AIR MALTA plc

Annual Report and Consolidated Financial Statements 31 March 2007

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 2007.

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 and insurance. 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

The financial results for the year under review show a marked improvement when compared to the results reported in recent years.

Total passenger numbers carried by the airline have this year reached the 2 million mark for the first time in the airline's 33 year history. The 2,008,416 passengers carried this year equate to a 7.4% increase over passengers carried in the previous year. The resulting 138,000 increase in passengers is made up of a 122,000 increase in passengers carried from the Malta base and a further increase of 16,000 passengers carried from the UK base.

During the year the company has continued with its efforts to cut and control costs and pursue its strategy to increase its operational revenues and broaden its customer base. In its efforts to focus on its core operating activities, the company continued to move out of those activities that are not core to its operations, especially those operations that have over recent years negatively impacted the group's performance.

The year under review has seen a further drive by management to restructure the company by introducing changes to a number of business processes and work practices. A number of operational activities have been outsourced with the objective of reducing costs by way of transforming fixed costs into variable costs. Great care was taken to ensure that cost cutting through outsourcing is coupled with improvements in quality of service delivered. The company has also reacted to current market developments and invested diligently in an appropriate ICT set-up that should enable us to face up new market challenges. There has been major investment in revenue management tools and also in the company's selling and distribution channels as well as in related training and consultancies. As of this year, the company has already started reaping positive results by way of increased revenues as a result of such investment. As an airline the company is focused to deliver value to its customers whilst at the same time containing its costs to remain competitive.

Directors' report - continued

Review of the business and results - continued

Financial results

The profit and loss accounts of the group and company are set out on page 18.

During the financial year ended 31 March 2007, Air Malta's group turnover amounted to Lm124,515,000 (Lm112,063,000 for the comparative financial year ended 31 March 2006). The group recorded a loss from continuing operations for the year under review of Lm3,460,000. A further Lm1,536,000 loss was incurred by the group for the financial year ended 31 March 2007 in respect of discontinued operations. The group's total loss for the current year amounts to Lm4,996,000, which is Lm2,598,000 less than the Lm7,594,000 loss reported for the corresponding period in the previous year.

The airline's turnover for the financial year ended 31 March 2007 amounted to Lm111,919,000, which when compared to the Lm99,201,000 turnover recorded in the previous year shows an increase of Lm12,718,000. This equates to a 12.8% increase in turnover. The company made an operating loss from continuing operations of Lm5,302,000 in the current financial year, compared to Lm6,353,000 corresponding losses incurred in the previous year. The Lm5,302,000 operating loss referred to above includes a one time payment of Lm2,109,000 in voluntary redundancy scheme (VRS) payments. This year's operating results were also negatively affected by an Lm5,800,000 increase in cost of fuel due to price.

The company's total loss for the year under review, originating from continuing and discontinued activities, amounts to Lm3,524,000, a reduction of Lm3,351,000 over the Lm6,875,000 reported for the same period last year.

The negative impact of higher fuel prices and redundancy payments were mitigated by a considerable increase in revenues and further cost reductions.

Fuel costs increased during the year by 32% to Lm28,400,000 as energy prices continued to rise to unprecedented levels. Crude prices peaked rapidly at over $75 per barrel during the peak months while the average price for the year was at $65 per barrel. The impact of this cost increase was hardly mitigated by the fuel surcharge. Although there was an increase in surcharge revenue over the previous year, this was due to the phased implementation of the surcharge introduced in June 2005, and this was on the basis of an oil price of $50 per barrel. Moreover, this additional revenue was partly eroded through a general reduction in basic fares resulting from competitive pressures. Meanwhile the company continued to partially hedge its exposure of its fuel uplift in order to maintain price stability.

In line with the agreement signed in 2004 between the Company and the Unions, a VRS was offered to eligible employees. The VRS was another initiative that the company embarked on in its restructuring programme. The VRS was launched on 17th May 2006 and remained open up to 15th September 2006; 160 employees took up the VRS scheme with a total payout cost of Lm2,109,000.

In the year under review the company continued with the remarketing of its AVRO RJ fleet. One RJ85 was sold during the financial year ended 31 March 2007 and the remaining four aircrafts were leased out. Since the balance sheet date, two of the leased aircrafts were sold and negotiations are in progress regarding the sale of the last two RJs.

As reported last year the company has always conducted its affairs with AZZURRAair S.p.A in a correct and prudent manner. Following the Lm3,100,000 without prejudice out of court settlement paid last year, the Receiver has ascertained the assets and liabilities of the company and verified the claims made by the creditors. The bulk of Air Malta's claims were accepted by the Receiver. There were no further developments in the financial year under review.

Directors' report - continued

Review of the business and results - continued

With respect to the group performance, our tour operating arm in the UK, Holiday Malta Co Ltd and its wholly owned subsidiary Holiday Travel Club Ltd., continued to feel the pressure of the under performing tourist destination 'Malta' together with the marked shift in travel patterns from tour operator based packages to internet based dynamic packaging. In order to address the situation, various measures have been identified and work has commenced on restructuring the Holiday Malta Group to reposition it in the leisure travel market. Overhead costs are being vigorously attacked through the outsourcing of processes to Malta-based lower cost service providers. Notable among these is the outsourcing of all telephone reservations to Centrecom Ltd. All back office functions are also targeted for relocation to Malta.

Osprey Insurance Brokers Co. Ltd has had another positive year with a marked improvement in the level of turnover and costs that have been maintained below those incurred in the previous year and better than budget. This has enabled Osprey to declare a dividend of Lm132,000 (net of tax). Our captive insurance company, Shield Insurance Co. Ltd, has also had another profitable year, with gross written premiums of over US$4 million. No major claims were registered during this period and this has permitted Shield to be in a position to pay Lm969,000 in dividends to the parent company.

Revenue Enhancement Measures

As reported above revenue has this year increased by Lm12.7 million when compared to the previous year and was 5% above budget. Revenue generated from scheduled traffic increased by Lm8.7 million whereas charter traffic contributed towards a further Lm3.3 million increase in revenues over last year. In comparison with previous year's performance, revenues were improved during both IATA seasons, although the gains in the winter period were lower mainly due to aggressive competition in the market that was triggered off by low cost carriers. However all the key revenue drivers showed positive results throughout the year, namely increased passenger numbers, higher seat load factors and higher yields when compared to same period in previous year.

During this period, the company has intensified its efforts to reduce it's over dependence on Tour Operator traffic. Whilst this source of traffic remains key to the company's performance, management has in line with current market trends, invested in the diversification of its distribution channels to increase further individual and agency sales. This is being achieved by increasing seat availability for individual traffic at more competitive fares and promoting direct sales channels of distribution such as the Air Malta internet booking engine and dot.com channels. The company has over the past years invested in its revenue management resources and skills which have led to a better sales mix. During this year the company signed a five year contract with Sabre Solutions for consultancy services in the areas of Revenue Management, Pricing, Sales, Network Planning and Distribution. The initial part of the deal centred on optimising the schedule through network planning, the management of pricing issues as well as putting into place the revenue management of routes to maximise returns. As from November 2006 the second phase of the project came into force with the introduction of consultancy services on distribution strategies and sales.

During summer 2006 Air Malta operated with one aircraft less than in summer 2005; 12 instead of 13 aircraft. In spite of this, total available seat kilometres (ASK's) increased by 4% over the previous year. The optimisation of the company's fleet capacity led to the company's increase of aircraft utilisation from 10.4 hours last year to 11.35 hours per aircraft per day for the year under review. Seat capacity was reduced in the UK and Italian markets with a significant increase in the German market and a marginal increase in the French market. The company focused to consolidate on its revenue generating routes with a minimum of three weekly rotations to attract individual short break leisure business. Summer 2006 saw Air Malta operating daily services to London Heathrow and Gatwick, Brussels, Munich, Rome, Milan, Catania, Paris, Amsterdam and Tripoli. Furthermore it was decided to extend the summer 06 schedule on certain routes into November 06 instead of being terminated in October 06. The decision proved to be the right one with record sales being reported for the month of November 06.

Directors' report - continued

Review of the business and results - continued

In continuation with previous years' efforts, management endeavoured to utilise all excess capacity through charter services both from Air Malta's main base as well as from its UK base where two Airbus A320 have been leased on a long term contract with a UK charter operator. The current financial year also saw the continuation of the UK Based Charter Operation throughout the winter period. The revenue generated by the Malta Based charter operations improved by 13% over previous year while that of the UK Based charter operation improved by 21%.

During the winter period, in order to minimise the impact of seasonality on its performance, the company leased out two aircrafts on a wet lease basis to operators based in Libya and Chile. These two lease outs generated Lm1.4 million in revenues, an increase of Lm900,000 over the previous year.

With regard to the stepping up of the distribution channels for Air Malta sales, a new KM Web Portal was officially launched in June 2007.

The introduction of e-ticketing throughout the network, except for North Africa, by February 2006 was another step in the right direction towards streamlining distribution and ticketing. Coupled with e-ticketing, Air Malta also embarked on the systematic implementation of Interline e-Ticketing (IET) with other carriers in an effort to offer seamless services to its clients connecting with other carriers. This latter initiative started in July 2006 with IET agreements with British Airways and Qantas and is ongoing to this day.

We have over the years taken steps to strengthen the distribution network through various code-share agreements with a number of reputable airlines such as Qantas and Emirates on specific routes. During this year the company has started operating a reciprocal code-share agreement commuting traffic via the Lufthansa Munich and Frankfurt hubs. The company has also post balance sheet date entered into a code share agreement with Air One on the Air Malta's Malta – Reggio Calabria - Rome route and on Air One's domestic flights connecting from Rome. Such code-share agreements improve the networking of flights that the company is in a position to offer to our esteemed customers whilst ensuring that we maintain extremely high operational and service standards.

In the year under review Air Malta increased its budget for marketing communications. Previously relying more on third parties, particularly tour operators and the Malta Tourism Authority, for its advertising, Air Malta took the bold decision to reach to its public in a more direct way. These funds were mainly distributed in overseas marketing campaigns to attract incoming traffic. Winter 06/07 also saw the introduction of systematic promotional campaigns based on discounted fares during set periods of the year. Coupled with aggressive marketing in various media, these offers proved highly successful and are now part of the overall strategy of the company. The main focus of all marketing initiatives during this year were aimed at increasing awareness of the Air Malta brand as a scheduled point to point carrier offering low fares and high frequencies from major European city airports. The stage has been set for substantial direct consumer advertising in 2007, coupled with harmonised and larger promotional spending by the MTA promoting destination Malta.

Customer Centricity

The company has this year embarked on a widespread customer care training programme to all staff that is regularly in contact with customers. Various customer care training courses were held for cabin crew, passenger handling and sales offices staff. Other courses were delivered to the company's industrial staff at ground services whereby the aim of the programme was to train participants how to deal with customers.

Directors' report - continued

Review of the business and results - continued

Following a call for tenders, Air Malta contracted Blue Media Ltd. for its new in-flight entertainment (IFE) product. Blue Media, is responsible for producing a high quality in-flight magazine, and other in-flight entertainment including feature films. Through this contract Air Malta has during the year considerably improved the quality of service given to its clients and increased its ancillary income by way of advertising revenue.

During the year under review, the company continued with its outsourcing initiatives of non-core activities with the award to AIREST Malta Ltd of its in-flight catering, bars and commissary services. AIREST is Austria's market leader in the airline catering and in-flight service business. A ten year contract was signed with AIREST Malta Ltd, which contract came into force as from 1st April 2007. The outsourcing of in-flight catering integrates four main functions under one contract. These four functions were, up till now, performed by different operators. AIREST will be supplying Air Malta with around 1.5 million meals annually, sourcing, storage and issuance of in-flight equipment, catering items, bar items and dry goods, packing of in-flight items and transportation to/from aircraft at Malta International Airport. The efficiencies which have been obtained in streamlining the various process involved should also result in very significant annual cost reductions for Air Malta. Besides increasing efficiency, this project will result in a significantly higher level of quality of service.

The company has this year received delivery of the last three of a total of twelve Airbus family aircraft. There was also the phase out from the Air Malta fleet of a Boeing 737-300. This means that Air Malta's new fleet, comprising of five A319s, seven A320s and the last two remaining B737 -300s, is now ready to take on the challenging 2007 – 2008 schedule both in the Malta and UK bases. The rationalized new fleet of aircraft proved that Air Malta could reach a technical dispatched reliability of over 99.5% of on time departures which surpasses the industry benchmark. The renewed fleet of aircraft equipped with improved ambient lighting and in-flight entertainment proved to be popular with our passengers also because of its wider cabin all along the fuselage, better and wider leather seats and higher seat pitch.

Cost Cutting and Efficiency Improvement Measures

The company continues to seek further efficiencies and improvements in the airline's cost base in line with the Rescue Plan agreement. Direct operating costs excluding fuel, have despite increased activity, this year remained at the same levels of previous year at an approximate cost of Lm84 million. During the current year the utilisation of the aircraft fleet was higher than the previous year, which therefore effectively results into a lower unit cost per ASK than that incurred in previous year. Direct operating costs excluding fuel, for the twelve months ended 31 March 2007 when compared to the corresponding period ended 31 March 2004, have decreased by Lm6.8million. Unfortunately over the past three years these savings were not enough to compensate for a Lm12.3 million increase in fuel costs for the Malta Base in 2007 when compared to 2004.

Also during the current year the company has entered into an agreement with Swissport whereby the latter will provide ground handling services to Air Malta in all the foreign airports where they operate. As a result of this agreement, Lm252,000 savings have already been realised during the financial year ended 31 March 2007 whereas additional savings for next year are estimated to amount to Lm456,000, with a targeted further Lm265,000 savings to be realised in the financial year ending 31 March 2009.

The company's payroll costs, before VRS payments, have again this year decreased by a further 4% when compared to previous year, this notwithstanding the increase in activity. These payroll costs (excluding termination benefits) are Lm2.4 million lower than those reported for the financial year ended 31 July 2004. Most of the 160 voluntary retirements occurred during the latter half of this financial year and therefore the cost saving benefits will be more pronounced in the results to be reported next year.

Directors' report - continued

Review of the business and results - continued

With respect to selling and distribution, substantial savings over the term of the Rescue Plan have been achieved. In the process the company has become more sales focused which has lead to increased sales. As of this year the Outstations are being restructured to allocate more resources to the selling function whilst consolidating foreign telephone sales into Centrecom in Malta. The Outstations' back office work is being reallocated to head office and their tour operating servicing and fulfilment function has also been passed on to Centrecom in Malta; this has resulted into saving on overseas salaries and achieving economies of scale. In 2005, the first year of the Rescue Plan, we saved a mere Lm123,000 versus the 2004 base year, followed by Lm1,200,000 savings in the second year and a Lm1,300,000 savings in the financial year ended 31 March 07 versus 2004.

In line with the company's efforts to cut down on costs and increase its operating efficiencies there have also been savings with respect to Overheads and Administration expenses of approximately Lm250,000 per annum when compared to base year 2004.

Savings have been achieved across the board on an annual basis during the past three years covered by the Rescue Plan approved in 2004. Spending in advertising and promotion and ICT development to enhance our commercial reach have increased over the past years when compared to 2004, thus savings in other areas are even higher than analysed in total above.

The company has also opted to outsource a number of functions which were previously carried out internally, with the scope of reducing unit cost by turning fixed costs into variable costs whilst increasing the service quality through stringent service level agreements.

The main drivers that led to the outsourcing of the ICT function were the improvement on service delivery, a reduction in total cost of operation, access to world class specialised resources, reduction from thirty plus ICT related suppliers to just two and a comprehensive replacement of the existing network and desktop hardware funded from the cost savings generated. Cost savings were also channelled to fully equip the call centre with the latest VOIP technology, cater for a refresh in three years of all the computer desktops and they also partially funded a number of new strategic ICT projects. Crucially through this transaction the company managed to convert a fixed cost into a variable cost by basing charges on the number of supported workstations at any point in time. The IT premises residing at the Luqa Aviation Park have also been leased to SITA, hence generating additional revenue to Air Malta.

As of June 2006, cabin cleaning was outsourced with an estimated annual savings of Lm250,000. Likewise, in August 2006 the company entered into an agreement for the provision of In-flight Entertainment, which outsourcing function has not only reduced the company's operating costs but also generated revenue. Towards the end of summer 06, the call centre was outsourced to Centrecom Ltd, a joint venture company between Air Malta and World Aviation Services Group. Besides a considerable improvement in the quality of service offered, especially due to longer service hours and many more manned workstations, the company has also realised considerable savings due to the consolidation of its reservations resources.

Organisation Structure

Following an extensive re-organisation the company reduced its top two levels of management from 20 Group Heads and 41 Heads to 7 Chief Officers and 19 General Managers. Performance related pay has also been introduced for senior management. Following the appointment of a new Chief Executive Officer in April 2006 the position of Chief Operating Officer was abolished. This resulted in a more streamlined structure with a smaller and more manageable span of control, more frequent management meetings and better communications throughout the top echelons of the company.

Directors' report - continued

Review of the business and results - continued

Following the Voluntary Redundancy Scheme a number of changes in the organizational structure and work practices took place. The most notable was in Engineering where rosters were changed to accommodate the reduction of staff compliment but still providing the required 24 hours coverage. The company is currently also undergoing an assimilation exercise with a view to realign its current grade structure. The current structure is made up of 48 different grades and the objective is to reduce these to thirteen different functional titles.

As part of the agreement signed with the four Trade Unions representing the employees, Air Malta constituted a Works Council. The first Works Council meeting took place in January 2005, and has since met at least every two months. The Company is represented at the highest levels at these meetings with the Chairman, CEO, and various Chief Officers attending. Detailed information is presented by management including a periodic review of the monthly management accounts to the same level of detail as given at the Corporate Management Board and Board of Directors.

Management has also met regularly with the four Trade Unions which have the company recognition, and presented to them information which made it possible for them to understand clearly the direction of the Company, its progress, and its financial position. Management accounts and annual reports, together with other project briefs have been presented and explained to the unions.

The Company introduced a staff website that all employees have access to. In a frank forum staff discuss openly the points that affect their day to day work and management often answers comments which are considered valid and constructive.

Corporate Governance

The company has this year continued in its efforts to enhance the group's governance structure. As is reported further down in this report, a number of committees have been constituted by the board in the furtherance of its governance duties. The Internal Audit function has been further resourced and training is being given to ensure that the department is kept abreast of current potential business risks faced by the company in an ever more dynamic market. Likewise, during the current year, PricewaterhouseCoopers have been appointed as group external auditors to consolidate further the assurance function within the governance structure of the group.

Focus on core operations

In line with its stated policy of divesting itself from non-core activities, Air Malta continued with its efforts to realise the value of its Hotel property assets. These efforts continued under the terms and conditions of the Agency Agreement in place between Air Malta plc and Government with regards to the sale of all three Air Malta hotel properties. In the year under review, a competitive tendering process by the Lands Department culminated in the signing of a 'Promise of Sale Agreement' being signed for 100% of the equity of Tigne Development Co Ltd, a wholly owned subsidiary which up till 31 March 2006 used to operate the Crowne Plaza Hotel, besides holding temporary emphyteutical title to its property. The actual Share Sale Agreement, in line with the provisions of the 'Promise of Sale Agreement' was signed on 27 April 2007.

The sale of this company has given Air Malta three main benefits. It has stopped a yearly outflow of financing support of just under half a million lira to cover the losses which this company had been making in the last years, it has enabled Air Malta to register a substantial capital gain given the excellent share sale price achieved and, it has also provided an additional substantial cash injection by way of the full repayment of the shareholder's loan which Air Malta had advanced to the company over the years.

Directors' report - continued

Review of the business and results - continued

Efforts are now ongoing for the sale of Selmun Palace Hotel Co Ltd and it is expected that this company / property would be disposed of during 2007 / 2008. Similar efforts are ongoing with regards to the sale of Hal Ferh Co. Ltd. under the terms of the Agency Agreement with Government which has been extended up till June 2008. It may be worth noting that in the year under review these two companies realised combined losses of Lm700,000.

Future Prospects

The ongoing reforms introduced over recent years have significantly improved the airline's financial performance through reduced non-fuel costs, greater efficiencies and substantial revenue growth. The company is committed to drive further cost reductions in conjunction with diversification in its revenue sources. However, the continued increase in fuel costs is expected to place new strains on the airline's operating costs. These will need to be offset by new savings derived from further changes in business processes and work practices. Moreover, the increased competition from low cost carriers has introduced added pressures on the airline's yields and market share at a time when the airline's performance is sensitive to the load factor.

In the face of these challenges, the airline is committed to secure an early turnaround. The divestment of its non-core activities is gradually relieving the Group from further losses and providing the necessary liquidity to compensate for the negative cash flow on operations. The disposal of the Group's interests in Tigne Development Company Limited generated Lm13.5 million cash in April 2007. Further disposals are planned with respect to other hotel interests and investment properties.

The company is confident that it has the necessary liquid means to meet the challenges of the immediate future. As at the balance sheet date the Group had Lm18,645,000 in cash and bank balances as against Lm22,775,000 in bank borrowings, of which Lm14,609,000 is represented by bank loans falling due after more than one year. Furthermore, these liquid resources were further augmented by net inflows of Lm13,537,000 received from the disposal of interests in Tigne Development Co. Limited that was completed in April 2007.

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

Corporate Governance Statement - 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.

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

Corporate Governance Statement – continued

Responsibilities of the Board

The Board exercises leadership, enterprise, integrity and judgment 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.

Directors' report – continued

Corporate Governance Statement – continued

Committees established by the Board

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

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 is chaired by Mr. Paul Bonello, a certified public accountant. There were no changes in the composition of the Committee during the year. The Chairman of the Company, any Director, the CEO, the external auditors, the Chief Officer Internal Audit and any other Chief Officer or employee of the Company may be requested to attend part of or all of an Audit Committee meeting as 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.

Directors' report - continued

Corporate Governance Statement - continued

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

Corporate 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 HR and Corporate Services, 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.

Directors' report – continued

Corporate Governance Statement – continued

Works Council – continued

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.

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 HR & Corporate Services, 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

Corporate Governance Statement – continued

Internal Controls

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

- an independent and professional Board which meets at least on a monthly basis and has separate Chairman and CEO roles;
- weekly Corporate Management Board meetings;
- 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, and 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;
- information systems are developed to support the Company's long-term objectives;
- 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; and
- 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.

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 period were:

Lawrence Zammit – Chairman
Paul Bonello
Joe Fenech Conti
Eucharist Mizzi
Noel Radmilli
Michael Soler

Post balance sheet event

In April 2007, the disposal of Tigne Development Company Limited together with the related land and buildings was completed. Proceeds of Lm13,537,000 were obtained through this transaction including the repayment of intercompany balances. The proceeds exceeded the respective carrying amount of the net assets disposed of by Lm4,126,000 in the Group and Lm7,615,000 in the Company.

Auditors

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

On behalf of the board

Lawrence Zammit
Chairman

Paul Bonello
Director

Registered office
Head Office
Luqa
Malta

30 July 2007

Statement of directors' responsibilities in respect of the financial statements

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

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

- ensuring that 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 company and the group 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 company and the group 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 18 to 75 which comprise the consolidated and parent company balance sheets as at 31 March 2007 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 16, 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 2007, 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

30 July 2007

Profit and loss accounts

	Notes	Group 2007 Lm000	Group 2006 Lm000	Company 2007 Lm000	Company 2006 Lm000
		Year ended 31 March			
Continuing operations:					
Turnover	2	**124,515**	112,063	**111,919**	99,201
Cost of sales		**(114,356)**	(103,135)	**(105,141)**	(93,588)
Gross profit		**10,159**	8,928	**6,778**	5,613
Selling and distribution costs		**(7,356)**	(7,491)	**(6,923)**	(7,237)
Administrative expenses		**(7,942)**	(7,185)	**(5,157)**	(4,729)
Other operating items		**56**	112	**-**	-
Operating loss		**(5,083)**	(5,636)	**(5,302)**	(6,353)
Airline activities		***(3,575)***	*(6,262)*	***(3,478)***	*(6,369)*
Voluntary redundancy scheme costs	*5*	***(2,109)***	*-*	***(2,109)***	*-*
		(5,684)	*(6,262)*	***(5,587)***	*(6,369)*
Aircraft leasing		***285***	*16*	***285***	*16*
Group companies		***316***	*610*	***-***	*-*
Operating loss from continuing operations		***(5,083)***	*(5,636)*	***(5,302)***	*(6,353)*
Investment income	6	**28**	256	**1,937**	989
Results of group and associated undertakings	7	**768**	(2,375)	**(333)**	(2,794)
Interest receivable	8	**874**	627	**1,135**	819
Interest payable	9	**(1,482)**	(1,271)	**(1,517)**	(1,350)
Net gains on aircraft and engine transactions	10	**966**	107	**966**	107
Loss before tax		**(3,929)**	(8,292)	**(3,114)**	(8,582)
Tax income/(expense)	11	**469**	(148)	**(410)**	(71)
Loss for the year from continuing operations		**(3,460)**	(8,440)	**(3,524)**	(8,653)
Discontinued operations:					
(Loss)/profit for the year from discontinued operations	3	**(1,536)**	846	**-**	1,778
Loss for the financial year		**(4,996)**	(7,594)	**(3,524)**	(6,875)
Earnings per share for loss from continuing operations attributable to the equity holders of the company during the year (expressed in Lm per share)	13	**(0.31)**	(0.76)		
Earnings per share for (loss)/profit from discontinued operations attributable to the equity holders of the company during the year (expressed in Lm per share)	13	**(0.14)**	0.08		

Balance sheets

		As at 31 March			
		Group		Company	
	Notes	**2007**	2006	**2007**	2006
		Lm000	Lm000	**Lm000**	Lm000
ASSETS					
Fixed assets					
Intangible assets	14	**191**	191	**-**	-
Tangible assets					
Property, plant and equipment	15	**28,367**	31,644	**25,666**	26,805
Investment property	16	**1,691**	1,728	**3,989**	4,050
		30,058	33,372	**29,655**	30,855
Financial assets					
Investments in group undertakings	17	**-**	-	**1,095**	1,077
Investments in associated undertakings	18	**2,756**	2,412	**1,549**	988
Other financial investments					
- available-for-sale	19	**198**	198	**198**	198
		2,954	2,610	**2,842**	2,263
Total fixed assets		**33,203**	36,173	**32,497**	33,118
Other non-current assets					
Deferred taxation	27	**2,484**	2,078	**2,418**	2,418
Other debtors	23	**2,589**	2,691	**2,269**	2,691
Derivative financial instruments	24	**-**	387	**-**	387
		5,073	5,156	**4,687**	5,496
Total non-current assets		**38,276**	41,329	**37,184**	38,614
Current assets					
Debtors					
Trade debtors	22	**11,248**	12,589	**10,520**	11,369
Amounts owed by group undertakings		**-**	-	**1,509**	1,128
Amounts owed by associated undertakings		**174**	217	**158**	120
Amounts owed by related parties		**140**	-	**-**	-
Derivative financial instruments	24	**1,047**	1,195	**1,047**	1,195
Current taxation		**511**	-	**377**	255
Other debtors		**5,998**	2,968	**5,211**	2,417
Prepayments		**3,394**	2,940	**2,764**	2,469
		22,512	19,909	**21,586**	18,953
Other current assets					
Stocks	21	**983**	1,134	**1,001**	1,066
Cash at bank and in hand		**18,645**	18,159	**13,061**	12,806
		19,628	19,293	**14,062**	13,872
Non-current assets classified as held for sale	3	**7,798**	6,144	**11,463**	10,172
Total current assets		**49,938**	45,346	**47,111**	42,997
Total assets		**88,214**	86,675	**84,295**	81,611

Balance sheets - continued

	Notes	Group 2007 Lm000	Group 2006 Lm000	Company 2007 Lm000	Company 2006 Lm000
		As at 31 March			
EQUITY AND LIABILITIES					
Capital and reserves attributable to equity holders of the company					
Called up issued share capital	30	**11,115**	11,115	**11,115**	11,115
Share premium	31	**18,358**	18,358	**18,358**	18,358
Hedging reserve	32	**(1,717)**	864	**(1,717)**	864
Other reserve	33	**(1,501)**	(1,501)	**-**	-
Profit and loss account		**(20,124)**	(15,040)	**(17,888)**	(14,364)
Total equity		**6,131**	13,796	**9,868**	15,973
Provisions for liabilities and charges: non-current amounts					
Provisions in respect of maintenance costs	28	**3,874**	-	**3,874**	-
Other provisions	29	**-**	1,939	**-**	1,939
		3,874	1,939	**3,874**	1,939
Creditors: amounts falling due after more than one year					
Interest-bearing borrowings	25	**14,609**	18,419	**14,609**	18,262
Derivative financial instruments	24	**1,094**	-	**1,094**	-
Other liabilities	26	**984**	1,723	**-**	-
		16,687	20,142	**15,703**	18,262
Total non-current liabilities		**20,561**	22,081	**19,577**	20,201
Provisions for liabilities and charges: current amounts					
Provisions in respect of maintenance costs	28	**1,536**	683	**1,536**	683
Other provisions	29	**1,908**	2,278	**1,908**	2,278
		3,444	2,961	**3,444**	2,961
Creditors: amounts falling due within one year					
Interest-bearing borrowings	25	**8,166**	1,759	**7,812**	1,312
Trade creditors		**17,711**	17,415	**14,452**	14,504
Amounts owed to group undertakings		**-**	-	**1,905**	2,749
Amounts owed to associated undertakings		**715**	570	**715**	569
Sales in advance		**14,810**	15,958	**13,207**	14,094
Derivative financial instruments	24	**1,443**	283	**1,443**	283
Current taxation		**-**	95	**-**	-
Indirect taxes and social security		**755**	816	**703**	760
Other creditors		**1,815**	553	**1,491**	357
Accruals and deferred income		**9,826**	8,154	**9,678**	7,848
		55,241	45,603	**51,406**	42,476
Liabilities directly associated with non-current assets classified as held for sale	3	**2,837**	2,234	**-**	-
Total current liabilities		**61,522**	50,798	**54,850**	45,437
Total liabilities		**82,083**	72,879	**74,427**	65,638
Total equity and liabilities		**88,214**	86,675	**84,295**	81,611

The financial statements on pages 18 to 75 were authorised for issue by the board on 30 July 2007 and were signed on its behalf by:

Lawrence Zammit
Chairman

Paul Bonello
Director

Statements of changes in equity

Group	Notes	Share capital Lm000	Share premium Lm000	Hedging reserve Lm000	Other reserve Lm000	Profit and loss account Lm000	Minority interest Lm000	Total equity Lm000
		Attributable to equity holders of the company						
Balance at 1 April 2005		11,115	18,358	1,203	-	(7,648)	223	23,251
Cash flow hedges, net of deferred tax	*32*	-	-	*(339)*	-	-	-	*(339)*
Currency translation differences		-	-	-	-	*202*	-	*202*
Adjustment to equity arising on acquisition of minority interest in group undertakings	*33*	-	-	-	*(1,501)*	-	*(223)*	*(1,724)*
Net (expense)/ income recognised directly in equity		-	-	*(339)*	*(1,501)*	*202*	*(223)*	*(1,861)*
Loss for the financial year		-	-	-	-	(7,594)	-	(7,594)
Total recognised expense for 2006		-	-	(339)	(1,501)	(7,392)	(223)	(9,455)
Balance at 31 March 2006		**11,115**	**18,358**	**864**	**(1,501)**	**(15,040)**	**-**	**13,796**
Balance at 1 April 2006		11,115	18,358	864	(1,501)	(15,040)	-	13,796
Cash flow hedges, net of Deferred tax	*32*	-	-	*(2,581)*	-	-	-	*(2,581)*
Currency translation differences		-	-	-	-	*(88)*	-	*(88)*
Net expense recognised directly in equity		-	-	*(2,581)*	-	*(88)*	-	*(2,669)*
Loss for the financial year		-	-	-	-	(4,996)	-	(4,996)
Total recognised expense for 2007		-	-	(2,581)	-	(5,084)	-	(7,665)
Balance at 31 March 2007		**11,115**	**18,358**	**(1,717)**	**(1,501)**	**(20,124)**	**-**	**6,131**

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	Notes	Share capital Lm000	Share premium Lm000	Hedging reserve Lm000	Profit and loss account Lm000	Total equity Lm000
Balance at 1 April 2005		11,115	18,358	1,203	(7,489)	23,187
Cash flow hedges, net of deferred tax	*32*	-	-	*(339)*	-	*(339)*
Net expense recognised directly in equity				*(339)*	-	*(339)*
Loss for the financial year		-	-	-	(6,875)	(6,875)
Total recognised expense for 2006		-	-	(339)	(6,875)	(7,214)
Balance at 31 March 2006		11,115	18,358	864	(14,364)	15,973
Balance at 1 April 2006		11,115	18,358	864	(14,364)	15,973
Cash flow hedges, net of deferred tax	*32*	-	-	*(2,581)*	-	*(2,581)*
Net expense recognised directly in equity		-	-	*(2,581)*	-	*(2,581)*
Loss for the financial year		-	-	-	(3,524)	(3,524)
Total recognised expense for 2007		-	-	(2,581)	(3,524)	(6,105)
Balance at 31 March 2007		**11,115**	**18,358**	**(1,717)**	**(17,888)**	**9,868**

Cash flow statements

		Year ended at 31 March			
		Group		Company	
	Notes	**2007**	2006	**2007**	2006
		Lm000	Lm000	**Lm000**	Lm000
Operating activities					
Cash used in operations	35	**(2,889)**	(8,760)	**(3,234)**	(10,078)
Interest paid and similar charges		**(1,474)**	(1,188)	**(1,285)**	(1,108)
Investment and other income		**902**	790	**1,161**	869
Dividends received from group undertakings		**-**	-	**1,102**	546
Dividends received from associated undertakings		**751**	160	**751**	160
Net tax (paid)/recovered		**(137)**	671	**(70)**	939
Net cash used in operating activities		**(2,847)**	(8,327)	**(1,575)**	(8,672)
Investing activities					
Purchases of tangible fixed assets		**(678)**	(821)	**(609)**	(697)
Net outcome on sale of tangible fixed assets		**1,356**	(24)	**1,344**	(24)
Acquisition of minority interest in group undertakings		**-**	(1,724)	**-**	-
Proceeds from disposal of group undertakings, net of cash disposed of		**-**	2,604	**-**	2,821
Investments in associated undertakings		**(652)**	(238)	**(600)**	(279)
Proceeds from disposal of associated undertakings		**-**	193	**-**	193
Loans to group undertakings		**-**	-	**(1,670)**	(1,353)
Loan repayments received from group and associated undertakings		**198**	-	**518**	60
Other outflows in respect of associated undertakings		**-**	(2,194)	**-**	(2,194)
Net cash generated from/(used in) investing activities		**224**	(2,204)	**(1,017)**	(1,473)
Financing activities					
New loans taken out		**4,236**	9,773	**3,000**	9,398
Repayments of bank loans		**(780)**	(5,187)	**(134)**	(4,845)
Net cash generated from financing activities		**3,456**	4,586	**2,866**	4,553
Movement in cash and cash equivalents		**833**	(5,945)	**274**	(5,592)
Cash and cash equivalents at beginning of year		**16,015**	21,960	**11,494**	17,086
Cash and cash equivalents at end of year	36	**16,848**	16,015	**11,768**	11,494

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

Accounting policies

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

(a) Basis of accounting

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

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

Standards, interpretations and amendments to published standards that are effective

During the current financial year, the group adopted new standards, amendments and interpretations to existing standards that are mandatory for the group's accounting period beginning on 1 April 2006. The adoption of these revisions to the requirements of IFRS's did not result in substantial changes to the group's accounting policies.

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

Certain new standards, amendments and interpretations to existing standards have been published by the date of authorisation for issue of these financial statements, that are mandatory for accounting periods beginning after 1 April 2006. The group has not early adopted these revisions to the requirements of IFRSs and the 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.

(b) Consolidation

(1) Group undertakings

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

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

(b) Consolidation - continued

(1) Group undertakings - continued

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

A listing of the group's principal subsidiaries is set out on pages 76 and 77.

(2) Transactions and minority interests

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

(3) Associated undertakings

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

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

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

(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 77 and 78.

(c) Segment reporting

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

(d) Foreign currencies

(1) Functional and presentation currency

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

(2) 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.

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

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

(3) Group companies

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

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

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

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

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

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

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

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

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

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

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

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

(f) Tangible fixed assets – investment property

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

(g) Intangible assets

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

(h) Impairment of long lived assets

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

(i) Other financial investments

The group classifies its investments in the following categories: loans and receivables and available-for-sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition and re-evaluates this designation at every reporting date.

(a) Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets.

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

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

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

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

(j) Leased assets

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

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

(k) Maintenance of aircraft

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

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

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

(l) Stocks

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

(m) Debtors

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

(n) Cash and cash equivalents

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

(o) Borrowings

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

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

(p) Deferred taxation

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

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

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

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

(q) Provisions

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

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

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

(r) Revenue recognition

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

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

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

(s) Sale and leaseback transactions

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

(t) Borrowing costs

Interest costs are taken to the profit and loss account.

(u) Derivative financial instruments and hedging

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

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

All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative. The full fair value of hedging derivatives is classified as a non-current asset or liability if the remaining maturity of the hedged item is more than 12 months, and as a current asset or liability if the remaining maturity of the hedged item is less than 12 months. Trading derivatives are classified as a current asset or liability.

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

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

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

- the hedge is effective on an ongoing basis.

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.

(u) Derivative financial instruments and hedging - continued

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 Lm000	Other activities Lm000	**Total Lm000**
Year ended 31 March 2007			
Total gross segment sales	130,737	1,008	**131,745**
Less: inter-segment sales	(6,335)	(895)	**(7,230)**
Turnover	124,402	113	**124,515**
Segment result - Operating (loss)/profit from continuing operations	(5,399)	316	**(5,083)**
Investment income			**28**
Results of associated undertakings	633	135	**768**
Interest receivable			**874**
Interest payable			**(1,482)**
Net gains on aircraft and engine transactions	966	-	**966**
Loss before tax			**(3,929)**
Tax on loss			**469**
Loss for the year from continuing operations			**(3,460)**
Segment assets	72,900	5,069	**77,969**
Elimination of group balances			**(3,502)**
Associates	2,076	680	**2,756**
Unallocated assets			**3,193**
Non-current assets classified as held for sale (Note 3)			**7,798**
Total assets			**88,214**
Segment liabilities	(57,868)	(2,105)	**(59,973)**
Elimination of group balances			**3,502**
Unallocated liabilities			**(22,775)**
Liabilities directly associated with non-current assets classified as held for sale (Note 3)			**(2,837)**
Total liabilities			**(82,083)**
Capital expenditure	657	21	**678**
Depreciation	1,539	128	**1,667**
Reversal of impairment charges (Note 15)	(577)	-	**(577)**
Provisions for impairment of trade debtors	135	(31)	**104**

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 Lm000	Other activities Lm000	**Total Lm000**
Year ended 31 March 2006			
Total gross segment sales	117,852	935	**118,787**
Less: inter-segment sales	(5,861)	(863)	**(6,724)**
Turnover	111,991	72	**112,063**
Segment result - Operating (loss)/profit from continuing operations	(6,246)	610	**(5,636)**
Investment income			**256**
Results of associated undertakings	(2,475)	100	**(2,375)**
Interest receivable			**627**
Interest payable			**(1,271)**
Net gains on aircraft and engine transactions	107	-	**107**
Loss before tax			**(8,292)**
Tax on loss			**(148)**
Loss for the year from continuing operations			**(8,440)**
Segment assets	72,245	5,980	**78,225**
Elimination of group balances			**(4,685)**
Associates	1,841	571	**2,412**
Unallocated assets			**4,579**
Non-current assets classified as held for sale (Note 3)			**6,144**
Total assets			**86,675**
Segment liabilities	(53,096)	(4,370)	**(57,466)**
Elimination of group balances			**4,685**
Unallocated liabilities			**(17,864)**
Liabilities directly associated with non-current assets classified as held for sale (Note 3)			**(2,234)**
Total liabilities			**(72,879)**
Capital expenditure	749	72	**821**
Depreciation	1,827	140	**1,967**
Reversal of impairment charges (Note 15)	(259)	-	**(259)**
Provisions for impairment of trade debtors	383	(22)	**361**

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.

	2007	2006
	Lm000	Lm000
Turnover on airline activities by route area reflecting the group's operational regions, as follows:		
Northern and Central Europe including UK	**87,222**	78,408
Mediterranean basin and Middle East	**31,894**	28,356
	119,116	106,764
Aircraft leasing revenue	**1,401**	524
Ground related & other revenue (Malta)	**3,885**	4,703
	124,402	111,991

Residual revenues included in the figures disclosed above amount to Lm3,137,000 (2006: Lm3,218,000)

3. Discontinued operations

	Group		Company	
	2007	2006	**2007**	2006
	Lm000	Lm000	**Lm000**	Lm000
Loss after tax from discontinued operations:				
Hotel segment (see Note a)	**(1,536)**	(860)	-	-
Gain recognised on the disposal of assets or disposal group constituting the discontinued operations (see Note b)	-	1,706	-	1,778
(Loss)/profit for the year from discontinued operations	**(1,536)**	846	-	1,778

3. **Discontinued operations** - continued

Group

	2007 Lm000	2006 Lm000
Non-current assets classified as held for sale:		
Hotel segment (see Note a)	**7,798**	6,144
Liabilities directly associated with non-current assets classified as held for sale:		
Hotel segment (see Note a)	**2,837**	2,234

Company

Non-current assets classified as held for sale:

	Shares in group undertakings Lm000	Loans to group undertakings Lm000	Total Lm000
Year ended 31 March 2006			
Opening carrying amount	3,379	6,708	10,087
Additions	-	1,093	1,093
Disposals	(1,008)	-	(1,008)
Closing carrying amount	2,371	7,801	10,172
Year ended 31 March 2007			
Opening carrying amount	2,371	7,801	10,172
Additions	-	1,435	1,435
Repayment of loans	-	(144)	(144)
Closing carrying amount	**2,371**	**9,092**	**11,463**
At 31 March 2007 and 2006			
Provisions for impairment reported within carrying amounts disclosed above	**(1,186)**	**(237)**	**(1,423)**

3. Discontinued operations - continued

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

	2007 Lm000	2006 Lm000
Sales	**917**	2,857
Operating costs	**(1,926)**	(3,706)
Operating loss – Segment result from discontinued operations	**(1,009)**	(849)
Finance costs	**(111)**	(97)
Loss before tax	**(1,120)**	(946)
Tax (Note 11)	**(416)**	86
Loss after tax from discontinued operations	**(1,536)**	(860)
Operating cash flows	**(1,523)**	(411)
Investing cash flows	**(21)**	(40)
Financing cash flows	**684**	127
Total cash flows	**(860)**	(324)

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 current year however the disposal was completed in April 2007 due to factors beyond the control of the group (see Note 41). 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 current 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 have been reclassified as held for sale. Accordingly the assets and liabilities of all three companies have been presented as held for sale in the financial statements for the year ended 31 March 2007.

	2007 Lm000	2006 Lm000
Non-current assets classified as held for sale:		
Disposal group held for sale:		
- Property, plant and equipment	**7,550**	5,529
- Other non-current assets (deferred taxation)	**-**	416
- Other current assets	**248**	199
	7,798	6,144
Liabilities directly associated with non-current assets classified as held for sale:		
- Interest-bearing bank borrowings	**2,228**	1,688
- Trade and other payables	**609**	546
	2,837	2,234

3. Discontinued operations - continued

(b) During the preceding financial period, the group disposed of its controlling shareholdings in two subsidiaries, Air Supplies and Catering Company Limited and Sterling Travel & Tourism Limited with the resulting gain on disposal:

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

4. Expenses by nature

	Group		Company	
	2007	2006	**2007**	2006
	Lm000	Lm000	**Lm000**	Lm000
Aircraft fuel and oils	**28,608**	21,597	**28,608**	21,597
Aircraft operating lease rentals	**12,431**	12,473	**12,431**	12,473
Aircraft maintenance	**9,434**	9,258	**9,434**	9,258
Other flight related costs	**27,695**	26,410	**27,695**	26,410
Marketing, distribution and representation costs	**5,354**	5,784	**4,921**	4,590
Depreciation	**1,566**	1,852	**1,520**	1,772
Staff costs (Note 5)	**24,442**	23,312	**23,059**	22,065
Increase in provisions for impairment of trade debtors	**104**	361	**112**	215
Exchange differences	**683**	153	**490**	146
Other expenses	**19,337**	16,611	**8,951**	7,028
Total cost of sales, selling and distribution costs and administrative expenses	**129,654**	117,811	**117,221**	105,554

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

4. Expenses by nature - continued

Auditors' remuneration

	Group	
	2007	2006
	Lm000	Lm000
Audit services – statutory		
- Parent company auditors:		
- company	**43**	43
- group undertakings	**43**	-
- Other auditors of other group undertakings	**-**	49
Other services		
- Parent company auditors: company		
- other assurance services	**16**	9
- tax and other services	**14**	15
- Other firms: other group undertakings		
- tax and other services	**13**	15

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

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

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

5. Staff costs

	Group		Company	
	2007	2006	**2007**	2006
	Lm000	Lm000	**Lm000**	Lm000
Wages and salaries	**23,917**	23,503	**21,803**	20,712
Social security costs	**1,511**	1,637	**1,256**	1,353
	25,428	25,140	**23,059**	22,065

Included in staff costs for the current financial year are termination benefits amounting to Lm2,109,000 (2006: Lm136,000). Staff costs included in the group's figures above relating to discontinued operations amount to Lm986,000 (2006: Lm1,834,000).

5. **Staff costs** - continued

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

	Group and Company	
	2007	2006
	Lm000	Lm000
Cost of sales	**1,525**	-
Selling and distribution costs	**158**	-
Administrative expenses	**426**	-
	2,109	-

Average number of persons employed during the year:-

By class of business:

	Group		Company	
	2007	2006	**2007**	2006
Airline activities, including aircraft leasing	**1,693**	1,834	**1,618**	1,758
Hotels	**135**	304	**-**	-
Other activities	**32**	35	**-**	-
	1,860	2,173	**1,618**	1,758

By category:

	Group		Company	
	2007	2006	**2007**	2006
Direct	**723**	945	**602**	653
Indirect	**850**	884	**806**	868
Administrative	**287**	344	**210**	237
	1,860	2,173	**1,618**	1,758

Group figures in respect of employee numbers, disclosed in the tables above, include 135 (2006: 304) employees attributable to discontinued operations.

6. **Investment income**

	Group		Company	
	2007	2006	**2007**	2006
	Lm000	Lm000	**Lm000**	Lm000
Income from shares in group undertakings	**-**	-	**1,102**	578
Income from shares in associated undertakings	**-**	-	**807**	192
Income from disposal of associated undertaking	**-**	93	**-**	169
Income from other financial assets	**28**	163	**28**	50
	28	256	**1,937**	989

7. Results of group and associated undertakings

	Group		Company	
	2007	2006	**2007**	2006
	Lm000	Lm000	**Lm000**	Lm000
Provisions against group and associated undertakings	**-**	-	**(333)**	(2,794)
Share of results and other losses of associated undertakings	**768**	(2,375)	**-**	-
	768	(2,375)	**(333)**	(2,794)

The figures disclosed in the table above include reversals of provisions amounting to Lm113,000 (2006: increase in provisions of Lm2,794,000) in respect of AZZURRAair S.p.A. The figures included in the table above are analysed as follows, except for the share of results of associated undertakings:

	Group		Company	
	2007	2006	**2007**	2006
	Lm000	Lm000	**Lm000**	Lm000
Net (gains)/losses arising in respect of guarantees, other commitments and expenses	**(113)**	2,794	**(113)**	2,794
Reversals of provisions against associated undertakings	**(133)**	-	**(133)**	-
Other provisions in respect of group undertakings	**-**	-	**579**	-
	(246)	2,794	**333**	2,794

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	
	2007	2006
	Lm000	Lm000
Included with other provisions (Note 29)	**(113)**	(259)

8. Interest receivable

	Group		Company	
	2007	2006	**2007**	2006
	Lm000	Lm000	**Lm000**	Lm000
Interest receivable and similar income from group undertakings	**-**	-	**442**	340
Interest receivable and similar income from associated undertakings	**69**	31	**69**	31
Interest receivable from bank deposits	**805**	596	**624**	448
	874	627	**1,135**	819

Company figures disclosed above in respect of interest receivable and similar income from group undertakings include amounts of Lm391,000 (2006: Lm306,000) 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

	Group		Company	
	2007	2006	**2007**	2006
	Lm000	Lm000	**Lm000**	Lm000
Interest payable on bank loans and overdrafts	**896**	632	**811**	605
Interest payable to group undertakings	**-**	-	**207**	108
Interest payable to associated undertakings	**27**	23	**27**	23
Effects of unwinding non-current provisions	**119**	180	**119**	180
Bank charges and similar expenses, including exchange differences on financing activities	**440**	436	**353**	434
	1,482	1,271	**1,517**	1,350

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 gains on aircraft and engine transactions

	Group		Company	
	2007	2006	**2007**	2006
	Lm000	Lm000	**Lm000**	Lm000
Decrease in provisions on onerous contracts (Note 29)	**822**	180	**822**	180
Effects of impairment and depreciation charges in respect of aircraft and flight equipment	**144**	(73)	**144**	(73)
	966	107	**966**	107

Provisions on onerous contracts have been made to reflect the extent to which future lease commitments on the AVRO RJ aircraft were expected to exceed the income estimated to be generated therefrom, account also being taken of all relevant costs. Future operating lease rental commitments payable on the aircraft, which have not been provided for on the basis of current assumptions on remarketing, total Lm2,724,000 (2006: Lm3,040,000).

As disclosed above during the current financial year, the company reversed impairment losses recognised in the preceding 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. Tax (income)/expense

	Group		Company	
	2007	2006	**2007**	2006
	Lm000	Lm000	**Lm000**	Lm000
Current taxation	**(469)**	195	**4**	71
Deferred taxation	**416**	(133)	**406**	-
	(53)	62	**410**	71

	Group	
	2007	2006
	Lm000	Lm000
Attributable to:		
Continuing operations (reflected on face of profit and loss account)		
- current taxation	**(469)**	195
- deferred taxation (Note 27)	**-**	(47)
	(469)	148
Discontinued operations		
- deferred taxation (Note 3)	**416**	(86)
	(53)	62

Adjustments recognised in the period under review for current tax of prior periods and in respect of deferred tax recognised in prior periods are disclosed separately in the table below.

11. Tax (income)/expense - 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 as follows:

	Group		Company	
	2007	2006	**2007**	2006
	Lm000	Lm000	**Lm000**	Lm000
Loss before tax from continuing operations	**(3,929)**	(8,292)	**(3,114)**	(8,582)
(Loss)/profit before tax from discontinued operations (Note 3)	**(1,120)**	760	**-**	1,778
Loss before tax for the period	**(5,049)**	(7,532)	**(3,114)**	(6,804)
Tax on loss before tax at the statutory rate of 35%	**(1,767)**	(2,636)	**(1,090)**	(2,381)
Deferred tax asset in respect of unutilised tax losses and unabsorbed capital allowances not recognised	**4,931**	2,317	**4,336**	2,365
Reversal of previously recognised deferred tax asset	**320**	-	**406**	-
Overprovision of current tax in respect of prior years	**(367)**	-	**-**	-
Unrecognised temporary differences and other movements, mainly attributable to tangible fixed assets and provisions on onerous contracts	**(3,022)**	1,302	**(3,170)**	830
Income effectively taxed at reduced rates	**(148)**	(921)	**(72)**	(743)
Tax (credit)/charge	**(53)**	62	**410**	71

12. Directors' emoluments

	Group		Company	
	2007	2006	**2007**	2006
	Lm000	Lm000	**Lm000**	Lm000
Emoluments of directors of Air Malta plc:				
Total fees and other emoluments charged in these financial statements	**15**	15	**15**	15
Benefits in kind as computed for Income Tax purposes	**1**	1	**1**	1
	16	16	**16**	16

Insurance premia of Lm125,000 (2006: Lm129,500) 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 Lm26,000 (2006: Lm19,000) 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 Air Malta plc by the weighted average number of ordinary shares in issue during the year.

	Group	
	2007	2006
Net loss from continuing operations attributable to the equity holders of the company (in Lm000)	**(3,460)**	(8,440)
Net (loss)/profit from discontinued operations attributable to the equity holders of the company (in Lm000)	**(1,536)**	846
Net result attributable to the equity holders of the company (in Lm000)	**(4,996)**	(7,594)
Weighted average number of ordinary shares in issue (in thousands)	**11,115**	11,115
Earnings per share for loss from continuing operations	**(Lm0.31)**	(Lm0.76)
Earnings per share for (loss)/profit from discontinued operations	**(Lm0.14)**	Lm0.08

14. Intangible assets

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

14. **Intangible assets** - continued

	Group Goodwill Lm000
At 1 April 2005	
Cost and carrying amount	194
Year ended 31 March 2006	
Opening carrying amount	194
Exchange differences	(3)
Closing carrying amount	**191**
Year ended 31 March 2007	
Opening and closing carrying amounts	**191**
At 31 March 2006 and 2007	
Cost and carrying amount	**191**

15. Property, plant and equipment

Group	Office land & buildings Lm000	Aircraft & flight equipment - own use Lm000	Aircraft & flight equipment - leased out Lm000	Hotels & related assets Lm000	Retail and other Lm000	Total Lm000
At 1 April 2005						
Cost	27,923	10,127	3,331	4,811	13,111	59,303
Accumulated depreciation and impairment charges	(3,465)	(6,449)	(2,959)	(2,627)	(11,025)	(26,525)
Net book amount	24,458	3,678	372	2,184	2,086	32,778
Year ended 31 March 2006						
Opening net book amount	24,458	3,678	372	2,184	2,086	32,778
Additions	30	329	-	43	419	821
Disposals	-	-	(680)	(7)	(118)	(805)
Reversal of impairment charges	-	-	259	-	-	259
Depreciation charge	(482)	(584)	(18)	(115)	(707)	(1,906)
Depreciation released on disposals	-	-	373	7	117	497
Closing net book amount	24,006	3,423	306	2,112	1,797	31,644
At 31 March 2006						
Cost	27,953	10,456	2,651	4,847	13,412	59,319
Accumulated depreciation and impairment charges	(3,947)	(7,033)	(2,345)	(2,735)	(11,615)	(27,675)
Net book amount	24,006	3,423	306	2,112	1,797	31,644

15. Property, plant and equipment - continued

	Office land & buildings Lm000	Aircraft & flight equipment - own use Lm000	Aircraft & flight equipment - leased out Lm000	Hotels & related assets Lm000	Retail and other Lm000	Total Lm000
Year ended 31 March 2007						
Opening net book amount	24,006	3,423	306	2,112	1,797	31,644
Additions	176	357	-	21	124	678
Disposals		-	(791)	-	(3,826)	(4,617)
Reversal of impairment charges	-	-	577	-	-	577
Depreciation charge	(510)	(492)	(96)	(112)	(420)	(1,630)
Depreciation released on disposals	-	-	279	-	3,457	3,736
Reclassification to non-current assets held for sale (Note 3)	-	-	-	(2,021)	-	(2,021)
Closing net book amount	**23,672**	**3,288**	**275**	**-**	**1,132**	**28,367**
At 31 March 2007						
Cost	28,129	10,813	1,860	-	9,710	50,512
Accumulated depreciation and impairment charges	(4,457)	(7,525)	(1,585)	-	(8,578)	(22,145)
Net book amount	**23,672**	**3,288**	**275**	**-**	**1,132**	**28,367**

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

Company	Office land & buildings Lm000	Aircraft & flight equipment - own use Lm000	Aircraft & flight equipment - leased out Lm000	Other Lm000	Total Lm000
At 1 April 2005					
Cost	25,585	10,127	3,331	11,487	50,530
Accumulated depreciation and impairment charges	(3,440)	(6,449)	(2,959)	(9,813)	(22,661)
Net book amount	22,145	3,678	372	1,674	27,869
Year ended 31 March 2006					
Opening net book amount	22,145	3,678	372	1,674	27,869
Additions	12	329	-	356	697
Disposals	-	-	(680)	(118)	(798)
Reversal of impairment charges	-	-	259	-	259
Depreciation charge	(482)	(584)	(18)	(628)	(1,712)
Depreciation released on disposals	-	-	373	117	490
Closing net book amount	21,675	3,423	306	1,401	26,805
At 31 March 2006					
Cost	25,597	10,456	2,651	11,725	50,429
Accumulated depreciation and impairment charges	(3,922)	(7,033)	(2,345)	(10,324)	(23,624)
Net book amount	21,675	3,423	306	1,401	26,805
Year ended 31 March 2007					
Opening net book amount	21,675	3,423	306	1,401	26,805
Additions	176	357	-	76	609
Disposals	-	-	(791)	(3,752)	(4,543)
Reversal of impairment charges	-	-	577	-	577
Depreciation charge	(486)	(492)	(96)	(385)	(1,459)
Depreciation released on disposals	-	-	279	3,398	3,677
Closing net book amount	**21,365**	**3,288**	**275**	**738**	**25,666**
At 31 March 2007					
Cost	25,773	10,813	1,860	8,049	46,495
Accumulated depreciation and impairment charges	(4,408)	(7,525)	(1,585)	(7,311)	(20,829)
Net book amount	**21,365**	**3,288**	**275**	**738**	**25,666**

During the current and previous 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, have been partially reversed on the basis of the market value for equivalent assets. This reversal has been credited to the profit and loss account (included within 'Cost of sales').

16. Investment property

	Group Lm000	Company Lm000
At 1 April 2005		
Cost	1,842	4,174
Accumulated depreciation	(53)	(64)
Net book amount	1,789	4,110
Year ended 31 March 2006		
Opening net book amount	1,789	4,110
Depreciation charge	(61)	(60)
Closing net book amount	1,728	4,050
At 31 March 2006		
Cost	1,842	4,174
Accumulated depreciation	(114)	(124)
Net book amount	1,728	4,050
Year ended 31 March 2007		
Opening net book amount	1,728	4,050
Depreciation charge	(37)	(61)
Closing net book amount	**1,691**	**3,989**
At 31 March 2007		
Cost	1,842	4,174
Accumulated depreciation	(151)	(185)
Net book amount	**1,691**	**3,989**

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

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

	Group and Company	
	2007	2006
	Lm000	Lm000
Rental income from investment property	**144**	153

17. Investments in group undertakings

Company	Shares in group undertakings Lm000	Loans to group undertakings Lm000	Total Lm000
At 1 April 2005			
Cost	1,313	2,211	3,524
Provisions for impairment	(586)	(1,935)	(2,521)
Net book amount	727	276	1,003
Year ended 31 March 2006			
Opening net book amount	727	276	1,003
Additions	-	260	260
Dividends received (vide Note below)	(126)	-	(126)
Repayment of loans	-	(60)	(60)
Closing net book amount	601	476	1,077
At 31 March 2006			
Cost	1,187	2,411	3,598
Provisions for impairment	(586)	(1,935)	(2,521)
Net book amount	601	476	1,077
Year ended 31 March 2007			
Opening net book amount	601	476	1,077
Additions	-	194	194
Repayment of loans	-	(176)	(176)
Closing net book amount	**601**	**494**	**1,095**
At 31 March 2007			
Cost	1,187	2,429	3,616
Provisions for impairment	(586)	(1,935)	(2,521)
Net book amount	**601**	**494**	**1,095**

Loans to group undertakings are unsecured and repayable on demand. At 31 March 2007, loans to group undertakings amounting to Lm1,299,000 (2006: Lm1,105,000) are subject to a fixed interest rate of 5.5% (2006: 4%) per annum. During the financial year ended 31 March 2006, dividends received from a subsidiary undertaking amounting to Lm126,000, had been accounted for as a recovery of the cost of the company's investment in this group undertaking.

The group acquired further interests in G.W. Munzone S.r.l. and Holiday Malta (Hellas) Tourism S.A. during the current financial year. The impact of these acquisitions on the group's results for the year under review 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 Lm000	Loans to associated undertakings Lm000	Total Lm000
At 1 April 2005			
Cost	977	1,078	2,055
Share of undertakings' profits and reserves	1,067	-	1,067
Provisions for impairment	(32)	(1,078)	(1,110)
Carrying amount	2,012	-	2,012
Year ended 31 March 2006			
Opening carrying amount	2,012	-	2,012
Additions	238	-	238
Disposals	(97)	-	(97)
Share of results	419	-	419
Net dividends received from associated undertakings	(160)	-	(160)
Closing carrying amount	2,412	-	2,412
At 31 March 2006			
Cost	1,195	1,078	2,273
Share of undertakings' profits and reserves	1,249	-	1,249
Provisions for impairment	(32)	(1,078)	(1,110)
Carrying amount	2,412	-	2,412
Year ended 31 March 2007			
Opening carrying amount	2,412	-	2,412
Additions	613	40	653
Disposals	(14)	(198)	(212)
Share of results	521	-	521
Net movements in provisions for impairment	(56)	189	133
Net dividends received from associated undertakings	(751)	-	(751)
Closing carrying amount	**2,725**	**31**	**2,756**
At 31 March 2007			
Cost	1,794	920	2,714
Share of undertakings' profits and reserves	1,019	-	1,019
Provisions for impairment	(88)	(889)	(977)
Carrying amount	**2,725**	**31**	**2,756**

18. Investments in associated undertakings - continued

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

	Assets Lm000	Liabilities Lm000	Revenues Lm000	Profit Lm000	Interest held %
2006					
Lufthansa Technik (Malta) Limited	1,154	624	1,458	77	25
Malpro Limited	1,198	762	198	89	50
Mediterranean Aviation Company Limited	3,691	2,314	3,263	210	25
Sabratha Duty Free Company Limited	662	536	875	11	50
World Aviation Systems Limited	166	114	79	32	50
	6,871	4,350	5,873	419	
2007					
Lufthansa Technik (Malta) Limited	2,451	1,350	2,378	236	25
Malpro Limited	1,226	702	211	87	50
Mediterranean Aviation Company Limited	3,715	2,394	3,476	144	25
Sabratha Duty Free Company Limited	1,509	1,193	263	41	50
Stakes Holding Limited	129	-	28	7	18
World Aviation Group Limited	190	131	63	6	50
	9,220	5,770	6,419	521	

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 Lm000	Loans to associated undertakings Lm000	Total Lm000
At 1 April 2005			
Cost	721	1,118	1,839
Provisions for impairment	-	(1,110)	(1,110)
Net book amount	721	8	729
Year ended 31 March 2006			
Opening net book amount	721	8	729
Additions	279	-	279
Net movement in provisions for impairment	(20)	-	(20)
Closing net book amount	980	8	988
At 31 March 2006			
Cost	1,000	1,118	2,118
Provisions for impairment	(20)	(1,110)	(1,130)
Net book amount	980	8	988
Year ended 31 March 2007			
Opening net book amount	980	8	988
Additions	600	40	640
Disposals	(14)	(198)	(212)
Net movement in provisions for impairment	(56)	189	133
Closing net book amount	**1,510**	**39**	**1,549**
At 31 March 2007			
Cost	1,586	960	2,546
Provisions for impairment	(76)	(921)	(997)
Net book amount	**1,510**	**39**	**1,549**

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

19. Other financial investments – available-for-sale

Group and Company	Equity instruments Lm000	Quoted debt securities Lm000	Total Lm000
At 1 April 2005			
Cost and carrying amount	49	152	201
Year ended 31 March 2006			
Opening carrying amount	49	152	201
Disposals	(3)	-	(3)
Closing carrying amount	46	152	198
Year ended 31 March 2007			
Opening and closing carrying amounts	**46**	**152**	**198**
At 31 March 2006 and 2007			
Cost and carrying amount	**46**	**152**	**198**

In addition to the amounts disclosed in the table above, the group's figures also include other investments with cost of Lm197,000 (2006: Lm197,000), which are stated net of impairment losses of Lm197,000 (2006: Lm197,000).

Maturity of fixed income debt securities:

	31 March 2007 Lm000	31 March 2006 Lm000
Over 5 years	**152**	152
Weighted average effective interest rates	**5.9%**	5.9%

20. Financial investments – available-for-sale

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

21. Stocks

	Group		Company	
	2007	2006	**2007**	2006
	Lm000	Lm000	**Lm000**	Lm000
Aircraft engineering spares	**693**	710	**693**	710
Other stocks	**290**	424	**308**	356
	983	1,134	**1,001**	1,066

22. Trade debtors

	Group		Company	
	2007	2006	**2007**	2006
	Lm000	Lm000	**Lm000**	Lm000
Trade debtors – gross	**12,628**	13,865	**11,709**	12,446
Less: provisions for impairment of trade debtors	**(1,380)**	(1,276)	**(1,189)**	(1,077)
Trade debtors – net	**11,248**	12,589	**10,520**	11,369

23. Other non-current debtors

	Group		Company	
	2007	2006	**2007**	2006
	Lm	Lm	**Lm000**	Lm000
Security deposits and outstanding proceeds arising from operating lease agreements	**2,162**	2,521	**2,162**	2,521
Other long-term deposits and receivables	**427**	170	**107**	170
	2,589	2,691	**2,269**	2,691

Security deposits, amounting to Lm1,963,000 (2006: Lm2,134,000), will be refunded to the company on termination of the company's fleet lease period up to March 2020. During the preceding financial year other non-current debtors included security deposits arising from sale and leaseback agreements entered into amounting to Lm328,000. Such deposits amounting to Lm296,000 have been classified within current debtors in the financial statements for the financial year under review.

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
At 31 March 2007	Lm000	Lm000
Derivatives held for hedging (cash flow hedges)		
Foreign exchange derivatives		
- currency forwards	-	(1,765)
Fuel price hedging derivatives		
- commodity swaps	2	(624)
- combined bought call and written put options	-	(148)
- other options	1,045	-
	1,047	(772)
Total derivative assets/(liabilities)	1,047	(2,537)
Less non-current portion:		
Foreign exchange derivatives		
- currency forwards	-	(1,094)
Current portion	1,047	(1,443)

24. Derivative financial instruments - continued

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

The currency forward contracts outstanding as at 31 March 2007 have the following contract terms:

	Fair value - liabilities Lm000
Forward sale of GBP37.8 million against USD (at contracted rates averaging GBP1: USD1.809)	(1,765)

These contracts mature within a period of eighteen (2006: thirty one) 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 approximate notional amounts of the combined bought call and written put fuel price options held for hedging purposes outstanding at 31 March 2007 are as follows:

Contract cover	Notional amount	Fluctuation band	Fair value - liabilities Lm000
Seven month period to 31 October 2007	USD6,500,000	$71.25 - $85	(121)
Five month period to 31 March 2007	USD4,200,000	$66 - $75	(11)
Five month period to 31 March 2007	USD2,900,000	$71.10 - $85	(16)
			(148)

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

Contract cover	Notional amount	Settlement terms	Fair value - assets Lm000
Twelve month period to 31 March 2007	USD9,100,000	Pay-fixed ($61.59), receive-floating	2

Contract cover	Notional amount	Settlement terms	Fair value - liabilities Lm000
Six month period to 31 October 2007	USD6,200,000	Pay-fixed ($70.60), receive-floating	(50)
Seven month period to 31 October 2007	USD6,100,000	Pay-fixed ($78.89), receive-floating	(248)
Seven month period to 31 October 2007	USD5,800,000	Pay-fixed ($75.40), receive-floating	(162)
Six month period to 31 October 2007	USD4,200,000	Pay-fixed ($730.60), receive-floating	(67)
Five month period to 31 March 2007	USD3,300,000	Pay-fixed ($74.51), receive-floating	(30)
Five month period to 31 March 2007	USD2,200,000	Pay-fixed differential ($12.14), receive-floating differential	(16)
Five month period to 31 March 2007	USD3,800,000	Pay-fixed ($73.17), receive-floating	(51)
			(624)

24. Derivative financial instruments - continued

The terms and approximate notional amounts of the commodity call options outstanding as at 31 March 2007 are as follows:

Contract cover	Notional amount	Strike price	Fair value - assets Lm000
Seven month period to 31 October 2007	USD9,900,000	$60	535
Five month period to 31 March 2008	USD9,200,000	$65	410
Seven month period to 31 October 2007	USD5,300,000	$69	100
			1,045

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 2006 are disclosed in the consolidated financial statements of the preceding financial year.

25. Interest-bearing borrowings

	Group		Company	
	2007	2006	**2007**	2006
	Lm000	Lm000	**Lm000**	Lm000
Short-term: falling due within one year				
Bank overdrafts	**1,413**	1,716	**1,293**	1,312
Bank loans	**6,753**	40	**6,519**	-
Other loans	**-**	3	**-**	-
Short-term borrowings	**8,166**	1,759	**7,812**	1,312
Long-term				
Bank loans	**14,609**	18,419	**14,609**	18,262
Total borrowings	**22,775**	20,178	**22,421**	19,574

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

	Group		Company	
	2007	2006	**2007**	2006
	Lm000	Lm000	**Lm000**	Lm000
Maturity of long-term borrowings				
Between 1 and 2 years	**8,996**	6,132	**8,996**	5,975
Between 2 and 5 years	**5,613**	12,287	**5,613**	12,287
	14,609	18,419	**14,609**	18,262

25. **Interest-bearing borrowings** - continued

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

	Group		Company	
	2007	2006	**2007**	2006
	%	%	**%**	%
Bank overdrafts	**4.6**	3.8	**4.8**	3.8
Bank loans	**4.7**	3.9	**4.7**	3.8

26. **Other liabilities**

	Group		Company	
	2007	2006	**2007**	2006
	Lm000	Lm000	**Lm000**	Lm000
Amounts falling due after more than one year				
Other creditors	**984**	1,723	**-**	-

27. **Deferred taxation**

Deferred taxation reflects all temporary differences under the liability method using a principal tax rate of 35% (2006: 35%).

The movement on deferred taxation is as follows:

	Group	**Company**
	Lm000	**Lm000**
At 31 March 2005	(1,791)	(2,178)
Tax effect of remeasurement of derivatives (Note 32)	(240)	(240)
Profit and loss account (Note 11)	(47)	-
At 31 March 2006	(2,078)	(2,418)
Tax effect of remeasurement of derivatives (Note 32)	(406)	(406)
Profit and loss account (Note 11)	-	406
At 31 March 2007	**(2,484)**	**(2,418)**

27. **Deferred taxation** - continued

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

	Group		Company	
	2007	2006	**2007**	2006
	Lm000	Lm000	**Lm000**	Lm000
Deferred tax assets	**(2,484)**	(2,484)	**(2,418)**	(2,824)
Deferred tax liabilities	**-**	406	**-**	406
Net balance sheet amount	**(2,484)**	(2,078)	**(2,418)**	(2,418)

The deferred tax assets and liabilities are principally expected to be recovered or settled 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 2006 Lm000	Charged/ (credited) to profit and loss account Lm000	Credited to equity Lm000	At 31 March 2007 Lm000
Deferred tax liabilities				
Remeasurement of derivative instruments	406	-	(406)	-
Deferred tax assets				
Provisions	(78)	21	-	(57)
Temporary differences on fixed assets	(320)	222	-	(98)
Unabsorbed capital allowances and tax losses carried forward	-	(243)	-	(243)
Unabsorbed capital losses carried forward	(2,086)	-	-	(2,086)
	(2,484)	-	-	(2,484)
Net deferred tax	**(2,078)**	**-**	**(406)**	**(2,484)**

Deferred tax assets are recognised for tax losses carried forward to the extent that realisation of the related tax benefit through future taxable profits is probable. The group has unrecognised tax losses and unabsorbed capital allowances of Lm36,187,000 (2006: Lm31,530,000) to carry forward against future taxable income and which have no expiry date. In addition, the group has an unrecognised capital loss of Lm27,532,000 (2006: Lm27,532,000). This loss can be carried forward indefinitely against future capital profits. Accordingly, the group has a potential deferred tax asset amounting to Lm22,302,000 which has not been recognised in these financial statements.

27. Deferred taxation - continued

Company	At 1 April 2006 Lm000	Charged to profit and loss account Lm000	Credited to equity Lm000	At 31 March 2007 Lm000
Deferred tax liabilities				
Remeasurement of derivative instruments	406	-	(406)	-
Deferred tax assets				
Provisions	(65)	65	-	-
Temporary differences on fixed assets	(430)	341	-	(89)
Unabsorbed capital allowances and tax losses carried forward	(243)	-	-	(243)
Unabsorbed capital losses carried forward	(2,086)	-	-	(2,086)
	(2,824)	406	-	(2,418)
Net deferred tax	**(2,418)**	**406**	**(406)**	**(2,418)**

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 2007 and 2006 represent the excess of amounts charged to the profit and loss account over the actual costs incurred.

	Group and Company	
	2007 Lm000	2006 Lm000
At beginning of period	**683**	3,259
Charged to profit and loss account:		
- Additional provisions, including effects of unwinding non-current provisions	**6,618**	4,088
Used during period	**(1,891)**	(6,664)
At end of period	**5,410**	683

Analysis of total provisions:

	2007 Lm000	2006 Lm000
Non-current	**3,874**	-
Current	**1,536**	683
	5,410	683

29. Other provisions

Group and Company	Provisions on onerous contracts Lm000	Provisions against commitments and guarantees issued in favour of AZZURRAair S.p.A. Lm000	Total Lm000
At 1 April 2005	5,559	2,602	8,161
Credited to profit and loss account:			
- Unused amounts reversed	(180)	(259)	(439)
Effects of unwinding non-current provisions (Note 9)	180	-	180
Used during period	(1,991)	(1,694)	(3,685)
At 31 March 2006	3,568	649	4,217
Credited to profit and loss account:			
- Unused amounts reversed	(822)	(113)	(935)
Effects of unwinding non-current provisions (Note 9)	119	-	119
Used during year	(1,360)	(133)	(1,493)
At 31 March 2007	**1,505**	**403**	**1,908**

Analysis of total provisions:

	2007 Lm000	2006 Lm000
Non-current	**-**	1,939
Current	**1,908**	2,278
	1,908	4,217

30. Share capital

	Group and Company	
	2007	2006
	Lm000	Lm000
Authorised		
35,000,000 (2006: 35,000,000) ordinary shares of Lm1 each	**35,000**	35,000
Issued and fully paid		
11,115,478 (2006: 11,115,478) ordinary shares of Lm1 each	**11,115**	11,115

31. Share premium

	Group and Company	
	2007	2006
	Lm000	Lm000
At beginning and end of year	**18,358**	18,358

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 Lm000	Commodity options and swaps Lm000	Interest rate swaps Lm000	Total Lm000
At 1 April 2005				
Gross amounts of (losses)/gains	(694)	2,482	61	1,849
Deferred income tax	243	(869)	(20)	(646)
	(451)	1,613	41	1,203
Movements in period ended 31 March 2006				
Gains from changes in fair value	2,055	620	-	2,675
Deferred income tax (Note 27)	(719)	(180)	-	(899)
	1,336	440	-	1,776
Transferred to profit and loss account	(269)	(2,924)	(61)	(3,254)
Deferred income tax (Note 27)	94	1,025	20	1,139
	(175)	(1,899)	(41)	(2,115)
At 31 March 2006				
Gross amounts of gains	1,092	178	-	1,270
Deferred income tax	(382)	(24)	-	(406)
	710	154	-	864

32. **Hedging reserve** - continued

Group and Company	Currency forwards Lm000	Commodity options and swaps Lm000	Total Lm000
At 1 April 2006			
Gross amounts of gains	1,092	178	1,270
Deferred income tax	(382)	(24)	(406)
	710	154	864
Movements in year ended 31 March 2007			
Losses from changes in fair value	(3,360)	(918)	(4,278)
Deferred income tax (Note 27)	382	24	406
	(2,978)	(894)	(3,872)
Transferred to profit and loss account	503	788	1,291
At 31 March 2007			
Gross amounts of (losses)/gains	**(1,765)**	**48**	**(1,717)**

The net fair value losses at 31 March 2007 on open forward foreign exchange contracts which hedge anticipated future foreign currency transactions will be transferred from the hedging reserve to the profit and loss account when the forecast transactions occur, at various dates up to eighteen (2006: thirty-one) 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	Lm000
At 1 April 2005	-
Adjustment to equity arising on acquisition of minority interest in group undertakings	(1,501)
At 31 March 2006 and 2007	**(1,501)**

34. Financial instruments

Hedging policy and derivative financial instruments

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

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

Currency risk

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

34. Financial instruments - continued

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

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

Interest rate risk

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

Aircraft operating lease payables, in particular forecast variable lease payments under the company's lease agreements are affected by fluctuations in reference market rates of interest. In view of the significance of aircraft lease expenditure, fluctuations in interest rate could have a relevant impact on the lease expense and accordingly on the group's results.

Fuel price risk

During the financial year ended 31 March 2007, the share of fuel expenses as disclosed in Note 4 to the financial statements accounted for approximately 24% (2006: 17%) of the total operating expenses of the group from continuing operations. Significant changes in crude oil, jet fuel and other fuel product prices may have a substantial effect on the group's results. Different hedging instruments with regard to the crude oil and fuel products markets are used to limit the fuel price risk. These instruments mainly comprise combined purchased call and written put options, together with other options and commodity swap agreements.

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

34. Financial instruments - continued

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

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

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

Credit risk

The sale of passage and freight documents is largely processed through agencies that are usually linked to country specific clearing systems for the settlement of passage and freight sales. Other individual agents are checked for 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 asked for depending on the type and extent of the service rendered, while credit references or historical data from a previous relationship, in particular referring to payment behaviour, is used to avoid non performance.

Recognisable risks are accounted for by allowances for impairment on debtors.

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

Liquidity risk

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

Fair values

The fair value of publicly traded available-for-sale investments is based on quoted market prices at the balance sheet date. The fair value of derivative financial instruments is determined in accordance with the group accounting policy disclosed on page 31.

At 31 March 2007 and 2006, the carrying amounts of the group's other financial assets and liabilities approximated their fair values.

35. Cash used in operations

Reconciliation of operating loss to cash used in operations:

	Group		Company	
	2007	2006	**2007**	2006
	Lm000	Lm000	**Lm000**	Lm000
Operating loss from continuing operations	**(5,083)**	(5,636)	**(5,302)**	(6,353)
Operating loss from discontinued operations (Note 3)	**(1,009)**	(849)	**-**	-
Operating loss for the period	**(6,092)**	(6,485)	**(5,302)**	(6,353)
Adjustments for:				
Depreciation of property, plant and equipment (Note 15)	**1,630**	1,906	**1,459**	1,702
Depreciation of investment property (Note 16)	**37**	61	**61**	60
Gains on disposal of tangible assets other than aircraft	**(321)**	-	**(321)**	-
Losses on sale of financial assets	**14**	-	**14**	-
Movement in provisions for impairment of trade debtors	**104**	361	**112**	215
Movement in provisions in respect of maintenance costs	**4,727**	(2,576)	**4,727**	(2,576)
Exchange movement on retranslation of foreign subsidiary balances	**(88)**	205	**-**	-
Changes in working capital:				
Stocks	**136**	123	**65**	66
Debtors	**(2,445)**	903	**(2,547)**	977
Creditors	**1,490**	427	**579**	(484)
Provisions used during period	**(2,081)**	(3,685)	**(2,081)**	(3,685)
Cash used in operations	**(2,889)**	(8,760)	**(3,234)**	(10,078)

36. Cash and cash equivalents

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

	Group		Company	
	2007	2006	**2007**	2006
	Lm000	Lm000	**Lm000**	Lm000
Attributable to continuing operations:				
Cash at bank and in hand	**18,645**	18,159	**13,061**	12,806
Bank overdrafts	**(1,413)**	(1,716)	**(1,293)**	(1,312)
	17,232	16,443	**11,768**	11,494
Attributable to discontinued operations:				
Cash at bank and in hand	**43**	15	**-**	-
Bank overdrafts	**(427)**	(443)	**-**	-
	(384)	(428)	**-**	-
Total cash and cash equivalents	**16,848**	16,015	**11,768**	11,494

As at 31 March 2007, balances amounting to Lm3,424,000 (2006: Lm3,424,000) were pledged as cash collateral with bankers as security for banking and other facilities utilised. Bank and cash balances include an amount of Lm348,000 (2006: Lm1,092,000) which is held in overseas bank accounts subject to currency restrictions which lead to delays in remittance to Malta.

37. Capital and other commitments

	Group and Company	
	2007	2006
	Lm000	Lm000
Capital expenditure in respect of property, plant and equipment:		
- Authorised and contracted for	**30**	-
Other commitments	**10,177**	12,034
	10,207	12,034

Other commitments arise from agreements with third parties entered into by the group in respect of the outsourcing of the IT function and the provision of commercial business improvement consultancy services. The future expected payments under these contractual arrangements are as follows:

	Group and Company	
	2007	2006
	Lm000	Lm000
Not later than 1 year	**1,874**	1,871
Later than 1 year and not later than 5 years	**6,888**	7,298
Later than 5 years	**1,415**	2,865
	10,177	12,034

38. 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	
	2007	2006
	Lm000	Lm000
Not later than 1 year	**13,385**	12,678
Later than 1 year and not later than 5 years	**41,795**	47,443
Later than 5 years	**57,191**	67,569
	112,371	127,690

The group's lease commitments include lease payment obligations amounting to Lm108,921,000 (2006: Lm116,935,000) which have been based on the fixed base rent payable outlined in the lease agreements. However, the lease payments may vary in accordance with the movements in the 10 year US Treasury yield rate.

39. Contingent liabilities

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

	2007	2006
	Lm000	Lm000
Guarantees in respect of associated undertakings and other related parties	**500**	1,318
Indemnities to certain banks for guarantees principally given to the Civil Aviation Authority of the United Kingdom	**4,757**	4,663
Other indemnities, bank guarantees and documentary credits	**8,686**	6,252

As at the balance sheet date, the company also has contingent liabilities amounting to Lm5,061,000 in respect of guarantees given to secure the banking facilities of group undertakings.

40. Related party transactions

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

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

40. Related party transactions - continued

The following transactions were carried out with the respective categories of related parties:

	Group		Company	
	2007	2006	**2007**	2006
	Lm000	Lm000	**Lm000**	Lm000
Government and other entities controlled by Government:				
- Sales of services	**1,051**	1,050	**1,051**	1,050
- Purchases of materials and services	**33,519**	27,809	**33,519**	27,809
	34,570	28,859	**34,570**	28,859
Subsidiary undertakings				
- Sales of services	**-**	-	**7,168**	8,910
- Purchases of services	**-**	-	**2,126**	2,754
- Interest receivable and similar income	**-**	-	**560**	444
	-	-	**9,854**	12,108
Associated undertakings				
- Sales of services	**276**	288	**276**	288
- Purchases of services	**372**	-	**372**	-
	648	288	**648**	288
Key management personnel				
- Sales of services	**5**	10	**5**	10

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.

41. Post balance sheet event

In April 2007, the disposal of Tigne Development Company Limited together with its related land and buildings was completed. Proceeds of Lm13,537,000 were obtained through this transaction including the repayment of intercompany balances. The proceeds exceeded the respective carrying amounts of the net assets disposed of by Lm4,126,000 in the Group and Lm7,615,000 in the Company.

42. Statutory information

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

Air Malta group

Group and associated undertakings within the group as at 31 March 2007 were the following:

Group undertakings	Group % holding		Company % holding		Country of incorporation
	2007	2006	**2007**	2006	
Airline activities					
Air Malta plc Head Office, Luqa	**N/A**	N/A	**N/A**	N/A	Malta
Holiday Malta Company Limited Air Malta House, 314/316 Upper Richmond Road, Putney, London	**100**	100	**100**	100	United Kingdom
Peregrine Aviation Leasing Company Limited WIL House, Shannon Business Park Shannon Co. Clare, Ireland	**100**	100	**100**	100	Ireland
Malta Air Charter Company Limited Air Malta Buildings, Vjal l-Avjazzjoni, Luqa	**100**	100	**100**	100	Malta
The Holiday Travel Club Limited Air Malta House, 314/316 Upper Richmond Road, Putney, London (held by Holiday Malta Company Limited)	**100**	100	**-**	-	United Kingdom
The Holiday Travel Club Transport Limited Air Malta House, 314/316 Upper Richmond Road, Putney, London (held by The Holiday Travel Club Limited)	**100**	100	**-**	-	United Kingdom
Holiday Malta GmbH Niederroder Weg 14, 63150 Heusenstamm, Germany (held by Holiday Malta Company Limited)	**100**	100	**-**	-	Germany
Holiday Malta (Russia) Limited Air Malta Head Office, Luqa LQA 05, Malta (held by Holiday Malta Company Limited)	**100**	100	**-**	-	Malta
G.W. Munzone S.r.l. Corso Martiri della Liberta, 188 95131 Catania, Sicily (held by Holiday Malta Company Limited)	**100**	60	**-**	-	Italy
Travel 2000 S.r.l. Corso Martiri della Liberta, 184 95131 Catania, Sicily (held by G.W. Munzone S.r.l.)	**100**	60	**-**	-	Italy
Holiday Malta (Hellas) Tourism S.A. 91, Alexandras Ave, 11474 Athens, Greece (held by Holiday Malta Company Limited)	**100**	96	**-**	-	Greece

The Air Malta group - continued

Group undertakings – continued	**Group % holding 2007**	**Group % holding 2006**	**Company % holding 2007**	**Company % holding 2006**	**Country of incorporation**
Airline activities - continued					
Holiday Malta Transport Company Limited Air Malta House, 314/316 Upper Richmond Road, Putney, London (held by Holiday Malta Company Limited)	**100**	100	-	-	United Kingdom
Hotels					
Hal Ferh Company Limited Air Malta Buildings, Vjal l-Avjazzjoni, Luqa	**100**	100	**100**	100	Malta
Selmun Palace Hotel Company Limited Air Malta Buildings, Vjal l-Avjazzjoni, Luqa	**100**	100	**100**	100	Malta
Tigne Development Company Limited Air Malta Buildings, Vjal l-Avjazzjoni, Luqa	**100**	100	**100**	100	Malta
Retail and other activities					
Airport Services Company Limited (formerly Airport Hotel Company Limited) Air Malta Buildings, Vjal l-Avjazzjoni, Luqa	**100**	100	**100**	100	Malta
KM Holdings plc (struck off during the year) Air Malta Buildings, Vjal l-Avjazzjoni, Luqa	-	100	-	100	Malta
Maltex Co. Ltd. (struck off during the year) 314 Upper Richmond Road, Putney, London	-	100	-	100	London
Medallion Holidays Ltd (struck off during the year) 314 Upper Richmond Road, Putney, London	-	100	-	100	London
Medisle Holidays Company Limited (in liquidation) Air Malta Buildings, Vjal l-Avjazzjoni, Luqa	**100**	100	**100**	100	Malta
Osprey Insurance Brokers Company Limited Air Malta Buildings, Vjal l-Avjazzjoni, Luqa	**100**	100	**100**	100	Malta
Shield Insurance Co. (Guernsey) Limited PO Box 130 Court, St. Peter Port, Guernsey	**100**	100	**100**	100	Guernsey
Associated companies					
Air International Services S.r.l. (in liquidation) Corso Martiri della Liberta, Catania, Sicily, Italy	**49**	**49**	**49**	**49**	Italy
A.M.G. Limited (in liquidation) Air Malta Buildings, Vjal l-Avjazzjoni, Luqa	**45**	**45**	**45**	**45**	Malta

The Air Malta group - continued

Group undertakings – continued	**Group % holding 2007**	**Group % holding 2006**	**Company % holding 2007**	**Company % holding 2006**	**Country of incorporation**
Associated companies – continued					
AZZURRAair S.p.A. (in liquidation) Viale Papa Giovanni XXIII, 48 24121 Bergamo	**49**	49	**49**	49	Italy
Chinese-Maltese Services Co. Ltd. (in liquidation) c/o Malta Investment Management Co. Ltd. Trade Centre, San Gwann Industrial Estate, San Gwann	**49**	49	**49**	49	Malta
Cottonera Properties Co. Ltd. (in liquidation) c/o Malta Investment Management Co. Ltd. Trade Centre, San Gwann Industrial Estate, San Gwann	**49**	49	**49**	49	Malta
Flight Catering Co. Ltd. Air Malta Buildings, Vjal l-Avjazzjoni, Luqa	**30**	30	**30**	30	Malta
Heritage Insurance Management (Malta) Limited No 9 Block C First Floor Air Malta Buildings, Vjal L-Avjazzjoni, Luqa	**49**	-	**-**	-	Malta
Lufthansa Technik (Malta) Ltd. Malta International Airport, Gudja	**25**	25	**25**	25	Malta
Malpro Limited Air Malta Buildings, Vjal l-Avjazzjoni, Luqa	**50**	50	**50**	50	Malta
Mediterranean Aviation Company Limited Flat 2, Valletta Buildings, South Street, Valletta	**25**	25	**25**	25	Malta
Medpromo Co. Ltd. (struck off during the year) 34, Windsor Terrace, Sliema	**-**	49	**-**	49	Malta
Sabratha Duty Free Co. Ltd. Air Supplies, Malta International Airport, Gudja (formerly held by Air Supplies and Catering Company Limited)	**50**	50	**50**	50	Malta
World Aviation Group Limited (formerly known as World Aviation Systems Limited) 20, Republic Street, Valletta	**50**	50	**50**	50	Malta
Stakes Holding Limited Air Malta Buildings, Vjal l-Avjazzjoni, Luqa	**18**	18	**18**	18	Malta
Centrecom Limited (formerly known as Airline Partner Solutions Limited) 20/2, Republic Street, Valletta	**50**	50	**-**	-	Malta