costs		**(21,617)**	(17,135)	**(20,369)**	(17,048)
Administrative expenses		**(14,675)**	(18,500)	**(9,499)**	(11,091)
Other operating income		**761**	131	**-**	-
Operating loss		**(6,859)**	(11,840)	**(8,301)**	(12,351)
Investment income	6	**152**	65	**2,141**	4,512
Results of group and associated undertakings	7	**1,260**	1,789	**(452)**	(776)
Interest receivable and similar income	8	**264**	2,036	**454**	2,644
Interest payable and similar charges	9	**(2,767)**	(3,452)	**(2,649)**	(3,533)
Net (losses)/gains on aircraft and engine transactions	10	**(390)**	2,250	**(390)**	2,250
Loss before tax		**(8,340)**	(9,152)	**(9,197)**	(7,254)
Tax income/(expense)	11	**192**	1,092	**-**	(955)
Loss for the year from continuing operations		**(8,148)**	(8,060)	**(9,197)**	(8,209)
Discontinued operations:					
Profit/(loss) for the year from discontinued operations	3	**19,188**	(3,578)	**12,838**	-
Profit/(loss) for the financial year		**11,040**	(11,638)	**3,641**	(8,209)
Earnings per share for loss from continuing operations attributable to the equity holders of the company during the year (expressed in € per share)	13	**(0.73)**	(0.73)		
Earnings per share for profit/(loss) from discontinued operations attributable to the equity holders of the company during the year (expressed in € per share)	13	**1.73**	(0.32)		

Balance sheets

		As at 31 March			
		Group		Company	
	Notes	**2008**	2007	**2008**	2007
		€000	€000	**€000**	€000
ASSETS					
Fixed assets					
Intangible assets	14	**-**	445	**-**	-
Tangible assets					
Property, plant and equipment	15	**55,425**	66,078	**53,885**	59,786
Investment property	16	**13,715**	3,939	**14,274**	9,292
		69,140	70,017	**68,159**	69,078
Financial assets					
Investments in group undertakings	17	**-**	-	**2,191**	2,551
Investments in associated undertakings	18	**4,312**	6,420	**688**	3,608
Other financial investments					
- available-for-sale	19	**1,203**	461	**1,042**	461
		5,515	6,881	**3,921**	6,620
Total fixed assets		**74,655**	77,343	**72,080**	75,698
Other non-current assets					
Deferred taxation	27	**2,220**	5,786	**1,982**	5,632
Derivative financial instruments	24	**192**	-	**192**	-
Other debtors	23	**4,761**	6,031	**4,154**	5,285
		7,173	11,817	**6,328**	10,917
Total non-current assets		**81,828**	89,160	**78,408**	86,615
Current assets					
Debtors					
Trade debtors	22	**25,571**	25,498	**23,301**	23,869
Amounts owed by group undertakings		**-**	-	**2,183**	3,515
Amounts owed by associated undertakings		**924**	405	**905**	368
Amounts owed by related parties		**3,082**	1,029	**2,858**	636
Derivative financial instruments	24	**1,364**	2,439	**1,364**	2,439
Current taxation		**1,397**	1,190	**1,255**	878
Other debtors		**12,511**	13,925	**10,565**	12,138
Prepayments and accrued income		**5,842**	7,353	**5,322**	6,439
		50,691	51,839	**47,753**	50,282
Other current assets					
Stocks	21	**1,550**	2,337	**1,547**	2,332
Available-for-sale investments	20	**4,613**	-	**4,613**	-
Cash at bank and in hand		**44,998**	43,431	**33,825**	30,424
		51,161	45,768	**39,985**	32,756
Non-current assets classified as held for sale	3	**10,337**	18,164	**16,124**	26,702
Total current assets		**112,189**	115,771	**103,862**	109,740
Total assets		**194,017**	204,931	**182,270**	196,355

Balance sheets - continued

	Notes	Group 2008 €000	Group 2007 €000	Company 2008 €000	Company 2007 €000
EQUITY AND LIABILITIES					
Capital and reserves					
Called up issued share capital	30	**25,892**	25,892	**25,892**	25,892
Share premium	31	**42,762**	42,762	**42,762**	42,762
Hedging reserve	32	**(881)**	(3,999)	**(881)**	(3,999)
Other reserve	33	**(3,497)**	(3,497)	**-**	-
Profit and loss account		**(35,848)**	(46,876)	**(38,029)**	(41,670)
Total equity		**28,428**	14,282	**29,744**	22,985
Provisions for liabilities and charges: non-current amounts					
Provisions in respect of maintenance costs	28	**15,986**	9,024	**15,986**	9,024
Creditors: amounts falling due after more than one year					
Interest-bearing borrowings	25	**4,529**	34,030	**4,101**	34,030
Derivative financial instruments	24	**-**	2,548	**-**	2,548
Other liabilities	26	**19**	976	**-**	-
		4,548	37,554	**4,101**	36,578
Total non-current liabilities		**20,534**	46,578	**20,087**	45,602
Provisions for liabilities and charges: current amounts					
Provisions in respect of maintenance costs	28	**652**	3,578	**652**	3,578
Other provisions	29	**478**	4,444	**478**	4,444
		1,130	8,022	**1,130**	8,022
Creditors: amounts falling due within one year					
Interest-bearing borrowings	25	**25,341**	19,021	**24,843**	18,197
Trade creditors		**47,503**	40,188	**42,743**	32,596
Amounts owed to group undertakings		**-**	-	**3,932**	4,437
Amounts owed to associated undertakings		**2,055**	1,666	**2,039**	1,666
Amounts owed to related parties		**791**	1,068	**791**	1,068
Sales in advance		**39,274**	33,945	**36,641**	30,764
Derivative financial instruments	24	**1,562**	3,362	**1,562**	3,362
Current taxation		**33**	-	**-**	-
Other creditors		**3,151**	5,544	**1,974**	3,473
Indirect taxation and social security		**834**	1,759	**741**	1,638
Accruals and deferred income		**19,222**	22,888	**16,043**	22,545
		139,766	129,441	**131,309**	119,746
Liabilities directly associated with non-current assets classified as held for sale	3	**4,159**	6,608	**-**	-
Total current liabilities		**145,055**	144,071	**132,439**	127,768
Total liabilities		**165,589**	190,649	**152,526**	173,370
Total equity and liabilities		**194,017**	204,931	**182,270**	196,355

As at 31 March

The financial statements on pages 17 to 88 were authorised for issue by the board on 16 September 2008 and were signed on its behalf by:

Lawrence Zammit
Chairman

Paul Bonello
Director

Statements of changes in equity

Group

	Note	Share capital €000	Share premium €000	Hedging reserve €000	Other reserve €000	Profit and loss account €000	Total equity €000
Balance at 1 April 2006		25,892	42,762	2,013	(3,497)	(35,034)	32,136
Cash flow hedges, net of deferred tax	*32*	-	-	*(6,012)*	-	-	*(6,012)*
Currency translation differences		-	-	-	-	*(204)*	*(204)*
Net expense recognised directly in equity		-	-	*(6,012)*	-	*(204)*	*(6,216)*
Loss for the financial year		-	-	-	-	(11,638)	(11,638)
Total recognised expense for 2007		-	-	(6,012)	-	(11,842)	(17,854)
Balance at 31 March 2007		25,892	42,762	(3,999)	(3,497)	(46,876)	14,282
Cash flow hedges, net of deferred tax	*32*	-	-	*3,118*	-	-	*3,118*
Currency translation differences		-	-	-	-	*(12)*	*(12)*
Net income/(expense) recognised directly in equity		-	-	*3,118*	-	*(12)*	*3,106*
Profit for the financial year		-	-	-	-	11,040	11,040
Total recognised income for 2008		-	-	3,118	-	11,028	14,146
Balance at 31 March 2008		**25,892**	**42,762**	**(881)**	**(3,497)**	**(35,848)**	**28,428**

Exchange differences arising from the translation of the net investment in foreign group entities were deemed immaterial and accordingly have been taken to the profit and loss account.

Statements of changes in equity - continued

Company

	Note	Share capital €000	Share premium €000	Hedging reserve €000	Profit and loss account €000	Total equity €000
Balance at 1 April 2006		25,892	42,762	2,013	(33,461)	37,206
Cash flow hedges, net of deferred tax	*32*	-	-	*(6,012)*	-	*(6,012)*
Net expense recognised directly in equity		-	-	*(6,012)*	-	*(6,012)*
Loss for the financial year		-	-	-	(8,209)	(8,209)
Total recognised expense for 2007		-	-	(6,012)	(8,209)	(14,221)
Balance at 31 March 2007		25,892	42,762	(3,999)	(41,670)	22,985
Cash flow hedges, net of deferred tax	*32*	-	-	*3,118*	-	*3,118*
Net income recognised directly in equity		-	-	*3,118*	-	*3,118*
Profit for the financial year		-	-	-	3,641	3,641
Total recognised income for 2008		-	-	3,118	3,641	6,759
Balance at 31 March 2008		**25,892**	**42,762**	**(881)**	**(38,029)**	**29,744**

Cash flow statements

	Notes	Group 2008 €000	Group 2007 €000	Company 2008 €000	Company 2007 €000
		Year ended at 31 March			
Operating activities					
Cash generated from/(used in) operations	35	**4,121**	(6,730)	**5,838**	(7,533)
Interest paid and similar charges		**(3,295)**	(3,481)	**(3,000)**	(3,041)
Investment and other income		**2,873**	1,866	**3,063**	2,469
Dividends received from group undertakings		**-**	-	**1,465**	2,567
Dividends received from associated undertakings		**524**	1,749	**524**	1,749
Tax paid		**(460)**	(439)	**(377)**	(163)
Tax refunded		**394**	120	**-**	-
Net cash generated from/(used in) operating activities		**4,157**	(6,915)	**7,513**	(3,952)
Investing activities					
Purchases of tangible fixed assets		**(2,920)**	(1,579)	**(2,808)**	(1,419)
Net outcome on sale of tangible fixed assets		**406**	3,159	**405**	3,131
Other outflows in respect of aircraft and engine transactions		**(710)**	-	**(710)**	-
Proceeds from disposal of group undertakings, net of cash and cash equivalents disposed of		**31,139**	-	**30,175**	-
Investments in associated undertakings		**-**	(1,519)	**-**	(1,398)
Loans granted to group and associated undertakings		**(53)**	-	**(1,148)**	(3,890)
Loan repayments received from group and associated undertakings		**10**	461	**194**	1,207
Acquisition of available-for-sale investments		**(4,503)**	-	**(4,503)**	-
Net cash generated from/(used in) investing activities		**23,369**	522	**21,605**	(2,369)
Financing activities					
Repayments of bank borrowings		**(21,123)**	(1,817)	**(21,041)**	(312)
Proceeds from bank borrowings		**728**	9,867	**-**	6,988
Net cash (used in)/generated from financing activities		**(20,395)**	8,050	**(21,041)**	6,676
Movement in cash and cash equivalents		**7,131**	1,657	**8,077**	355
Cash and cash equivalents at beginning of year		**39,245**	37,305	**27,412**	26,774
Exchange differences on cash and cash equivalents		**(2,434)**	283	**(2,434)**	283
Cash and cash equivalents at end of year	36	**43,942**	39,245	**33,055**	27,412

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

Accounting policies

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

(a) Basis of preparation

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

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

Standards, interpretations and amendments to published standards effective in 2007

In 2007 the group adopted new standards, amendments and interpretations to existing standards that are mandatory for the group's accounting period beginning on 1 April 2007. The adoption of these revisions to the requirements of IFRSs did not result in substantial changes to the group's accounting policies. IFRS 7, Financial Instruments: Disclosures, and the complementary Amendment to IAS 1, Presentation of Financial Statements – Capital Disclosures, introduce new disclosures relating to financial instruments and capital, but do not have any impact on the classification and measurement of the group's financial instruments and capital.

Under the requirements of IFRS 7, the group is required to make specified minimum disclosures about credit risk, liquidity risk and market risk. All disclosures relating to financial instruments including all comparative information have been updated to reflect the new requirements. The Amendment to IAS 1 requires the group to make new disclosures to enable users of the financial statements to evaluate the group's objectives, policies and processes for managing capital. All disclosures in this respect, including all comparative information, have been updated to reflect the new requirements.

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

Certain new standards, amendments and interpretations to existing standards have been published by the date of authorisation for issue of these financial statements but are mandatory for accounting periods beginning after 1 April 2007. The group has not early adopted these revisions to the requirements of IFRSs and the company's directors are of the opinion that there are no requirements that will have a possible significant impact on the group's financial statements in the period of initial application with the exception of IFRIC 13 'Customer Loyalty Programmes', effective for annual periods beginning on or after July 1, 2008, which the group is considering. IFRIC 13 addresses accounting by entities that operate or otherwise participate in customer loyalty programmes for their customers. IFRIC 13 applies to sales transactions in which the entities grant their customers award credits that, subject to meeting any further qualifying conditions, the customers can redeem in the future for free or discounted services. The interpretation requires that an entity recognises credits that it awards to customers as a separately identifiable component of revenue, which would be deferred at the date of the initial sale.

(b) Consolidation

(1) Group undertakings

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

Subsidiaries are fully consolidated from the date on which effective control is transferred to the group and are no longer consolidated from the date that control ceases. The purchase method of accounting is used to account for the acquisition of subsidiaries by the group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the group's share of the identifiable net assets of the subsidiary acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary undertaking acquired, the difference is recognised directly in the profit and loss account (refer to note (g) for the accounting policy on goodwill). All intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of impairment of the assets transferred. Where necessary, accounting policies of subsidiaries have been changed to ensure consistency with the policies adopted by the group. Separate disclosure is made of minority interests.

A listing of the group's principal subsidiaries is set out on pages 89 and 90.

(2) Transactions and minority interests

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

(3) Associated undertakings

Associates are entities over which the group generally has between 20% and 50% of the voting rights, or over which the group exercises significant influence, but which it does not control.

Investments in associated undertakings are accounted for by the equity method of accounting and are initially recognised at cost. The group's investment in associates includes goodwill (net of accumulated impairment losses) on acquisition (refer to note (g) for the accounting policy on goodwill). 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 in reserves is recognised in reserves. The cumulative post acquisition movements are adjusted against the carrying amount of the investment.

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, including any other unsecured receivables, the group does not recognise further losses, unless the group has incurred obligations or made payments on behalf of the associates.

(b) Consolidation - continued

(3) Associated undertakings - continued

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

A listing of the group's principal associates is set out on pages 90 and 91.

(c) Segment reporting

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

(d) Foreign currencies

(1) Functional and presentation currency

Items included in the financial statements of each of the group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency').

Malta adopted the euro as its national currency on 1 January 2008. With effect from this date, the company's functional and presentation currency was changed from Maltese lira to euro. Consequently, the results and financial position of the group were translated at the Irrevocably Fixed Conversion Rate of €1 : Lm0.429300 as at that date.

The consolidated financial statements are presented in euro, which is the company's functional and presentation currency.

(2) Transactions and balances

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

(d) Foreign currencies - continued

(3) Group companies

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

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

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

Property, plant and equipment comprising aircraft and flight equipment, hotels and related assets, office land and buildings and other assets, are stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Depreciation is calculated on the straight line method to allocate the cost of each asset to its residual value over its estimated useful operational life as described below.

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

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

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

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

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

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

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

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

(f) Tangible fixed assets – investment property

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

(g) Intangible assets

Goodwill represents the excess of the cost of an acquisition over the fair value of the group's share of the net assets of the acquired subsidiary/associated undertaking at the date of acquisition. Goodwill on acquisition of subsidiaries is included in 'Intangible assets'. Goodwill on acquisitions of associates is included in 'Investments in associates'. Impairment losses on goodwill are not reversed. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amounts of goodwill relating to the entity sold.

(h) Impairment of long lived assets

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

(i) Other financial investments

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

(a) Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than twelve months after the balance sheet date. These are classified as non-current assets.

(i) Other financial investments - continued

(b) Available-for-sale financial assets
Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories under the requirements of IAS 39. They are included in non-current assets unless management intends to dispose of the investment within twelve months of the balance sheet date Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Regular way purchases and sales of investments are recognised on trade date – the date on which the group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets are subsequently carried at fair value. Loans and receivables are carried at amortised cost using the effective interest method.

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

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

The group assesses at each balance sheet date whether there is objective evidence that a financial asset is impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in the profit and loss account.

(j) Leased assets

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

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

(k) Maintenance of aircraft

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

(k) Maintenance of aircraft - continued

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

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

(l) Stocks

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

(m) Debtors

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

(n) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. Cash and cash equivalents include cash in hand, deposits held at call with banks and bank overdrafts. The bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

(o) Borrowings

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

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

(p) Deferred taxation

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss.

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

Tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date are used to determine deferred income tax.

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

(q) Provisions

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

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

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

(r) Revenue recognition

Turnover is based on the invoiced value of carriage uplifted, aircraft leasing income, goods sold and services rendered, net of discounts, and exclusive of passenger and indirect taxes. Ticket sales are included under current liabilities as sales in advance until matched to uplift coupons. The gross sales value of any tickets remaining unused is taken to the profit and loss account as residual revenue to the extent to which no liability is expected to arise in relation thereto.

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

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

Rental income from investment property – Rental income is recognised in the profit and loss account as it accrues unless collectibility is in doubt.

(s) Sale and leaseback transactions

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

(t) Borrowing costs

Interest costs are taken to the profit and loss account.

(u) Derivative financial instruments and hedging

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

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

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

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

- formal documentation of the hedging instrument, hedging item, hedging objective, strategy and relationship is prepared before hedge accounting is applied;

- the hedge is documented showing that it is expected to be highly effective in offsetting the risk in the hedged item throughout the reporting period; and

- the hedge is effective on an ongoing basis.

(u) Derivative financial instruments and hedging - continued

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

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

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

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

The fair values of derivative instruments held for trading and hedging purposes are disclosed in Note 24 to the financial statements.

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

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

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

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

(w) Comparatives

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

Notes to the financial statements

1. Critical accounting estimates and judgments

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

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

However, the directors would like to draw attention to those items where estimates and assumptions utilised have a certain degree of risk of causing material adjustments to the carrying amounts within the next financial year. In this respect, these items principally comprise the company's provisions on onerous contracts (refer to Note 10).

2. Segment information

	Airline activities €000	Other activities €000	**Total €000**
Year ended 31 March 2008			
Total gross segment sales	316,567	1,833	**318,400**
Less: inter-segment sales	(14,936)	(1,539)	**(16,475)**
Turnover	301,631	294	**301,925**
Segment result - Operating (loss)/profit from continuing operations	(8,275)	1,416	**(6,859)**
Investment income			**152**
Results of associated undertakings	798	462	**1,260**
Interest receivable and similar income			**264**
Interest payable and similar charges			**(2,767)**
Net losses on aircraft and engine transactions	(390)	-	**(390)**
Loss before tax			**(8,340)**
Tax on loss			**192**
Loss for the year from continuing operations			**(8,148)**
Segment assets	166,421	11,491	**177,912**
Elimination of group balances			**(8,009)**
Associates	234	4,078	**4,312**
Unallocated assets			**9,465**
Non-current assets classified as held for sale (Note 3)			**10,337**
Total assets			**194,017**
Segment liabilities	(135,139)	(4,096)	**(139,235)**
Elimination of group balances			**8,009**
Unallocated liabilities			**(30,204)**
Liabilities directly associated with non-current assets classified as held for sale (Note 3)			**(4,159)**
Total liabilities			**(165,589)**
Capital expenditure	2,897	-	**2,897**
Depreciation	3,478	2	**3,480**
Impairment charges (Note 14)	445	-	**445**
Provisions for impairment of trade debtors	(31)	-	**(31)**

Information on the segment results from discontinued operations in respect of the hotel operations, which were previously reported as a distinct segment, is presented in Note 3 to the financial statements. Assets classified as held for sale and liabilities directly associated with these assets, attributable to discontinued operations, are analysed in Note 3.

2. **Segment information** - continued

	Airline activities €000	Other activities €000	**Total €000**
Year ended 31 March 2007			
Total gross segment sales	304,536	2,348	**306,884**
Less: inter-segment sales	(14,757)	(2,085)	**(16,842)**
Turnover	289,779	263	**290,042**
Segment result - Operating (loss)/profit from continuing operations	(12,576)	736	**(11,840)**
Investment income			**65**
Results of associated undertakings	1,474	315	**1,789**
Interest receivable and similar income			**2,036**
Interest payable and similar charges			**(3,452)**
Net gains on aircraft and engine transactions	2,250	-	**2,250**
Loss before tax			**(9,152)**
Tax on loss			**1,092**
Loss for the year from continuing operations			**(8,060)**
Segment assets	171,292	9,821	**181,113**
Elimination of group balances			**(8,204)**
Associates	2,802	3,618	**6,420**
Unallocated assets			**7,438**
Non-current assets classified as held for sale (Note 3)			**18,164**
Total assets			**204,931**
Segment liabilities	(134,243)	(4,903)	**(139,146)**
Elimination of group balances			**8,204**
Unallocated liabilities			**(53,099)**
Liabilities directly associated with non-current assets classified as held for sale (Note 3)			**(6,608)**
Total liabilities			**(190,649)**
Capital expenditure	1,530	49	**1,579**
Depreciation	3,585	298	**3,883**
Reversal of impairment charges (Note 15)	(1,344)	-	**(1,344)**
Provisions for impairment of trade debtors	314	(72)	**242**

2. Segment information - continued

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

Segment liabilities include all operating liabilities and consist principally of trade creditors and accrued liabilities, but exclude borrowings and current taxation. Segment liabilities directly associated with assets classified as held for sale are disclosed in Note 3.

Capital expenditure comprises additions to property, plant and equipment and investment property.

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

	2008	2007
	€000	€000
Turnover on airline activities by route area reflecting the group's operational regions, as follows:		
Northern and Central Europe including UK	**193,667**	203,173
Mediterranean basin and Middle East	**91,231**	74,293
	284,898	277,466
Aircraft leasing revenue	**7,774**	3,263
Ground related and other revenue (Malta)	**8,959**	9,050
	301,631	289,779

Residual revenues included in the figures disclosed above amount to €5,013,000 (2007: €7,307,000).

3. Discontinued operations

	Group		Company	
	2008	2007	**2008**	2007
	€000	€000	**€000**	€000
Loss after tax of discontinued operations:				
Hotel segment (see Note a)	**(706)**	(3,578)	-	-
Post-tax gain recognised on the disposal of assets or disposal group constituting the discontinued operations (see Note b)	**19,894**	-	**12,838**	-
Profit/(loss) for the year from discontinued operations	**19,188**	(3,578)	**12,838**	-

3. **Discontinued operations** - continued

Group

	2008 €000	2007 €000
Non-current assets classified as held for sale:		
Hotel segment (see Note a)	**8,653**	18,164
Investment in associated undertaking (see Note c)	**1,684**	-
	10,337	18,164
Liabilities directly associated with non-current assets classified as held for sale:		
Hotel segment (see Note a)	**4,159**	6,608

Company

Non-current assets classified as held for sale:

	Shares in group undertakings €000	Loans to group undertakings €000	Shares in associated undertakings €000	Total €000
Year ended 31 March 2007				
Opening carrying amount	5,523	18,171	-	23,694
Loans granted	-	3,343	-	3,343
Repayments of loans	-	(335)	-	(335)
Closing carrying amount	5,523	21,179	-	26,702
Year ended 31 March 2008				
Opening carrying amount	5,523	21,179	-	26,702
Loans granted	-	774	-	774
Disposals/repayments of loans	(2,827)	(10,854)	-	(13,681)
Reclassification from investments in associated undertakings (see Note c)	-	-	2,329	2,329
Closing carrying amount	**2,696**	**11,099**	**2,329**	**16,124**
As at 31 March 2008 and 2007				
Provisions for impairment reported within carrying amounts disclosed above	**(2,763)**	**(552)**	-	**(3,315)**

3. Discontinued operations - continued

Loans to group undertakings are unsecured and repayable on demand. At 31 March 2008, loans to group undertakings amounting to €9,238,000 (2007: €19,304,000) are subject to an interest rate of 5.5% (2007: 5.5%) per annum.

(a) In prior years, the group had publicly announced its intention to discontinue the operations of its hotel segment. The subsidiaries comprising this segment are reported in these consolidated financial statements as a discontinued operation in accordance with the requirements of IFRS 5: Non-current assets held for sale and discontinued operations. An analysis of the result of the discontinued operations is as follows:

	2008	2007
	€000	€000
Sales	**2,482**	2,136
Operating costs	**(3,011)**	(4,486)
Operating loss – Segment result from discontinued operations	**(529)**	(2,350)
Finance costs	**(177)**	(259)
Loss before tax	**(706)**	(2,609)
Tax (Note 11)	**-**	(969)
Loss after tax of discontinued operations	**(706)**	(3,578)
Operating cash flows	**(978)**	(3,547)
Investing cash flows	**(23)**	(49)
Financing cash flows	**731**	1,593
Total cash flows	**(270)**	(2,003)

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

The disposal of hotel interests commenced with an offer for sale of Tigne Development Company Limited. The bid was adjudicated during the preceding year, however the disposal was completed in April 2007 and the impacts of this transaction are reflected in the financial statements for the current year. The operations at Hal Ferh Company Limited have been discontinued in preceding periods and it is expected that the group will proceed with the disposal of its interest in this company within the next financial year. During the previous year, the group formulated its intentions to dispose of its interest in Selmun Palace Hotel Company Limited and the company's non-current assets (Note 15), other assets and liabilities had been reclassified as held for sale. Accordingly the assets and liabilities of all three companies had been presented as held for sale in the financial statements for the year ended 31 March 2007.

3. Discontinued operations - continued

	2008 €000	2007 €000
Non-current assets classified as held for sale:		
Disposal group held for sale:		
- Property, plant and equipment	**7,980**	17,587
- Other current assets	**673**	577
	8,653	18,164
Liabilities directly associated with non-current assets classified as held for sale:		
- Interest-bearing bank borrowings	**3,171**	5,190
- Trade and other payables	**988**	1,418
	4,159	6,608

(b) As outlined in Note (a), during the current financial year the group disposed of its controlling shareholding in Tigne Development Company Limited with the resulting gain on disposal:

	Group 2008 €000	Company 2008 €000
Net assets disposed of/cost of shares	6,625	13,681
Proceeds on disposal	(30,169)	(30,169)
Pre-tax gain on disposal	(23,544)	(16,488)
Deferred taxation (Note 11)	3,650	3,650
Post-tax gain on disposal	**(19,894)**	**(12,838)**

(c) Subsequent to 31 March 2008, the group disposed of its interest in an associated undertaking, Mediterranean Aviation Company Limited. As at the balance sheet date the carrying amount of the investment in this associated undertaking has been reclassified from 'Investments in associated undertakings' (Note 18) to non-current assets classified as held for sale.

4. Expenses by nature

	Group 2008 €000	Group 2007 €000	Company 2008 €000	Company 2007 €000
Aircraft fuel and oils	**68,035**	66,639	**68,035**	66,639
Aircraft operating lease rentals	**35,335**	28,956	**35,335**	28,956
Aircraft maintenance	**19,026**	21,975	**19,026**	21,975
Other flight related costs	**70,565**	64,978	**70,565**	64,978
Marketing, distribution and representation costs	**17,157**	13,393	**15,936**	12,385
Impairment of goodwill (Note 14 - included in 'Administrative expenses')	**445**	-	-	-
Depreciation	**3,480**	3,647	**3,384**	3,541
Staff costs (Note 5)	**50,946**	56,935	**48,266**	53,713
Net movement in provisions for impairment of trade debtors (included in 'Administrative expenses')	**(31)**	316	**49**	261
Exchange differences	**(384)**	1,591	**(727)**	1,141
Other expenses	**44,971**	43,583	**22,176**	19,462
Total cost of sales, selling and distribution costs and administrative expenses	**309,545**	302,013	**282,045**	273,051

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

Auditors' remuneration

	Group 2008 €000	Group 2007 €000
Audit services – statutory		
- Parent company auditors:		
- company	**100**	100
- group undertakings	**125**	100
Other services		
- Parent company auditors: company		
- other assurance services	**61**	37
- tax and other services	**31**	33
- Other firms: company		
- tax and other services	**38**	3
- Other firms: other group undertakings		
- tax and other services	-	30

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.

4. Expenses by nature - continued

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.

5. Staff costs

	Group		Company	
	2008	2007	**2008**	2007
	€000	€000	**€000**	€000
Wages and salaries	**49,377**	55,711	**45,809**	50,787
Social security costs	**2,891**	3,520	**2,457**	2,926
	52,268	59,231	**48,266**	53,713

Included in staff costs for the current financial year are termination benefits amounting to €91,000 (2007: €4,913,000). Staff costs included in the group's figures above relating to discontinued operations amount to €1,322,000 (2007: €2,296,000).

Following the announcement of the Voluntary Redundancy Scheme during the preceding year and the subsequent call for applications, the company incurred non-recurring expenditure in this respect classified as follows:

	Group and Company	
	2008	2007
	€000	€000
Cost of sales	**44**	3,553
Selling and distribution costs	**-**	368
Administrative expenses	**47**	992
	91	4,913

Average number of persons employed during the year:

By class of business:

	Group		Company	
	2008	2007	**2008**	2007
Airline activities, including aircraft leasing	**1,592**	1,693	**1,529**	1,618
Hotels	**119**	135	**-**	-
Other activities	**8**	32	**-**	-
	1,719	1,860	**1,529**	1,618

5. Staff costs - continued

By category:

	Group		Company	
	2008	2007	**2008**	2007
Direct	**776**	723	**638**	602
Indirect	**709**	850	**709**	806
Administrative	**234**	287	**182**	210
	1,719	1,860	**1,529**	1,618

Group figures in respect of employee numbers, disclosed in the tables above, include 119 (2007: 135) employees attributable to discontinued operations.

6. Investment income

	Group		Company	
	2008	2007	**2008**	2007
	€000	€000	**€000**	€000
Income from shares in group undertakings	-	-	**1,465**	2,567
Income from shares in associated undertakings	-	-	**524**	1,880
Income from other financial assets	**152**	65	**152**	65
	152	65	**2,141**	4,512

7. Results of group and associated undertakings

	Group		Company	
	2008	2007	**2008**	2007
	€000	€000	**€000**	€000
Provisions against group and associated undertakings	-	-	**(452)**	(776)
Share of results and other losses of associated undertakings	**1,260**	1,789	-	-
	1,260	1,789	**(452)**	(776)

7. Results of group and associated undertakings - continued

The figures included in the table above are analysed as follows:

	Group		Company	
	2008	2007	**2008**	2007
	€000	€000	**€000**	€000
Movement in provisions arising in respect of guarantees, other commitments and expenses (see Note below)	**(461)**	(263)	**(461)**	(263)
Movement in provisions against associated undertakings	**53**	(310)	**53**	(310)
Other provisions in respect of group undertakings	**-**	-	**860**	1,349
Share of results of associated undertakings	**(1,221)**	(1,216)	**-**	-
Cost of investment in associated undertaking written off	**38**	-	**-**	-
Loss on dilution of interest in associated undertaking	**331**	-	**-**	-
	(1,260)	(1,789)	**452**	776

The figures disclosed in the table above include reversals of provisions amounting to €461,000 (2007: €263,000) in respect of AZZURRAair S.p.A. The provisions unutilised at the financial year-end are reflected in the group and company balance sheets as disclosed in Note 29 to the financial statements. The movements in the provisions are analysed as follows:

	Group and Company	
	2008	2007
	€000	€000
Included with other provisions (Note 29)	**(461)**	(263)

8. Interest receivable and similar income

	Group		Company	
	2008	2007	**2008**	2007
	€000	€000	**€000**	€000
Interest receivable and similar income from group undertakings	**-**	-	**627**	1,029
Interest receivable and similar income from associated undertakings	**222**	161	**222**	161
Interest receivable from bank deposits	**2,241**	1,654	**1,804**	1,233
Exchange differences on investing activities	**(2,199)**	221	**(2,199)**	221
	264	2,036	**454**	2,644

Company figures disclosed above in respect of interest receivable and similar income from group undertakings include amounts of €541,000 (2007: €911,000) relating to discontinued operations. Interest income earned by the group attributable to these discontinued operations is disclosed in Note 3 to the financial statements.

9. Interest payable and similar charges

	Group		Company	
	2008	2007	**2008**	2007
	€000	€000	**€000**	€000
Interest payable on bank loans and overdrafts	**1,630**	2,087	**1,608**	1,889
Interest payable to group undertakings	**-**	-	**174**	482
Interest payable to associated undertakings	**69**	63	**69**	63
Effects of unwinding non-current provisions (Note 29)	**96**	277	**96**	277
Bank charges and similar expenses, including exchange differences on financing activities	**972**	1,025	**702**	822
	2,767	3,452	**2,649**	3,533

Company figures disclosed above in respect of interest payable to group undertakings do not include amounts relating to discontinued operations. Interest costs incurred by the group, mainly arising from bank financing, attributable to these discontinued operations is disclosed in Note 3 to the financial statements.

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

	Group and Company	
	2008	2007
	€000	€000
Decrease in provisions on onerous contracts (Note 29)	**320**	1,915
Effects of impairment and depreciation charges in respect of aircraft and flight equipment	**(710)**	335
	(390)	2,250

During the current financial year, the company reacquired and disposed of the remaining AVRO RJ aircraft. In this respect the group incurred further losses disclosed in the table above reflecting the actual outcome of disposal transactions carried out.

Provisions on onerous contracts had been made to reflect the extent to which future lease commitments on the AVRO RJ aircraft were expected to exceed the income estimated to be generated therefrom, account also being taken of all relevant costs. Future operating lease rental commitments payable on the aircraft, which had not been provided for at 31 March 2007 on the basis of assumptions on remarketing totalled €6,345,000.

As disclosed in the table above, during the preceding financial year, the company reversed impairment losses recognised in prior financial years in respect of the AVRO RJ rotables and spare engines as a result of the disposal of certain assets and the re-assessment of the market value of the remaining assets.

11. Taxation

	Group		Company	
	2008	2007	**2008**	2007
	€000	€000	**€000**	€000
Current taxation	**(108)**	(1,092)	**-**	9
Deferred taxation	**3,566**	969	**3,650**	946
	3,458	(123)	**3,650**	955
Attributable to:				
Continuing operations (reflected on face of profit and loss account)				
- current taxation	**(108)**	(1,092)	**-**	9
- deferred taxation (Note 27)	**(84)**	-	**-**	946
	(192)	(1,092)	**-**	955
Discontinued operations				
- deferred taxation (Note 3)	**3,650**	969	**3,650**	-
	3,458	(123)	**3,650**	955

Adjustments reflected in these financial statements in respect of current tax of prior years and of deferred tax recognised in prior years are disclosed separately in the table below.

11. **Taxation** - continued

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

	Group		Company	
	2008	2007	**2008**	2007
	€000	€000	**€000**	€000
Loss before tax from continuing operations	**(8,340)**	(9,152)	**(9,197)**	(7,254)
Profit/(loss) before tax from discontinued operations (Note 3)	**22,838**	(2,609)	**16,488**	-
Profit/(loss) before tax for the year	**14,498**	(11,761)	**7,291**	(7,254)
Tax on profit/(loss) before tax at the statutory rate of 35%	**5,074**	(4,116)	**2,552**	(2,539)
Tax effect of:				
Deferred tax asset in respect of unutilised tax losses and unabsorbed capital allowances not recognised	**9,103**	11,486	**9,376**	10,100
Reversal of previously recognised deferred tax asset	**-**	745	**-**	946
Over provision of current tax in respect of prior years	**(29)**	(855)	**-**	-
Unrecognised temporary differences and other movements, mainly attributable to tangible fixed assets and provisions on onerous contracts	**(5,073)**	(7,038)	**(5,935)**	(7,384)
Income effectively taxed at reduced rates	**(5,617)**	(345)	**(2,343)**	(168)
Tax charge/(credit) in the accounts	**3,458**	(123)	**3,650**	955

12. Directors' emoluments

	Group and Company	
	2008	2007
	€000	€000
Emoluments of directors of Air Malta plc:		
Total fees and other emoluments charged in these financial statements	**34**	35
Benefits in kind as computed for Income Tax purposes	**2**	2
	36	37

Insurance premia of €262,000 (2007: €291,000) 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 €55,000 (2007: €61,000) 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 calculated by dividing the result attributable to the equity holders of the company by the weighted average number of ordinary shares of Air Malta plc in issue during the year.

	Group	
	2008	2007
Net loss from continuing operations attributable to the equity holders of the company (in €000)	**(8,148)**	(8,060)
Net profit/(loss) from discontinued operations attributable to the equity holders of the company (in €000)	**19,188**	(3,578)
Net result attributable to the equity holders of the company (in €000)	**11,040**	(11,638)
Weighted average number of ordinary shares in issue (in thousands)	**11,115**	11,115
Earnings per share for loss from continuing operations	**(€0.73)**	(€0.73)
Earnings per share for profit/(loss) from discontinued operations	**€1.73**	(€0.32)

14. Intangible assets

Group

	Goodwill €000
At 1 April 2006 and 31 March 2007	
Opening and closing carrying amounts	445
Year ended 31 March 2008	
Opening carrying amount	445
Impairment charges recognised in profit and loss account	(445)
Closing carrying amount	-

The impairment charges are attributable to goodwill arising on acquisition of interests in group undertakings which are experiencing adverse trading conditions and are incurring financial losses as a result of these market conditions.

15. Property, plant and equipment

Group

	Land and buildings €000	Aircraft and flight equipment - own use €000	Aircraft and flight equipment - leased out €000	Hotels and related assets €000	Other assets €000	Total €000
At 1 April 2006						
Cost	65,113	24,356	6,175	11,290	31,242	138,176
Accumulated depreciation and impairment losses	(9,194)	(16,382)	(5,462)	(6,371)	(27,056)	(64,465)
Net book amount	55,919	7,974	713	4,919	4,186	73,711
Year ended 31 March 2007						
Opening net book amount	55,919	7,974	713	4,919	4,186	73,711
Additions	410	832	-	49	288	1,579
Disposals	-	-	(1,843)	-	(8,912)	(10,755)
Reversal of impairment charges	-	-	1,344	-	-	1,344
Depreciation charge	(1,188)	(1,146)	(224)	(261)	(978)	(3,797)
Depreciation released on disposals	-	-	650	-	8,053	8,703
Reclassification to non-current assets held for sale (Note 3)	-	-	-	(4,707)	-	(4,707)
Closing net book amount	55,141	7,660	640	-	2,637	66,078
At 31 March 2007						
Cost	65,523	25,188	4,332	-	22,618	117,661
Accumulated depreciation and impairment losses	(10,382)	(17,528)	(3,692)	-	(19,981)	(51,583)
Net book amount	55,141	7,660	640	-	2,637	66,078

15. Property, plant and equipment - continued

	Land and buildings €000	Aircraft and flight equipment - own use €000	Aircraft and flight equipment - leased out €000	Other assets €000	Total €000
Year ended 31 March 2008					
Opening net book amount	55,141	7,660	640	2,637	66,078
Additions	910	398	-	1,589	2,897
Disposals	-	(1,350)	(3,692)	(407)	(5,449)
Depreciation charge	(1,299)	(1,032)	(31)	(890)	(3,252)
Depreciation released on disposals	-	1,294	3,422	389	5,105
Exchange differences	-	-	-	50	50
Reclassification to investment property (Note 16)	(10,004)	-	-	-	(10,004)
Closing net book amount	**44,748**	**6,970**	**339**	**3,368**	**55,425**
At 31 March 2008					
Cost	56,087	24,236	640	23,827	104,790
Accumulated depreciation and impairment losses	(11,339)	(17,266)	(301)	(20,459)	(49,365)
Net book amount	**44,748**	**6,970**	**339**	**3,368**	**55,425**

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

Company

	Land and buildings €000	Aircraft and flight equipment - own use €000	Aircraft and flight equipment - leased out €000	Other assets €000	Total €000
At 1 April 2006					
Cost	59,625	24,356	6,175	27,312	117,468
Accumulated depreciation and impairment losses	(9,136)	(16,382)	(5,462)	(24,049)	(55,029)
Net book amount	50,489	7,974	713	3,263	62,439
Year ended 31 March 2007					
Opening net book amount	50,489	7,974	713	3,263	62,439
Additions	410	832	-	177	1,419
Disposals	-	-	(1,843)	(8,739)	(10,582)
Reversal of impairment charges	-	-	1,344	-	1,344
Depreciation charge	(1,132)	(1,146)	(224)	(897)	(3,399)
Depreciation released on disposals	-	-	650	7,915	8,565
Closing net book amount	49,767	7,660	640	1,719	59,786
At 31 March 2007					
Cost	60,035	25,188	4,332	18,750	108,305
Accumulated depreciation and impairment losses	(10,268)	(17,528)	(3,692)	(17,031)	(48,519)
Net book amount	49,767	7,660	640	1,719	59,786
Year ended 31 March 2008					
Opening net book amount	49,767	7,660	640	1,719	59,786
Additions	910	398	-	1,500	2,808
Disposals	-	(1,350)	(3,692)	(331)	(5,373)
Depreciation charge	(1,299)	(1,032)	(31)	(794)	(3,156)
Depreciation released on disposals	-	1,294	3,422	314	5,030
Reclassification to investment property (Note 16)	(5,210)	-	-	-	(5,210)
Closing net book amount	**44,168**	**6,970**	**339**	**2,408**	**53,885**
At 31 March 2008					
Cost	55,469	24,236	640	19,919	100,264
Accumulated depreciation and impairment losses	(11,301)	(17,266)	(301)	(17,511)	(46,379)
Net book amount	**44,168**	**6,970**	**339**	**2,408**	**53,885**

15. Property, plant and equipment - continued

During the preceding financial years, impairment charges previously recognised 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, had been partially reversed on the basis of the market value for equivalent assets. During the preceding financial year, this reversal had been credited to the profit and loss account (included within 'Cost of sales').

16. Investment property

	Group €000	Company €000
At 1 April 2006		
Cost	4,291	9,723
Accumulated depreciation	(266)	(289)
Net book amount	4,025	9,434
Year ended 31 March 2007		
Opening net book amount	4,025	9,434
Depreciation charge	(86)	(142)
Closing net book amount	3,939	9,292
At 31 March 2007		
Cost	4,291	9,723
Accumulated depreciation	(352)	(431)
Net book amount	3,939	9,292
Year ended 31 March 2008		
Opening net book amount	3,939	9,292
Depreciation charge	(228)	(228)
Reclassification from property, plant and equipment (Note 15)	10,004	5,210
Closing net book amount	**13,715**	**14,274**
At 31 March 2008		
Cost	14,637	15,199
Accumulated depreciation	(922)	(925)
Net book amount	**13,715**	**14,274**

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.

16. **Investment property** - continued

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

	Group and Company	
	2008	2007
	€000	€000
Rental income from investment property	**470**	335

17. Investments in group undertakings

Company

	Shares in group undertakings €000	Loans to group undertakings €000	Total €000
At 1 April 2006			
Cost	2,765	5,616	8,381
Provisions for impairment	(1,365)	(4,507)	(5,872)
Carrying amount	1,400	1,109	2,509
Year ended 31 March 2007			
Opening net book amount	1,400	1,109	2,509
Loans granted	-	452	452
Repayments of loans	-	(410)	(410)
Closing carrying amount	1,400	1,151	2,551
At 31 March 2007			
Cost	2,765	5,658	8,423
Provisions for impairment	(1,365)	(4,507)	(5,872)
Carrying amount	1,400	1,151	2,551
Year ended 31 March 2008			
Opening net book amount	1,400	1,151	2,551
Loans granted	-	321	321
Cost of investments written off	(63)	-	(63)
Repayments of loans	-	(184)	(184)
Waiver of loans	-	(2,798)	(2,798)
Movement in provisions for impairment	116	2,248	2,364
Closing carrying amount	**1,453**	**738**	**2,191**
At 31 March 2008			
Cost	2,702	2,997	5,699
Provisions for impairment	(1,249)	(2,259)	(3,508)
Carrying amount	**1,453**	**738**	**2,191**

Loans to group undertakings are unsecured and repayable on demand. At 31 March 2008, loans to group undertakings amounting to €95,000 (2007: €396,000) are subject to an interest rate of 5.3% (2007: 5.5%) per annum, whereas all other loans are interest free.

During the preceding financial year, the group acquired further interests in Holiday Malta (Italia) S.r.l. (formerly known as G.W. Munzone S.r.l.) and Holiday Malta (Hellas) Tourism EPE (formerly known as Holiday Malta (Hellas) Tourism S.A.). The impact of these acquisitions on the group's results for the preceding year and on the group's financial position as at the balance sheet date was not deemed material for disclosure purposes.

18. Investments in associated undertakings

Group

	Shares in associated undertakings €000	Loans to associated undertakings €000	Total €000
At 1 April 2006			
Cost	2,784	2,511	5,295
Share of undertakings' profits and reserves	2,909	-	2,909
Provisions for impairment	(75)	(2,511)	(2,586)
Carrying amount	5,618	-	5,618
Year ended 31 March 2007			
Opening carrying amount	5,618	-	5,618
Additions/loans granted	1,426	93	1,519
Disposals/repayments of loans	(33)	(461)	(494)
Share of results	1,216	-	1,216
Dividends received	(1,749)	-	(1,749)
Movements in provisions for impairment	(130)	440	310
Closing carrying amount	6,348	72	6,420
At 31 March 2007			
Cost	4,177	2,143	6,320
Share of undertakings' profits and reserves	2,376	-	2,376
Provisions for impairment	(205)	(2,071)	(2,276)
Carrying amount	6,348	72	6,420
Year ended 31 March 2008			
Opening carrying amount	6,348	72	6,420
Loans granted	-	53	53
Cost of investments written off	(38)	-	(38)
Repayments of loans	-	(10)	(10)
Share of results	1,221	-	1,221
Effects of dilution in interest:			
- derecognition of carrying amount	(723)	-	(723)
- share of proceeds of share issue	392	-	392
Dividends received	(524)	-	(524)
Movements in provisions for impairment	-	(53)	(53)
Reclassification to non-current assets classified as held for sale (see Note 3c)	(1,684)	-	(1,684)
Reclassification to available-for-sale investments (Note 19)	(742)	-	(742)
Closing carrying amount	**4,250**	**62**	**4,312**
At 31 March 2008			
Cost	1,231	2,186	3,417
Share of undertakings' profits and reserves	3,224	-	3,224
Provisions for impairment	(205)	(2,124)	(2,329)
Carrying amount	**4,250**	**62**	**4,312**

18. Investments in associated undertakings - continued

During the current financial year, the group's interest in an associated undertaking, Lufthansa Technik (Malta) Limited, was diluted from 25% to 8% in view of issue of shares to the other undertakings shareholders. As at the balance sheet date, the group ceased to have significant influence over this associate and accordingly its carrying amount at 31 March 2008 has been reclassified as an available-for-sale investment (Note 19). The impacts of this dilution on the group's financial results and its financial position are disclosed in the table above.

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

	Assets €000	Liabilities €000	Revenues €000	Profit €000	Interest held %
2008					
Malpro Limited	2,692	1,164	525	268	50
Mediterranean Aviation Company Limited (reclassified as non-current asset held for sale as at 31 March 2008)	9,102	5,245	10,306	678	25
Sabratha Duty Free Company Limited	1,931	1,408	2,855	152	50
Stakes Holding Limited	341	1	39	39	18
World Aviation Group Limited (formerly					50
known as World Aviation Systems Limited)	446	289	177	81	50
Heritage Insurance Management (Malta) Limited	79	47	227	3	49
	14,591	**8,154**	**14,129**	**1,221**	
2007					
Lufthansa Technik (Malta) Limited	5,709	3,145	5,539	550	25
Malpro Limited	2,856	1,635	491	205	50
Mediterranean Aviation Company Limited	8,654	5,577	8,097	335	25
Sabratha Duty Free Company Limited	3,515	2,779	613	96	50
Stakes Holding Limited	300	-	65	16	18
World Aviation Group Limited (formerly known as World Aviation Systems Limited)	443	305	147	14	50
	21,477	13,441	14,952	1,216	

In the financial statements the group's share of results of the associated undertakings, disclosed in the tables above is after tax.

18. Investments in associated undertakings - continued

Company

	Shares in associated undertakings €000	Loans to associated undertakings €000	Total €000
At 1 April 2006			
Cost	2,330	2,604	4,934
Provisions for impairment	(47)	(2,586)	(2,633)
Carrying amount	2,283	18	2,301
Year ended 31 March 2007			
Opening net book amount	2,283	18	2,301
Additions/loans granted	1,398	93	1,491
Disposals/repayments of loans	(33)	(461)	(494)
Movement in provisions for impairment	(130)	440	310
Closing carrying amount	3,518	90	3,608
At 31 March 2007			
Cost	3,695	2,236	5,931
Provisions for impairment	(177)	(2,146)	(2,323)
Carrying amount	3,518	90	3,608
Year ended 31 March 2008			
Opening net book amount	3,518	90	3,608
Loans granted	-	53	53
Repayments of loans	-	(10)	(10)
Movement in provisions for impairment	-	(53)	(53)
Reclassification to non current assets classified as held for sale (see Note 3c)	(2,329)	-	(2,329)
Reclassification to available-for-sale investments (Note 19)	(581)	-	(581)
Closing carrying amount	**608**	**80**	**688**
At 31 March 2008			
Cost	785	2,279	3,064
Provisions for impairment	(177)	(2,199)	(2,376)
Carrying amount	**608**	**80**	**688**

Loans to associated undertakings are unsecured and repayable on demand. At 31 March 2008, loans to associated undertakings amounting to €64,000 (2007: €73,000) are subject to an interest rate of 4% (2007: 4%) per annum.

19. Available-for-sale financial assets: non-current instruments

Group

	Equity instruments €000	Quoted debt securities €000	Total €000
At 1 April 2006 and 31 March 2007			
Opening and closing cost	566	354	920
Provisions for impairment	(459)	-	(459)
Opening and closing carrying amount	107	354	461
Year ended 31 March 2008			
Opening carrying amount	107	354	461
Reclassification from investments in associated undertakings (Note 18)	742	-	742
Closing carrying amount	**849**	**354**	**1,203**
At 31 March 2008			
Cost	1,308	354	1,662
Provisions for impairment	(459)	-	(459)
Carrying amount	**849**	**354**	**1,203**

Maturity of fixed income debt securities issued by the Government of Malta:

	31 March 2008 €000	31 March 2007 €000
Between two and five years	**235**	235
Over five years	**119**	119
	354	354

	31 March 2008 %	31 March 2007 %
Weighted average effective interest rates	**5.9**	5.9

The group's investment in Lufthansa Technick (Malta) Limited has been reclassified as an available-for-sale asset (see table above) in view of the cessation of the group's significant influence over the entity (Note 18). The fair value of this investment as at the balance sheet date is deemed to fairly approximate its carrying amount reflected above on the basis of the net asset backing of the investee.

19. Available-for-sale financial assets: non-current instruments - continued

The fair value of the group's quoted debt securities as at the balance sheet dates was not significantly different from its carrying amount.

Company

	Equity instruments €000	Quoted debt securities €000	Total €000
At 1 April 2006 and 31 March 2007			
Opening and closing cost and carrying amounts	107	354	461
Year ended 31 March 2008			
Opening carrying amount	107	354	461
Reclassification from investments in associated undertakings (Note 18)	581	-	581
Closing carrying amount	**688**	**354**	**1,042**
At 31 March 2008			
Cost and carrying amount	**688**	**354**	**1,042**

20. Available-for-sale financial assets: current investments

Group and Company

	Government of Malta Treasury Bills €000
Year ended 31 March 2008	
Additions at cost	4,503
Amortisation of discounts arising on acquisition	110
Closing carrying amount	**4,613**

'Amortisation of discounts arising on acquisition' are included in 'Income from other financial assets' (Note 6). These assets are non-interest bearing, but have been acquired at discounted amounts, and mature within three months from the balance sheet date. The weighted average effective interest rate as at 31 March 2008 was 4.59%. The fair value of the group's Government of Malta Treasury Bills as at the balance sheet date was not significantly different from its carrying amount.

21. Stocks

	Group		Company	
	2008	2007	**2008**	2007
	€000	€000	**€000**	€000
Aircraft engineering spares	**1,322**	1,614	**1,322**	1,614
Other stocks	**228**	723	**225**	718
	1,550	2,337	**1,547**	2,332

22. Trade debtors

	Group		Company	
	2008	2007	**2008**	2007
	€000	€000	**€000**	€000
Trade debtors – gross	**28,755**	28,713	**26,120**	26,639
Less: provisions for impairment of trade debtors	**(3,184)**	(3,215)	**(2,819)**	(2,770)
Trade debtors – net	**25,571**	25,498	**23,301**	23,869

23. Other non-current debtors

	Group		Company	
	2008	2007	**2008**	2007
	€000	€000	**€000**	€000
Security deposits and outstanding proceeds arising from operating lease agreements	**3,744**	5,036	**3,744**	5,036
Other long-term deposits and receivables	**1,017**	995	**410**	249
	4,761	6,031	**4,154**	5,285

Security deposits, amounting to €3,744,000 (2007: €4,753,000), will be refunded to the company on termination of the company's fleet lease period up to March 2020.

'Other long-term deposits and receivables' are principally receivable within five years from the balance sheet date.

24. Derivative financial instruments

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

	Group and Company	
	Fair values	
	Assets	Liabilities
	€000	€000
At 31 March 2008		
Derivatives held for hedging (cash flow hedges)		
Foreign exchange derivatives		
- currency forwards	-	(1,562)
- currency options	867	-
	867	(1,562)
Fuel price hedging derivatives		
- commodity swaps	38	-
- commodity options	651	-
	689	-
Total derivative assets/(liabilities)	1,556	(1,562)
Less non-current portion:		
Foreign exchange derivatives		
- currency options	192	-
Current portion	**1,364**	**(1,562)**

24. Derivative financial instruments - continued

	Group and Company Fair values Assets €000	Liabilities €000
At 31 March 2007		
Derivatives held for hedging (cash flow hedges)		
Foreign exchange derivatives		
- currency forwards	-	(4,111)
Fuel price hedging derivatives		
- commodity swaps	5	(1,454)
- combined bought call and written put options	-	(345)
- other options	2,434	-
	2,439	(1,799)
Total derivative assets/(liabilities)	2,439	(5,910)
Less non-current portion:		
Foreign exchange derivatives		
- currency forwards	-	(2,548)
Current portion	2,439	(3,362)

The currency forward contracts outstanding as at 31 March 2008 have the following contract terms:

	Fair value - liabilities €000
Forward sale of GBP13.0 million against USD (at contracted rates averaging GBP1: USD1.783)	(1,562)

These contracts mature within a period of seven (2007: eighteen) 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.

24. **Derivative financial instruments** - continued

The terms and notional amounts of the currency options outstanding as at 31 March 2008 are as follows:

Expiry date	Notional amount	Weighted average strike rate	Fair value - assets €000
After more than one year			
Up to 31 October 2009	Sell GBP3,990,000	£1 : €1.25	192
Within one year			
Up to 31 March 2009	Sell GBP11,345,000	£1 : $2.00	374
Up to 31 October 2008	Sell GBP7,560,000	£1 : €1.28	301
			867

The forecast transactions designated as items being hedged by these option contracts are expected to affect the profit and loss account upon the expiry of the derivative instruments.

The terms and approximate notional amounts of the commodity swap agreements outstanding as at 31 March 2008 are as follows:

Contract cover	Notional amount	Settlement terms	Fair value - assets €000
One month period to 30 April 2008	USD63,000	Pay-fixed ($71.29), receive-floating	38

The terms and approximate notional amounts of the commodity call options outstanding as at 31 March 2008 are as follows:

Contract cover	Notional amount	Strike price	Fair value - assets €000
Seven month period to 31 October 2008	USD6,500,000	$97.35	299
Seven month period to 31 October 2008	USD6,400,000	$95.15	352
			651

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

The terms and conditions of the derivative instruments outstanding as at 31 March 2007 are disclosed in the consolidated financial statements of the preceding financial year.

25. Interest-bearing borrowings

	Group		Company	
	2008	2007	**2008**	2007
	€000	€000	**€000**	€000
Short-term – falling due within one year				
Bank overdrafts	**1,233**	3,291	**770**	3,012
Bank loans	**24,108**	15,730	**24,073**	15,185
	25,341	19,021	**24,843**	18,197
Long-term – falling due after more than one year				
Bank loans	**4,529**	34,030	**4,101**	34,030
Total borrowings	**29,870**	53,051	**28,944**	52,227

Certain banking facilities of the holding company were 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 (also refer to borrowings disclosed in Note 3).

The interest rate exposure of the group's borrowings is as follows:

	Group		Company	
	2008	2007	**2008**	2007
	€000	€000	**€000**	€000
Total borrowings:				
At fixed rates	**12,110**	12,192	**11,647**	11,647
At floating rates	**17,760**	40,859	**17,297**	40,580
	29,870	53,051	**28,944**	52,227

The weighted average effective interest rates as at the balance sheet date were as follows:

	Group		Company	
	2008	2007	**2008**	2007
	%	%	**%**	%
Bank overdrafts	**5.4**	4.6	**5.2**	4.8
Bank loans	**4.7**	4.7	**4.6**	4.7

25. Interest-bearing borrowings - continued

Maturity of long-term borrowings:

	Group		Company	
	2008	2007	**2008**	2007
	€000	€000	**€000**	€000
Between one and two years	**1,305**	20,955	**1,270**	20,955
Between two and five years	**2,935**	13,075	**2,831**	13,075
Over five years	**289**	-	**-**	-
	4,529	34,030	**4,101**	34,030

26. Other liabilities

	Group		Company	
	2008	2007	**2008**	2007
	€000	€000	**€000**	€000
Amounts falling due after more than one year				
Other creditors	**19**	976	**-**	-

27. Deferred taxation

Deferred income taxes are calculated on temporary differences under the liability method using a principal tax rate of 35% (2007: 35%).

The movement on the deferred tax account is as follows:

	Group	Company
	€000	€000
At 31 March 2006	(4,840)	(5,632)
Tax effect of remeasurement of derivatives (Note 32)	(946)	(946)
Profit and loss account (Note 11)	-	946
At 31 March 2007	(5,786)	(5,632)
Profit and loss account (Note 11)	3,566	3,650
At 31 March 2008	**(2,220)**	**(1,982)**

Deferred income tax assets and liabilities are offset when the taxes concerned relate to the same fiscal authority. No amounts were offset in the balance sheet as at 31 March 2008 and 2007.

27. Deferred taxation - continued

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

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

Group

	At 1 April €000	Credited/ (charged) to profit and loss account €000	Credited to equity €000	At 31 March €000
Year ended 31 March 2008				
Deferred tax assets				
Provisions	(133)	(105)	-	(238)
Temporary differences on fixed assets	(228)	228	-	-
Unabsorbed capital allowances and tax losses carried forward	(566)	566	-	-
Unabsorbed capital losses carried forward	(4,859)	2,877	-	(1,982)
	(5,786)	**3,566**	**-**	**(2,220)**
Year ended 31 March 2007				
Deferred tax liabilities				
Remeasurement of derivative instruments	946	-	(946)	-
Deferred tax assets				
Provisions	(182)	49	-	(133)
Temporary differences on fixed assets	(745)	517	-	(228)
Unabsorbed capital allowances and tax losses carried forward	-	(566)	-	(566)
Unabsorbed capital losses carried forward	(4,859)	-	-	(4,859)
	(5,786)	-	-	(5,786)
Net deferred tax	(4,840)	-	(946)	(5,786)

27. Deferred taxation - continued

Deferred tax assets are recognised to the extent that realisation of the related tax benefit through future taxable profits is probable. At 31 March 2008, the group had unutilised tax credits arising from unabsorbed tax losses and unabsorbed capital allowances amounting to €95,230,000 (2007: €84,293,000) in respect of which deferred taxation has not been recognised. The group also had unutilised capital losses amounting to €48,037,000 (2007: €64,132,000), the tax effects of which have not been reflected. Accordingly, the group has a potential deferred tax asset amounting to €50,143,000 (2007: €51,949,000) which has not been recognised in these financial statements. Whereas tax losses and capital losses have no expiry date and may be carried forward indefinitely, unabsorbed capital allowances are forfeited upon cessation of the trade. Capital losses may be offset solely against future capital gains.

Company

	At 1 April €000	Charged to profit and loss account €000	Credited to equity €000	At 31 March €000
Year ended 31 March 2008				
Deferred tax assets				
Temporary differences on fixed assets	(207)	207	-	-
Unabsorbed capital allowances and tax losses carried forward	(566)	566	-	-
Unabsorbed capital losses carried forward	(4,859)	2,877	-	(1,982)
	(5,632)	**3,650**	**-**	**(1,982)**
Year ended 31 March 2007				
Deferred tax liabilities				
Remeasurement of derivative instruments	946	-	(946)	-
Deferred tax assets				
Provisions	(151)	151	-	-
Temporary differences on fixed assets	(1,002)	795	-	(207)
Unabsorbed capital allowances and tax losses carried forward	(566)	-	-	(566)
Unabsorbed capital losses carried forward	(4,859)	-	-	(4,859)
	(6,578)	946	-	(5,632)
Net deferred tax	(5,632)	946	(946)	(5,632)

28. 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 2008 and 2007 represent the excess of amounts charged to the profit and loss account over the actual costs incurred.

	Group and Company	
	2008	2007
	€000	€000
Year ended 31 March		
At beginning of year	**12,602**	1,591
Charged to profit and loss account: - Additional provisions, including effects of unwinding non-current provisions	**12,729**	15,416
Used during year	**(8,693)**	(4,405)
At end of year	**16,638**	12,602

Analysis of total provisions:

	Group and Company	
	2008	2007
	€000	€000
At 31 March		
Non-current	**15,986**	9,024
Current	**652**	3,578
	16,638	12,602

29. Other provisions

Group and Company

	Provisions on onerous contracts €000	Provisions against commitments and guarantees issued in favour of AZZURRAair S.p.A. €000	Total €000
At 1 April 2006	8,311	1,512	9,823
Credited to profit and loss account: - Unused amounts reversed (Notes 10 and 7)	(1,915)	(263)	(2,178)
Effects of unwinding non-current provisions (Note 9)	277	-	277
Used during year	(3,168)	(310)	(3,478)
At 31 March 2007	3,505	939	4,444
Credited to profit and loss account: - Unused amounts reversed (Notes 10 and 7)	(320)	(461)	(781)
Effects of unwinding non-current provisions (Note 9)	96	-	96
Used during year	(3,281)	-	(3,281)
At 31 March 2008	**-**	**478**	**478**

30. Share capital

	Group and Company 2008 €000	2007 €000
Authorised		
35,000,000 (2007: 35,000,000) ordinary shares of €2.329373 each	**81,528**	81,528
Issued and fully paid		
11,115,478 (2007: 11,115,478) ordinary shares of €2.329373 each	**25,892**	25,892

31. Share premium

	Group and Company	
	2008	2007
	€000	€000
At beginning and end of year	**42,762**	42,762

32. 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 €000	Commodity options and swaps €000	Total €000
At 1 April 2007			
Gross amounts of (losses)/gains	(4,111)	112	(3,999)
Movements in year ended 31 March 2008			
(Losses)/gains from changes in fair value	(680)	4,612	3,932
Transferred to profit and loss account	3,620	(4,434)	(814)
At 31 March 2008			
Gross amounts of (losses)/gains	**(1,171)**	**290**	**(881)**

32. Hedging reserve - continued

	Currency forwards €000	Commodity options and swaps €000	Total €000
At 1 April 2006			
Gross amounts of gains	2,544	415	2,959
Deferred income tax	(890)	(56)	(946)
	1,654	359	2,013
Movements in year ended 31 March 2007			
Losses from changes in fair value	(7,827)	(2,138)	(9,965)
Deferred income tax (Note 27)	890	56	946
	(6,937)	(2,082)	(9,019)
Transferred to profit and loss account	1,172	1,835	3,007
At 31 March 2007			
Gross amounts of (losses)/gains	(4,111)	112	(3,999)

The net fair value losses at 31 March 2008 on open forward foreign exchange contracts and foreign currency options 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 nineteen (2007: eighteen) months from the balance sheet date.

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

33. Other reserve

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

Group

	2008 €000	2007 €000
At beginning and end of year	**(3,497)**	(3,497)

34. Financial risk management

1) Financial risk factors

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

In order to manage exposures to risks arising from fluctuations in currency exchange rates and fluctuations in prices on the crude oil and fuel products markets, the group makes use of derivative financial instruments. These instruments mainly comprise foreign currency forward contracts and options together with fuel hedging instruments. The general hedging policy guidelines regarding currency and fuel price risks are set by the board and the company's finance department is responsible for implementation of these hedging policies. The respective derivative transactions are concluded only with first rate counterparties.

(a) Market risk

(i) Foreign exchange risk

Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities which are denominated in a currency that is not the respective entity's functional currency. The group is exposed to foreign exchange arising from various currency exposures, primarily with respect to the US dollar and UK sterling. With respect to US dollars, the group is in a net payer position from its operating business particularly in view of a significant portion of purchases denominated in this currency, including fuel, operating leases, maintenance and other related costs. In relation to other currencies the group is in a net surplus position which is attributable to a portion of group's revenue which is denominated in these currencies. UK sterling is considered to be the main risk exposure in this respect. A number of group undertakings domiciled overseas (see Note 17) have a functional currency which is different from the euro. These group undertakings are also subject to currency risk in respect of purchases and intra-group financing denominated in euro; but these exposures are not deemed material in the context of the group figures.

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

34. Financial risk management - continued

As at 31 March 2008, the group forecasts net receipts denominated in UK sterling amounting to €63.8 million for the twelve month period ending 31 March 2009 and €44.1 million for the subsequent twelve months. The group also forecasts net payments denominated in US dollar amounting to €81.3 million for the twelve month period ending 31 March 2009 and €85.1 million for the subsequent twelve months. These exposures were hedged as at the balance sheet date, in accordance with the policy parameters referred to previously, through the use of derivative contracts having a notional amount of €45.6 million covering UK sterling exposures and a notional amount of €28.9 million covering US dollar exposures.

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

	Group		Company	
	2008	2007	**2008**	2007
	€000	€000	**€000**	€000
Net UK sterling (liability)/asset position	**(10,330)**	10,370	**(10,330)**	10,370
Net US dollar (liability)/asset position	**(14,987)**	3,147	**(16,225)**	744

If as at the balance sheet date the euro had strengthened/weakened by 10% against the UK sterling and US dollar with all other variables held constant, pre-tax profit for the year would change as follows:

	Group		Company	
	(+) 10%	(-) 10%	(+) 10%	(-) 10%
	€000	€000	€000	€000
UK sterling				
At 31 March 2008	**939**	**(1,148)**	**939**	**(1,148)**
At 31 March 2007	(943)	1,152	(943)	1,152
US dollar				
At 31 March 2008	**1,357**	**(1,659)**	**1,475**	**(1,803)**
At 31 March 2007	(215)	263	(68)	83

34. **Financial risk management** - continued

If as at the balance sheet date the UK sterling had strengthened/weakened by 10% against the US dollar with all other variables held constant, equity (prior to tax effects) as at the year-end would change as follows:

	Group and Company	
	(+) 10%	(-) 10%
	€000	€000
At 31 March 2008	**(1,618)**	**1,618**
At 31 March 2007	(5,536)	5,536

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

(ii) Cash flow and fair value interest rate risk

The group's significant instruments which are subject to fixed interest rates comprise bank borrowings (Note 25). In this respect, the group is potentially exposed to fair value interest rate risk in view of the fixed interest nature of these instruments, which are however measured at amortised cost.

The group's interest rate risk principally arises from bank borrowings issued at variable rates (Note 25) and advances to related parties subject to floating interest rates which expose the group to cash flow interest rate risk. The group's borrowings mainly consist of facilities subject to variable interest rates which are principally based on reference rates. Management monitors the impact of changes in market interest rates on amounts reported in the profit and loss account in respect of these instruments. Based on this analysis, management considers the potential impact on profit or loss of a defined interest rate shift that is reasonably possible at the balance sheet date to be immaterial and accordingly the level of interest rate risk is contained. The group's operating cash flows are substantially independent of changes in market interest rates.

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

34. Financial risk management - continued

(iii) Price risk

During the financial year ended 31 March 2008, fuel expenses amounted to €68 million (2007: €66.6 million) as disclosed in Note 4 to the financial statements and accounted for approximately 22% (2007: 22%) of the total operating expenses of the group from continuing operations. Fluctuations in crude oil, jet fuel and other fuel product prices may have a significant effect on the group's results. Different hedging instruments with regard to the crude oil and fuel products markets are used to limit the fuel price risk. These instruments mainly comprise combined purchased call and written put options, together with other options and commodity swap agreements. The group's policy during the current and preceding years aimed at hedging, in normal circumstances, a minimum of 40% of the expected fuel expenditure of the ensuing twelve months. As at 31 March 2008, the notional amounts of the hedging derivatives outstanding amounted to approximately €8 million (2007: €40 million) in view of the prevailing market and trading conditions (refer to Note 24).

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.

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.

Disclosure of sensitivity analysis for price risk attributable to a reasonable shift in the price of fuel products as at the balance sheet date, reflecting how the results for the year and equity would have been affected by applying the change in the relevant risk variable to the risk exposures in existence at that date, was not deemed necessary in view of the low notional amounts of the outstanding fuel derivative hedging instruments as at the balance sheet dates (Note 24).

34. **Financial risk management** - continued

(b) Credit risk

Credit risk principally arises from cash and cash equivalents and credit exposures to customers, including outstanding debtors and committed transactions. The group's exposures to credit risk as at the balance sheet dates are analysed as follows:

	Group		**Company**	
	2008	2007	**2008**	2007
	€000	€000	**€000**	€000
Loans and receivables category:				
Cash and cash equivalents	**44,998**	43,431	**33,825**	30,424
Trade debtors and other receivables	**52,691**	54,241	**49,288**	52,250
Loans to group and associated undertakings (Notes 3, 17 and 18)	**62**	72	**11,917**	22,420
	97,751	97,744	**95,030**	105,094
Available-for-sale investments (Notes 19 and 20)	**5,816**	461	**5,655**	461
Financial instruments held for hedging:				
Derivative financial instruments (Note 24)	**1,556**	2,439	**1,556**	2,439
	105,123	100,644	**102,241**	107,994

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

Cash and cash equivalents

Group undertakings principally bank with local and foreign financial institutions which have high quality credit standing or rating. The group's main foreign bank counterparties as at the balance sheet dates have an external credit rating at least equivalent to A, as determined by major rating agencies such as Fitch. Exposures to foreign banking institutions as at 31 March 2008 amounted to approximately €12 million (2007: €11 million).

34. Financial risk management - continued

Trade debtors and other receivables

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

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

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

The group manages credit limits and exposures actively in a practicable manner such that past due amounts receivable from customers are within controlled parameters. The credit quality of the group's trade and other debtors, which are not impaired or past due financial assets, reflects the nature of these assets which are principally debts in respect of transactions with customers for whom there is no recent history of default. Management does not expect any losses from non-performance by these customers. As at 31 March 2008, the group holds collateral in the form of bank guarantees for the amount of €2,585,000 (2007: €2,240,000) as security in respect of trade debtors. At 31 March 2008 and 2007, no trade or other debtors that would otherwise be past due or impaired have been renegotiated.

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

As at 31 March 2008, trade debtors of €3,184,000 (2007: €3,215,000) were impaired and the amount of the provisions in this respect are equivalent to these amounts. The individually impaired receivables mainly relate to a number of independent customers which are in unexpectedly difficult economic situations and which are accordingly not meeting repayment obligations. The group does not hold any significant collateral as security in respect of the impaired assets.

34. Financial risk management - continued

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

	Group		Company	
	2008	2007	**2008**	2007
	€000	€000	**€000**	€000
At beginning of year	**3,215**	2,930	**2,770**	2,509
Increase in provisions	**49**	316	**49**	261
Reversals of provisions which are no longer required	**(80)**	-	**-**	-
Other movements	**-**	(31)	**-**	-
	3,184	3,215	**2,819**	2,770

Reversals of provisions for impairment arise in those situations where customers recover from unfavourable circumstances and accordingly start meeting repayment obligations. The movements in these provisions are disclosed in Note 4 and are included in 'Administrative expenses' in the group's profit and loss account.

As at 31 March 2008, trade debtors and amounts owed by related parties amounting to €1,132,000 and €1,443,000 respectively were past due but not impaired. These relate to a number of customers for whom there is no recent history of default and in respect of which the group has obtained no significant collateral. Categorisation of receivables as past due is determined by the group on the basis of the nature of the credit terms in place and credit arrangements actually utilised in managing exposures with customers. The ageing analysis of these trade and other debtors is such that these amounts have been past due mainly for more than six months but for less than one year.

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

Loans to group and associated undertakings

The group's and company's loans referred to in the table above consist of advances to subsidiaries and associates forming part of the Air Malta group. The group's credit control function monitors intra-group credit exposures and ensures timely performance in the context of overall group liquidity management. Management does not expect any losses from non-performance or default, except as disclosed below. Loans to group and associated undertakings which are impaired are reflected in Notes 17 and 18 and the provisions for impairment in this respect are equivalent to the impaired assets. The impaired assets consist of loans to entities which are in adverse trading and operational circumstances. The movements in the provisions for impairment of loans to group and associated undertakings are disclosed in Notes 17 and 18 to the financial statements.

Available-for-sale investments

The group's investments principally consist of Treasury Bills and debt instruments issued by the Government. These instruments are quoted on the Malta Stock Exchange and credit risk in this respect is quite limited.

34. **Financial risk management** - continued

Derivative financial instruments

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

(c) Liquidity risk

The group is exposed to liquidity risk in relation to meeting future obligations associated with its financial liabilities, which comprise principally interest-bearing borrowings (Note 25) and trade and other payables (Note 26). Prudent liquidity risk management includes maintaining sufficient cash and committed credit lines to ensure the availability of an adequate amount of funding to meet the group's obligations. Management monitors liquidity risk by reviewing expected group cash flows, and ensures that facilities that are expected to be required over the coming year are in place.

Based on the results of the group's budgeting process, management prepares a liquidity plan covering the subsequent twelve month period that reflects the anticipated liquidity position over the period and ensures that pre-established net liquidity levels are met at all times during the period under review. This process is performed and monitored by a central treasury function. The overall liquidity requirements of the Air Malta group involve maintaining available net liquidity equivalent to a number of weeks' cash outflows from operations depending on seasonality and expected volatility. The risk is actively managed by taking cognisance of the matching of operational cash inflows and outflows including those arising from expected maturities of financial instruments and the group's committed bank borrowing facilities and other financing that it can access. In this context management has also continued with the process of disposing of non-core assets during the year under review, and further disposals are expected in the coming year.

The group will meet the contractual cash outflows arising from financial liabilities disclosed below, extending beyond the subsequent twelve month period, through operating cash flows and other financing cash inflows. The level of financing required will be determined and negotiated in the context of the process highlighted above.

34. **Financial risk management** - continued

The table below presents the cash flows payable by the group under non-derivative financial liabilities by remaining contractual maturities at the balance sheet date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within twelve months equal their carrying balances, as the impact of discounting is not significant.

Group

	Within 3 months €000	3 - 6 months €000	6 - 12 months €000	1 - 2 years €000	2 - 5 years €000	Over 5 years €000	Total €000
At 31 March 2008							
Bank borrowings	1,500	9,739	18,095	1,305	2,936	291	33,866
Trade and other payables	71,913	232	1,411	19	-	-	73,575
	73,413	**9,971**	**19,506**	**1,324**	**2,936**	**291**	**107,441**
At 31 March 2007							
Bank borrowings	29,434	4,625	5,858	22,658	4,101	-	66,676
Trade and other payables	71,050	376	1,687	1,034	-	-	74,147
	100,484	5,001	7,545	23,692	4,101	-	140,823

Company

	Within 3 months €000	3 - 6 months €000	6 - 12 months €000	1 - 2 years €000	2 - 5 years €000	Over 5 years €000	Total €000
At 31 March 2008							
Bank borrowings	1,028	9,540	14,717	1,270	2,831	-	29,386
Trade and other payables	68,263	-	-	-	-	-	68,263
	69,291	**9,540**	**14,717**	**1,270**	**2,831**	**-**	**97,649**
At 31 March 2007							
Bank borrowings	25,859	4,479	3,272	22,658	4,101	-	60,369
Trade and other payables	67,423	-	-	-	-	-	67,423
	93,282	4,479	3,272	22,658	4,101	-	127,792

34. Financial risk management - continued

The group's derivatives that will be settled on a gross basis consist principally of forward foreign exchange contracts (Note 24). The table below analyses the group's derivative financial liabilities that will be settled on a gross basis into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

Group and Company

	Within 3 months €000	3 - 6 months €000	6 - 12 months €000	1 - 2 years €000	2 - 5 years €000	Over 5 years €000	Total €000
At 31 March 2008							
Foreign exchange derivatives:							
- Outflows	(6,060)	(8,208)	(2,227)	-	-	-	(16,495)
- Inflows	5,372	7,273	1,973	-	-	-	14,618
	(688)	**(935)**	**(254)**	-	-	-	**(1,877)**
At 31 March 2007							
Foreign exchange derivatives:							
- Outflows	(10,980)	(15,083)	(10,492)	(19,073)	-	-	(55,628)
- Inflows	10,236	14,058	9,629	17,325	-	-	51,248
	(744)	(1,025)	(863)	(1,748)	-	-	(4,380)

2) Capital risk management

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

Consistent with others in the industry, the group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (as shown in the consolidated balance sheet) less cash and cash equivalents. Total capital is calculated as equity as shown in the consolidated balance sheet plus net debt. As at 31 March 2008, the group's cash and cash equivalents exceeded total borrowings primarily in view of proceeds from the disposal of Tigne Development Company Limited. The group's gearing ratio as at 31 March 2007 was 40%.

The group maintains the level of capital by reference to its financial obligations and commitments arising from operational requirements. It is envisaged that the difficult trading environment caused by severe competition, commodity prices and exchange rates will prevail during the next financial year. The group continues to be committed to dispose of further non-core assets to manage the level of gearing, the availability of liquidity and the group's capital base.

34. Financial risk management - continued

The directors are constantly reviewing the adequacy of the capital level in the context of the changing business environment and expected operating results of the group on the basis of management's budgets and forecasts. This monitoring process takes cognisance of the group's intentions to continue with the ongoing reforms that are required to ensure that the operational results and cash flows are such that the capital base is safeguarded and availability of liquidity resources managed.

3) Fair values of financial instruments

At 31 December 2008 and 2007 the carrying amounts of cash at bank, debtors, creditors, accrued expenses and short-term borrowings reflected in the financial statements are reasonable estimates of fair value in view of the nature of these instruments or the relatively short period of time between the origination of the instruments and their expected realisation.

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

Information on the fair value of the group's available-for-sale financial assets is disclosed in Notes 19 and 20. The fair value of derivative financial instruments is determined in accordance with the group's accounting policy disclosed on page 33. Fair values are determined using forward exchange market rates at the balance sheet date for forward foreign exchange contracts and using dealer quotes from counterparties or valuation techniques, including discounted cash flow models, for other derivative contracts (see Notes 24 and 32). The valuation techniques used are supported by observable market prices or rates since their variables include only data from observable markets.

35. Cash generated from/(used in) operations

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

	Group		Company	
	2008	2007	**2008**	2007
	€000	€000	**€000**	€000
Operating loss from continuing operations	**(6,859)**	(11,840)	**(8,301)**	(12,351)
Operating loss from discontinued operations (Note 3)	**(529)**	(2,350)	**-**	-
Operating loss for the year	**(7,388)**	(14,190)	**(8,301)**	(12,351)
Adjustments for:				
Impairment charges of intangible assets (Note 14)	**445**	-	**-**	-
Depreciation of property, plant and equipment (Note 15)	**3,252**	3,797	**3,156**	3,399
Depreciation of investment property (Note 16)	**228**	86	**228**	142
Gains on disposal of tangible assets other than aircraft	**(62)**	(748)	**(62)**	(748)
Losses on sale of financial assets	**-**	33	**-**	33
Net movement in provisions for impairment of trade debtors	**(188)**	242	**49**	261
Movement in provisions in respect of maintenance costs	**12,729**	15,416	**12,729**	15,416
Effects of exchange rate movements	**(62)**	(204)	**-**	-
Changes in working capital:				
Stocks	**791**	269	**785**	151
Debtors	**1,341**	(5,097)	**2,566**	(5,933)
Creditors	**5,009**	2,918	**6,662**	1,349
Provisions used during year	**(11,974)**	(9,252)	**(11,974)**	(9,252)
Cash generated from/(used in) operations	**4,121**	(6,730)	**5,838**	(7,533)

36. Cash and cash equivalents

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

	Group		Company	
	2008	2007	**2008**	2007
	€000	€000	**€000**	€000
Attributable to continuing operations:				
Cash at bank and in hand	**44,998**	43,431	**33,825**	30,424
Bank overdrafts (Note 25)	**(1,233)**	(3,291)	**(770)**	(3,012)
	43,765	40,140	**33,055**	27,412
Attributable to discontinued operations:				
Cash at bank and in hand	**177**	100	-	-
Bank overdrafts	-	(995)	-	-
	177	(895)	-	-
Total cash and cash equivalents	**43,942**	39,245	**33,055**	27,412

The group's bank balances reflected in the table above are principally call accounts and deposits with contractual terms of three months or less. As at 31 March 2007, balances amounting to €7,976,000 were pledged as cash collateral with bankers as security for banking and other facilities utilised. Bank and cash balances include an amount of €853,000 (2007: €811,000) which is held in overseas bank accounts subject to currency restrictions which lead to delays in remittance to Malta.

37. Commitments

Capital and other commitments

	Group and Company	
	2008	2007
	€000	€000
Capital expenditure in respect of property, plant and equipment:		
- Authorised and contracted for	**1,183**	70
Other commitments	**31,067**	23,706
	32,250	23,776

Other commitments arise from agreements with third parties entered into by the group principally in respect of the outsourcing of the IT and other related functions, together with the provision of commercial business improvement consultancy services.

37. Commitments - continued

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

	Group and Company	
	2008	2007
	€000	€000
Not later than one year	**5,766**	4,365
Later than one year and not later than five years	**20,584**	16,045
Later than five years	**4,717**	3,296
	31,067	23,706

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:

	Group and Company	
	2008	2007
	€000	€000
Not later than one year	**25,931**	31,179
Later than one year and not later than five years	**89,453**	97,356
Later than five years	**98,565**	133,219
	213,949	261,754

38. Contingencies

The group has contingent liabilities for which no provision has been made in these accounts. These contingent liabilities include:

	2008	2007
	€000	€000
Guarantees in respect of associated undertakings and other related parties	**1,165**	1,165
Indemnities to certain banks for guarantees principally given to the Civil Aviation Authority of the United Kingdom	**9,462**	11,081
Other indemnities, bank guarantees and documentary credits	**23,097**	20,233
	33,724	32,479

As at the balance sheet date, the company has contingent liabilities amounting to €4,568,000 (2007: €11,789,000) in respect of guarantees given to secure the banking facilities of group undertakings.

38. Contingencies - continued

The company has also undertaken to provide financial support to a number of group undertakings so as to enable these entities to meet their liabilities as they fall due and to continue as a going concern. The group undertakings' losses for the period ended 31 March 2008 amounted to €1,061,000 (2007: €1,798,000) and as at 31 March 2008 their total liabilities exceeded their total assets by €11,101,000 (2007: €10,040,000).

39. Related party transactions

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

During the course of its operations, the group carries out business with the Government of Malta, government departments, public sector corporations and other entities owned or controlled by the Government. The Government of Malta ultimately controls the company by virtue of its 96% shareholding and is accordingly represented on the Board of directors.

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

Except for transactions disclosed or referred to previously, the following significant transactions were carried out with the respective categories of related parties:

	Group		Company	
	2008	2007	**2008**	2007
	€000	€000	**€000**	€000
Government and other entities controlled by Government:				
- Sales of services	**3,653**	2,758	**3,653**	2,758
- Purchases of materials and services	**62,720**	78,144	**62,654**	78,078
	66,373	80,902	**66,307**	80,836
Subsidiary undertakings				
- Sales of services	-	-	**15,720**	16,697
- Purchases of services	-	-	**1,597**	1,833
	-	-	**17,317**	18,530
Associated undertakings				
- Sales of services	**630**	660	**413**	643
- Purchases of services	**2,180**	867	**2,180**	867
	2,810	1,527	**2,593**	1,510
Key management personnel				
- Sales of services	**12**	12	**12**	12

39. Related party transactions - continued

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

Remuneration and other benefits payable to key management personnel are disclosed in Note 12 to these financial statements.

Interest receivable from and interest payable to group undertakings and other related parties are disclosed in Notes 8 and 9 respectively.

40. Statutory information

Air Malta plc is a public limited company and is incorporated in Malta.

41. Comparative information

Comparative financial information has been converted into euro using the Irrevocably Fixed Conversion Rate of €1 : Lm0.429300. This change has been made for information purposes only.

The Air Malta group

Group and associated undertakings within the group as at 31 March 2008 were the following:

Group undertakings	Group % holding 2008	Group % holding 2007	Company % holding 2008	Company % holding 2007	Country of incorporation
Airline activities					
Air Malta plc Head Office, Luqa	**N/A**	N/A	**N/A**	N/A	Malta
Holiday Malta Company Limited Air Malta House, 314/316 Upper Richmond Road, Putney, London	**100**	100	**100**	100	United Kingdom
Peregrine Aviation Leasing Company Limited WIL House, Shannon Business Park Shannon, Co. Clare (put into liquidation on 1 July 2007)	**100**	100	**100**	100	Ireland
Malta Air Charter Company Limited Air Malta Buildings, Vjal l-Avjazzjoni, Luqa (put into liquidation on 14 September 2007)	**100**	100	**100**	100	Malta
Holiday Malta Transport Company Limited Air Malta House, 314/316 Upper Richmond Road, Putney, London (held by Holiday Malta Company Limited)	**100**	100	-	-	United Kingdom
The Holiday Travel Club Company Limited Air Malta House, 314/316 Upper Richmond Road, Putney, London (held by Holiday Malta Company Limited)	**100**	100	-	-	United Kingdom
Holiday Malta (Russia) Limited Air Malta Buildings, Vjal l-Avjazzjoni, Luqa (held by Holiday Malta Company Limited)	**100**	100	-	-	Malta
Holiday Malta (Italia) S.r.l. (formerly known as G.W. Munzone S.r.l.) Corso Martiri della Liberta, 188 95131 Catania, Sicily (held by Holiday Malta Company Limited)	**100**	100	-	-	Italy
Holiday Malta GmbH Kaiserstrasse 13, 60311 Frankfurt am Main (held by Holiday Malta Company Limited)	**100**	100	-	-	Germany
Holiday Malta (Hellas) Tourism EPE (formerly known as Holiday Malta (Hellas) Tourism S.A.) 91, Alexandras Ave, 11474 Athens, Greece (held by Holiday Malta Company Limited)	**100**	100	-	-	Greece

The Air Malta group - continued

Group undertakings – continued	**Group % holding 2008**	**Group % holding 2007**	**Company % holding 2008**	**Company % holding 2007**	**Country of incorporation**
Airline activities - continued					
The Holiday Travel Club Transport Company Limited Air Malta House, 314/316 Upper Richmond Road, Putney, London (held by The Holiday Travel Club Company Limited)	**100**	100	-	-	United Kingdom
Travel 2000 S.r.l. Corso Martiri della Liberta, 184 95131 Catania, Sicily (held by Holiday Malta (Italia) S.r.l)	**100**	100	-	-	Italy
Hotels					
Hal Ferh Company Limited Air Malta Buildings, Vjal l-Avjazzjoni, Luqa	**100**	100	**100**	100	Malta
Selmun Palace Hotel Company Limited Air Malta Buildings, Vjal l-Avjazzjoni, Luqa	**100**	100	**100**	100	Malta
Tigne Development Company Limited Air Malta Buildings, Vjal l-Avjazzjoni, Luqa	-	100	-	100	Malta
Retail and other activities					
Airport Services Company Limited Air Malta Buildings, Vjal l-Avjazzjoni, Luqa	**100**	100	**100**	100	Malta
Medisle Holidays Company Limited (in liquidation) Air Malta Buildings, Vjal l-Avjazzjoni, Luqa	**100**	100	**100**	100	Malta
Osprey Insurance Brokers Company Ltd Air Malta Buildings, Vjal l-Avjazzjoni, Luqa	**100**	100	**100**	100	Malta
Shield Insurance Company (Guernsey) Limited PO Box 130 Court, St. Peter Port	**100**	100	**100**	100	Guernsey
Associated companies					
Air International Services S.r.l. Corso Martiri della Liberta, Catania, Sicily (Struck off on 26 June 2007)	-	49	-	49	Italy

The Air Malta group - continued

Associated companies – continued	**Group % holding 2008**	Group % holding 2007	**Company % holding 2008**	Company % holding 2007	**Country of incorporation**
A.M.G. Limited (in liquidation) Air Malta Buildings, Vjal l-Avjazzjoni, Luqa	**45**	45	**45**	45	Malta
AZZURRAair S.p.A. (in liquidation) Viale Papa Giovanni XXIII, 48 24121 Bergamo	**49**	49	**49**	49	Italy
Chinese-Maltese Services Co. Ltd. c/o Malta Investment Management Co. Ltd. Trade Centre, San Gwann Industrial Estate, San Gwann (Struck off on 2 October 2007)	**-**	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 Company Limited 22, Europa Centre, Floriana	**30**	30	**30**	30	Malta
Heritage Insurance Management (Malta) Limited Air Malta Buildings, Vjal L-Avjazzjoni, Luqa (held by Osprey Insurance Brokers Company Ltd)	**49**	49	**-**	-	Malta
Lufthansa Technik Malta Limited Malta International Airport, Luqa	**8**	25	**8**	25	Malta
Malpro Limited Air Malta Buildings, Vjal l-Avjazzjoni, Luqa	**50**	50	**50**	50	Malta
Mediterranean Aviation Company Limited Medavia Hanger, Karvija, Safi	**25**	25	**25**	25	Malta
Sabratha Duty Free Company Limited Air Malta Buildings, Vjal l-Avjazzjoni, Luqa	**50**	50	**50**	50	Malta
World Aviation Group Limited (formerly known as World Aviation Systems Limited) Floor 1, Aviation Centre, Luqa	**50**	50	**50**	50	Malta
Stakes Holding Limited Air Malta Buildings, Vjal l-Avjazzjoni, Luqa	**18**	18	**18**	18	Malta