AIR MALTA p.l.c.

Annual Report and Consolidated Financial Statements 31 March 2010

Company Registration Number: C 2685

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Directors' report

The directors present their report and the audited financial statements of Air Malta p.l.c. for the year ended 31 March 2010.

Principal activities

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

Review of the business and results

General

During the financial year under review, the aviation industry continued to be hit by a severe economic downturn. IATA reported that the industry ended calendar year 2009 with the largest post-war decline. Worldwide, passenger demand for the full year fell by 3.5%; within Europe passenger traffic was down by 5%. Coupled with the above, the industry suffered a considerable decline in average fares of 15%.

Since 2003, Air Malta p.l.c. had continuously managed to cut down its annual operating losses to reach a loss of €8,301,000 (3% of turnover) in the financial year ended 31 March 2008 (FY 2008). Unfortunately, the improvement in the operating results was thrown off course in FY 2009. Fuel prices spiked during the airline's busiest months in summer 2008. Fuel hedging options were entered into to seek protection against the risk of further price increases, only to be followed by a sharp financial and economic crisis that led to a freefall in the price of fuel. The impact of the crisis was compounded by a steep fall in the value of sterling against the euro. This led to an operating loss of €33,877,000 being incurred by the company in FY 2009 which further weakened the company's equity base.

During the financial year ended 31 March 2010 (FY 2010), although the group registered a €11,605,000 improvement in its operating results (mainly due to reduced fuel costs), the group's trading performance was still adversely impacted by the significant unfavourable market conditions experienced within the local and international economic markets.

Total number of passengers carried by Air Malta during FY 2010 was 1,785,000 as compared to 2,048,000 carried in the previous year, a reduction of 263,000 passengers. The discontinuation of the UK-based charter operation contributed to a decrease of 192,000 passengers with a further reduction of 61,000 passengers from the Malta-based charter business. The reduction in scheduled traffic was less than 1% (10,000 passengers) when compared to the previous year's performance.

The operating results for the first 6 months after the reporting period deteriorated by €13,600,000 when compared to the financial year ended 31 March 2010. Fuel costs were €7 million higher than the same period last year whereas revenues dropped by €5.6 million. The airline's revenues in summer 2010 were severely hit inter alia by the volcanic eruptions and by substantial drops in yields driven by pressure on margins originating from competition on existing routes and other market dynamics. The loss in yields and revenues was partly offset by a 4.2% increase in scheduled traffic figures.

On a positive note, during the financial year under review Air Malta has passed the global airline industry's benchmark operational safety audit 'IOSA" under the auspices of IATA with excellent results.

Financial results

The income statements of the group and company are set out on page 17.

The group loss for the financial year ended 31 March 2010 has been reduced to €8,020,000, down from the previous year's loss of €31,126,000. This was partly due to a significant improvement in operations where the operating loss fell from €35,541,000 to €23,936,000.

Group revenues fell by €50,595,000 (18%), from €274,938,000 in the previous year to €224,343,000 this year. This was mainly due to lower revenues by the airline and by the group's tour operator subsidiary (Holiday Malta). Holiday Malta experienced a drop of €15,309,000 (42%) in turnover due to the continued decline in the tour operator business and the prevailing economic recession.

The company's turnover for the financial year ended 31 March 2010 decreased by €38,641,000 when compared to the previous year. This was mainly due to the discontinuation of a UK-based charter operation which had generated revenues of €21,770,000 in the previous year. The Malta-based charter business also shed €6,413,000 (32%) in line with the market shift away from package tour business to individual direct bookings.

Schedule revenue dropped by €9,425,000, mainly as a result of the continued drop in fares, driven by increased competition on the local and international markets. Up to the end of summer 2009, average fares had kept at just 3% below the levels of summer 2008. However during the five month winter period fares took the full brunt of lower demand and fell by 11%, depressing the full year's fare average to minus 5%.

During the same year the group's cost of sales decreased by €63,307,000 when compared to the previous year, thus resulting in an improved gross result being reported. The group has this year incurred a €13,932,000 loss from continued operations compared to the €35,451,000 loss recorded in the previous year.

Although the airline's capacity on the Malta base was this year increased by one aircraft, cost of sales reduced significantly by €51,760,000 when compared to previous year. The decrease in cost of sales was mainly driven by a considerable reduction in fuel costs. The total fuel costs were down 51% by €44 million, from €85,969,000 to €42,061,000, out of which only €10 million was due to the reduction in activity driven by the discontinuation of the UK charter base. The remaining €34 million variance was due to lower fuel prices net of hedging costs.

The airline continued in its efforts to cut down on costs. Operating costs and overheads have been maintained below previous year's levels. Payroll costs (excluding termination benefits) have been reduced by €1,400,000 with further reductions in head count being effected during the year. The discontinuation of the UK-based charter operation and the reduction in Malta-based charters were the main reasons for other activity-induced reduction in costs. The increase in this year's selling and distribution costs are attributable to an increase of €3,600,000 in advertising and promotion which was necessitated largely by weak demand conditions.

Discontinued operations yielded a profit of €5,912,000 at group level. This includes the capital gain arising from the sale of the Hal Ferh complex, partly offset by the trading loss by Selmun Palace Hotel Limited.

Further to the above results reported through the income statement, the group and the company also recognised other comprehensive income directly through equity during the current financial year of €15,866,000 and €16,027,000 respectively. During the year, the company resolved to change its accounting policy with respect to subsequent measurement of its immovable properties whereby these properties are now carried at amounts that reflect current market values. This resulted in a gross revaluation surplus of €27,350,000 and a deferred tax liability of €9,572,000 arising from the surplus, netted off from the revaluation reserve. This surplus permitted the recognition of a deferred tax asset in relation to unutilised tax losses thereby resulting in a deferred tax credit of €11,500,000. This tax credit is offset by a deferred tax liability of €9,572,000 arising from the revaluation surplus itself but is reflected in the income statement in accordance with the requirements of IFRSs.

Despite the €8,020,000 group net loss registered in the financial year ended 31 March 2010, the group's statement of financial position shows an improvement over the financial position as at 31 March 2009. Total assets grew from €159,374,000 to €168,724,000 while equity increased from €7,673,000 to €15,519,000. This was due to the property revaluation which increased reserves by €17,778,000.

The Government of Malta, which owns 98% of the issued share capital of the company, has during summer 2010 consulted with the European Commission about the potential for an approval of a capital injection of €100 million under the Market Economic Investment Principle. The Government of Malta was not encouraged to pursue the objective; consequently a decision was taken whereby a formal request for clearance by the EU for State Aid to Air Malta, under the 'Rescue and Restructuring' protocol was submitted to the EU.

The type(s) of aid available under the Rescue and Restructuring protocol may be described as follows:

- (i) Rescue Aid: Rescue aid is liquidity support. Its purpose is to keep the company in funds, and able to continue operating, meeting all its commitments, and all its engagements. Additionally, 'Rescue Aid' provides the company with a reasonable amount of time wherein it (the company) would be able to finalise a 'Restructuring Plan', whereby returning the 'Enterprise' to a sustainable and enduring profitable situation within a reasonable, and (market) acceptable period of time. Any loan or guarantee received under Rescue Aid must be reimbursed or come to an end within a period of not more than six months after the disbursement of the first instalment to the firm.
- (ii) Restructuring Aid: Restructuring aid is aid which will enable the company to return to long-term viability as a result of a successful execution of a feasible restructuring plan.

On 15 November 2010, the European Commission communicated to the Government of Malta its approval of a rescue aid loan facility worth €52,000,000, which will have to be repaid no later than 6 months following the disbursement of the first instalment to the company, and stated that the aid is in line with EU state aid rules. The loan is regulated by the terms and conditions laid down in the relevant Loan Agreement drawn up and agreed to by the Government of Malta and Air Malta, and sanctioned by an Act of the House of Representatives (Act XVIII of 2010 'Government Borrowing and Granting of Loans to Air Malta p.l.c. Act, 2010'). The 'Loan Agreement' was executed by the relevant parties on 15 November 2010 and the first tranche amounting to €15,000,000 was drawn down by the company from the facility, and deposited in Air Malta's bank accounts on 16 November 2010.

The European Commission has not raised any objections to the measure on the grounds that the aid is compatible with the internal market rules. Furthermore, the Maltese authorities are committed to notify the European Commission of a Restructuring Plan for Air Malta within a short period of time, in order to be able to get approvals and initiate implementation of the approved Restructuring Plan within 6 months of the first disbursement of the Rescue Aid.

The European Commission will only allow an entity to receive restructuring aid if it can be persuaded that it will be returned to long-term viability as a result of the restructuring. Any decision by the European Commission on the restructuring aid will therefore be based on the proposed Restructuring Plan for the company. Legal advice obtained by the directors concerning the likelihood of a successful restructuring aid application states that there is a good chance that the European Commission will approve such aid, if the Government can provide a convincing Restructuring Plan showing a realistic prospect of a return to profit of the company within a reasonable time.

The financial aid needed under the Restructuring Plan (which restructuring aid is in addition to the €52,000,000 received under the rescue aid to cover up to the next 6 months of operations) is yet to be quantified. The Government of Malta has given its commitment to the directors that it will ensure that the company will be able to honour its financial obligations in full as they fall due during the restructuring period, once the Restructuring Plan has been approved by the European Commission. The Government of Malta has indicated to the Board of Directors of the company that it considers the company an essential and material component of Malta's tourism and transport infrastructure given Malta's isolated peripheral position in the EU.

There can be no assurance that the European Commission will approve the Government's restructuring proposal for the company. Without the Government of Malta's aid, the company cannot continue operating as a going concern. In addition, the Restructuring Plan would need to be implemented by the company in a timely manner in consultation with all the relevant stakeholders. Nevertheless, on the basis of the following considerations:

- (i) the current level of commitment shown by the Government of Malta;
- (ii) the directors' belief, based amongst other things on financial advice available, that the Government of Malta can submit to the European Commission a Restructuring Plan showing a realistic prospect of a return to profit of the company within a reasonable time;
- (iii) the legal advice stating that, on the basis that a convincing Restructuring Plan is submitted to the European Commission, there is a good chance of European Commission approval of the Restructuring Aid application; and
- (iv) the underlying assumption that the Restructuring Plan can be implemented in a timely manner and in accordance with its terms,

it is the view of the directors that there is a reasonable expectation that the company and the group are able to continue in operational existence for a period of at least 12 months from the end of the reporting period. Accordingly, the directors continue to adopt the going concern basis in preparing the financial statements.

Dividends

The directors do not recommend the payment of a dividend.

Directors

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

Sonny Portelli - (appointed as Director on 28 January 2010 and Chairman on 13 May 2010)
Alison Attard
Anton Attard
Henriette Busuttil
Clyde Micallef
Lawrence Zammit - (term of office as Chairman ended on 12 May 2010)
Joe Fenech Conti - (term of office ended on 12 May 2010)
Paul Bonello - (term of office ended on 12 May 2010)
Adrian Coppini - (appointed as Director on 30 June 2010)
Carmel John Farrugia - (appointed as Director on 6 July 2010)

Auditors

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

On behalf of the board

Sonny Fortelli Chairman

6 December 2010

Carmel John Farrugia Director

Corporate Governance Statement

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

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

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

The Board

Pursuant to the company's Articles of Association, the administration and management of the company is conducted by a Board of Directors consisting of not less than five and not more than ten Directors. The Directors of the company are appointed by the 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 a letter addressed to the company. Unless otherwise specified in their letter of appointment, Directors hold office for a period of one year. Directors are eligible for reappointment upon the lapse of the period stated in their letter of appointment.

The Board comprises of six non-executive Directors and an executive 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.

During the financial year ended 31 March 2010 the Board of Directors met 15 times.

Responsibilities of the Board

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

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

The items that are reserved for approval by the Board of Directors are the business plan, the annual budget, the network, the procurement of fixed assets and services above €120,000, any loans over €45,000, and the performance review and related performance bonus payments to senior management.

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

Relations with Shareholders

Apart from the 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 since the Directors' remuneration is determined by the shareholders there is no scope in forming a separate Remuneration Committee. The Board determines the remuneration and performance related bonuses of the CEO, the Chief Officers and other senior management of the company, none of whom are directors.

Committees established by the Board

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

Audit Committee, Risk Management and Auditors

Audit Committee

The Audit Committee meets regularly and has clear terms of reference, as approved by the Board of Directors, in relation to its authority and duties. The Audit Committee reports directly to the Board of Directors. The ultimate responsibility for delegated functions rests with the Board. The Audit Committee is made up of three non-executive Directors and up to 12 May 2010 was chaired by Mr. Paul Bonello. The Audit Committee is now chaired by Mr. Carmel John Farrugia.

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.

Risk Management Committee

The Risk Management Committee assists the Board and the Audit Committee with respect to risk assessment and risk management; specifically, by providing oversight and guidance to management who is responsible for the timely identification, mitigation and management of those risks that could have a material impact on the company.

The Risk Management Committee is chaired by a non-executive Director and its members are all the Chief Officers. The Committee meets up as frequently as required. A summary of the matters discussed and actions taken at each Risk Management Committee are presented to the Audit Committee with an annual risk management report being presented to the Board.

Internal Audit

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

Audit Committee, Risk Management and Auditors - continued

External Audit

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

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

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 non-executive Director. The other members include the Chief Officer Finance, the Chief Officer Commercial, the Chief Officer Internal Audit, and the General Managers responsible for IS strategy and systems. Bi-monthly meetings are held and minutes are forwarded to the Chairman of the Board and the CEO.

Works Council

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

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

Financial Risk Management Committee

The key objectives and responsibilities of the Financial Risk Management 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 financial position can be developed through Treasury
 activities. This includes ensuring that the structure of the company's statement of financial
 position is appropriate in terms of; funding mix and gearing, capital adequacy and financial risk
 management policy.

The Financial Risk Management 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 the Chief Officer Finance, the Chief Officer Internal Audit, 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.

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;
- a Risk Management Committee that provides oversight and guidance in the risk identification process, risk analysis, risk evaluation, risk mitigation and management reporting and monitoring of material risks;
- an internal audit function which reviews key financial/operational processes and controls which reports directly to the Audit Committee;
- an ICT Governance Committee that assists the Board in governing and overseeing the company's ICT related issues;
- a Purchasing Committee that monitors that company procurement is done in an accountable and transparent manner:
- clearly defined organisation structure and limits of authority;
- a comprehensive system of internal financial reporting which includes the preparation of detailed monthly management accounts providing financial and operational performance measure indicators to management;
- the business agenda is determined by the Business Plan which represents the operational and financial evaluation of the corporate strategy, identifying and prioritising improvement opportunities to achieve financial budgets and service standards;
- information systems are developed to support the company's long-term objectives.

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

Statement of directors' responsibilities

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

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

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

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

The financial statements of Air Malta p.l.c. for the year ended 31 March 2010 are included in the Annual Report and Consolidated Financial Statements 2010, which is published in hard-copy printed form and made available on the company's website. The directors are responsible for the maintenance and integrity of the Annual Report on the website in view of their responsibility for the controls over, and the security of, the website. Access to information published on the company's website is available in other countries and jurisdictions, where legislation governing the preparation and dissemination of financial statements may differ from requirements or practice in Malta.

Independent auditor's report

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

Report on the Financial Statements

We have audited the consolidated and the stand-alone parent company financial statements of Air Malta p.l.c. (together the "financial statements") on pages 15 to 95 which comprise the consolidated and parent company statements of financial position as at 31 March 2010 and the consolidated and parent company statements of income, comprehensive income, changes in equity and cash flows for the year then ended, 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 (IFRSs) as adopted by the EU and the requirements of the Maltese Companies Act, 1995. As described in the statement of directors' responsibilities on page 12, 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 judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation 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 parent company as at 31 March 2010, and of the group's and the parent company's financial performance and cash flows for the year then ended in accordance with IFRSs as adopted by the EU; and
- have been properly prepared in accordance with the requirements of the Maltese Companies Act, 1995.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1.1 - Basis of preparation which indicates the existence of a significant uncertainty underlying the assessment of the going concern basis of preparation of the financial statements.

Independent auditor's report - continued

Emphasis of Matter - continued

Note 1.1.1 states that the group incurred a net loss of €8 million during the financial year ended 31 March 2010 and, as of that date, the group's current liabilities exceeded its current assets by €20.6 million, excluding the impact of sales in advance from the group's current liabilities. The note also refers to the operating results for the first six months after the end of the reporting period that deteriorated by €13,600,000 when compared to same period in the financial year ended 31 March 2010.

The principal shareholder of the company, the Government of Malta, having obtained the European Commission's permission to provide Rescue Aid to the company, is in the process of preparing an application to the European Commission for approval of Restructuring Aid available to an entity in difficulty if such aid will restore the entity to long-term viability without ongoing state support. Insofar as rescue aid is concerned, the Government of Malta has obtained approval for the company to be granted a loan by the Government of up to €52,000,000 to help the company to meet its short-term liquidity requirements and enable it to continue with its operations until the restructuring plan has been put into place. The European Commission will only allow an entity to receive restructuring aid if it can be persuaded that the company will be returned to long-term viability as a result of the restructuring. Any decision by the European Commission on the restructuring aid will therefore be based on the proposed restructuring plan for the company.

Note 1.1.1 further states that there can be no assurance that the European Commission will approve the Government's restructuring proposal for the company and without the Government of Malta's aid, the company cannot continue operating as a going concern. Furthermore, the Government's commitment given to the directors that it will ensure the company will be able to honour its financial obligations in full as they fall due during the restructuring period, is also subject to the approval of the restructuring plan by the European Commission.

Report on Other Legal and Regulatory Requirements

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

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

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

PriceWaTerhousECoopers 🛭

167 Merchants Street

Valletta Malta /

David Valenzia

Partner

6 December 2010

Statements of financial position

			Group As at			Company As at	/
	Notes		31 March 2009 €000 (restated)	1 April 2008 €000 (restated)	31 March 2010 €000	31 March 2009 €000 (restated)	1 April 2008 €000 (restated)
ASSETS							
Non-current assets Property, plant and equipment Investment property Investments in subsidiaries Investments in associates Deferred tax assets Available-for-sale financial	5 6 7 8 23	77,242 19,781 - 339 205	52,303 19,996 - 363	55,425 21,951 - 4,312	76,016 20,290 4,543 358	50,877 20,514 2,073 389	53,885 22,510 2,191 688
assets	9	849	1,203	1,203	688	1,042	1,042
Derivative financial instruments Other receivables	10 11	- 4,905	4,900	192 4,761	4,905	- 4,900	192 4,154
Term placements with banks	14	2,300	4,900	4,701	4,905	4,900	4,154
Total non-current assets		105,621	78,765	87,844	106,800	79,795	84,662
Current assets Inventories Trade receivables	12 13	1,832 24,531	1,553 22,613	1,550 25,571	1,832 23,987	1,553 20,939	1,547 23,301
Amounts owed by subsidiaries Amounts owed by associates Amounts owed by related		- 272	- 777	- 924	4,044 272	3,012 703	2,183 905
parties Current tax assets Other receivables Prepayments and accrued		1,113 1,387 5,096	3,784 1,096 8,584	3,082 1,397 12,511	582 1,220 3,688	3,358 1,018 7,435	2,858 1,255 10,565
income Available-for-sale financial		6,151	6,186	5,842	6,085	5,859	5,322
assets Derivative financial instruments Term placements with banks	9 10 14	1,419 2,996 3,664	1,987 7,388 2,160	4,613 1,364 4,538	2,996	7,388	4,613 1,364
Cash and cash equivalents	15	9,180	15,099	40,460	7,179	9,835	33,825
Assets classified as held		57,641	71,227	101,852	51,885	61,100	87,738
for sale	16	5,462	9,382	10,337	9,872	14,990	16,124
Total current assets		63,103	80,609	112,189	61,757	76,090	103,862
Total assets		168,724	159,374	200,033	168,557	155,885	188,524

Statements of financial position - continued

			Group As at			Compan As at	y
EQUITY AND LIABILITIES	Notes	31 March 2010 €000	31 March 2009 €000 (restated)	2008 €000	31 March 2010 €000	2009 €000	1 April 2008 €000 (restated)
Capital and reserves Share capital Share premium Revaluation reserve Hedging reserve Other reserve Accumulated losses	17 18 19 20 21	25,892 42,762 17,778 1,879 (3,497) (69,295)	25,892 42,762 3,630 (3,497) (61,114)	25,892 42,762 (881) (3,497) (30,495)	25,892 42,762 17,778 1,879 (67,984)	25,892 42,762 3,630 (56,354)	25,892 42,762 (881) (32,676)
Total equity		15,519	7,673	33,781	20,327	15,930	35,097
Non-current liabilities Borrowings Deferred tax liabilities Provisions in respect of	22 23	1,488	3,796 1,326	4,529 663	1,161	3,431 1,519	4,101 901
maintenance costs Other payables	24	26,086 -	24,650 19	15,986 19	26,086 -	24,650	15,986 -
Total non-current liabilities	•	27,574	29,791	21,197	27,247	29,600	20,988
Current liabilities Trade payables Amounts owed to subsidiaries Amounts owed to associates Amounts owed to related parties Sales in advance Current tax liabilities		24,068 466 2,073 41,897 500	25,983 - 414 1,686 38,376 48	47,503 2,055 791 39,274 33	21,474 4,884 466 2,016 40,667	21,137 3,170 326 1,676 36,454	42,743 3,932 2,039 791 36,641
Other payables Indirect taxation and social security Accruals and deferred income Borrowings Derivative financial instruments Provisions in respect of maintenance costs Other provisions	22 10 24 25	3,376 1,014 21,251 25,573 - 2,490 418	4,787 1,175 22,278 21,072 632 401 420	3,151 834 19,222 25,341 1,562 652 478	2,251 934 20,366 25,017 - 2,490 418	3,790 1,165 20,605 20,579 632 401 420	1,974 741 16,043 24,843 1,562 652 478
Liabilities directly associated with	-	123,126	117,272	140,896	120,983	110,355	132,439
assets classified as held for sale	16	2,505	4,638	4,159	•	-	-
Total current liabilities	_	125,631	121,910	145,055	120,983	110,355	132,439
Total liabilities	_	153,205	151,701	166,252	148,230	139,955	153,427
Total equity and liabilities		168,724	159,374	200,033	168,557	155,885	188,524

The notes on pages 22 to 95 are an integral part of these financial statements.

The financial statements on pages 15 to 95 were authorised for issue by the board on 6 December 2010 and were signed on its behalf by:

Sonny Pertelli Chairman

Carmel John Farrugia Director

Income statements

		Year ended 31 March					
	Notes	2010 €000	2009 Group €000	2010 C €000	2009 ompany €000		
Continuing operations: Revenue Cost of sales	26	224,343 (210,381)	274,938 (273,688)	210,871 (200,978)	249,512 (252,738)		
Gross result	-	13,962	1,250	9,893	(3,226)		
Selling and distribution costs Administrative expenses Other operating income		(23,498) (14,986) 586	(21,307) (15,753) 269	(22,765) (10,742) 465	(20,196) (10,455)		
Operating loss	-	(23,936)	(35,541)	(23,149)	(33,877)		
Investment and other related income Results of subsidiaries and associates Finance income Finance costs	28 29 30 31	1 214 318 (1,966)	451 96 (366) (2,058)	2,126 (2,824) 180 (1,802)	3,366 (498) (360) (1,910)		
Loss before tax Tax income	32	(25,369) 11,437	(37,418) 1,967	(25,469) 11,512	(33,279) 1,954		
Loss for the year from continuing operations	- -	(13,932)	(35,451)	(13,957)	(31,325)		
Discontinued operations: Profit for the year from discontinued operations	16	5,912	4,325	2,327	7,647		
Loss for the year	-	(8,020)	(31,126)	(11,630)	(23,678)		
Earnings per share for loss from continuing operations attributable to the owners of the company during the year (expressed in € per share)	34	(1.25)	(3.19)				
Earnings per share for profit from discontinued operations attributable to the owners of the company during the year (expressed in € per share)	34	0.53	0.39				

The notes on pages 22 to 95 are an integral part of these financial statements.

Statements of comprehensive income

Year ended 31 March 2010 2009 Notes 2010 2009 Group Company €000 €000 €000 €000 Loss for the year (8,020)(31,126)(11,630)(23,678)Other comprehensive income: Revaluation surplus on land and buildings arising during the year, net of deferred tax 19 17,778 17,778 Cash flow hedges, net of deferred tax 20 4,511 (1,751)(1,751)4,511 Currency translation differences (161)507 Other comprehensive income for the year, net of tax 15,866 5,018 16,027 4,511 Total comprehensive income for the year 7,846 4,397 (26,108)(19,167)

The notes on pages 22 to 95 are an integral part of these financial statements.

Statements of changes in equity

Group

	Notes	Share capital €000	Share premium €000	Hedging reserve €000	Revaluation reserve €000		Accumulated losses €000	Total equity €000
Balance at 1 April 2008 - as previously reported - effect of change in accounting, policy, net of deferred tax		25,892	42,762	(881)	-	(3,497)	(35,848)	28,428
(Note 1.1.2b)			-	-	-	-	5,353	5,353
- as restated		25,892	42,762	(881)	-	(3,497)	(30,495)	33,781
Comprehensive income Loss for the year			-	-	-	-	(31,126)	(31,126)
Other comprehensive income: Cash flow hedges, net of deferred tax Currency translation differences	20	-	-	4,511 -	-	-	- 507	4,511 507
Total other comprehensive income			-	4,511	-	-	507	5,018
Total comprehensive income			-	4,511	-	-	(30,619)	(26,108)
Balance at 31 March 2009		25,892	42,762	3,630	-	(3,497)	(61,114)	7,673
Comprehensive income Loss for the year			-	-	-	-	(8,020)	(8,020)
Other comprehensive income: Revaluation surplus on land and buildings arising during the year,								
net of deferred tax Cash flow hedges, net of deferred tax	19 20	-	-	- (1,751)	17,778	-	-	17,778 (1,751)
Currency translation differences			-	-	-	-	(161)	(161)
Total other comprehensive income			-	(1,751)	17,778	-	(161)	15,866
Total comprehensive income		_	-	(1,751)	17,778	-	(8,181)	7,846
Balance at 31 March 2010		25,892	42,762	1,879	17,778	(3,497)	(69,295)	15,519

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

Statements of changes in equity - continued

Company

	Notes	Share capital €000	Share premium €000	Hedging I reserve €000	Revaluation reserve €000	Accumulated losses €000	Total equity €000
Balance at 1 April 2008 - as previously reported - effect of change in accounting policy, net of deferred tax		25,892	42,762	(881)	-	(38,029)	29,744
(Note 1.1.2b)	_	-	-	-	-	5,353	5,353
- as restated	_	25,892	42,762	(881)	-	(32,676)	35,097
Comprehensive income Loss for the year	_	-	-	-	-	(23,678)	(23,678)
Other comprehensive income: Cash flow hedges, net of deferred tax	20	-	-	4,511	-	-	4,511
Total comprehensive income	-	-	-	4,511	-	(23,678)	(19,167)
Balance at 31 March 2009	_	25,892	42,762	3,630	-	(56,354)	15,930
Comprehensive income Loss for the year	_	-	-	-	-	(11,630)	(11,630)
Other comprehensive income: Revaluation surplus on land and buildings arising during the year,							
net of deferred tax Cash flow hedges, net of deferred tax	19 20	-	-	- (1,751)	17,778 -	-	17,778 (1,751)
Total other comprehensive income	-	-	-	(1,751)	17,778	-	16,027
Total comprehensive income	-	-	-	(1,751)	17,778	(11,630)	4,397
Balance at 31 March 2010	_	25,892	42,762	1,879	17,778	(67,984)	20,327

The notes on pages 22 to 95 are an integral part of these financial statements.

Statements of cash flows

Yes	ar ei	nded	31	March	

		-					
		Group		Coi	Company		
	Notes	2010	2009	2010	2009		
		€000	€000	€000	€000		
Cash flows from operating activities							
Cash used in operations	35	(13,329)	(35,615)	(9,485)	(35,972)		
Investment and other related income received		334	1,082	307	1,398		
Dividends received from subsidiaries			-,	6,057	2,450		
Dividends received from associates		114	311	114	295		
Interest paid and similar charges		(2,076)	(1,831)	(1,776)	(1,501)		
Tax paid		(1,297)	(78)	(690)	(1,001)		
Tax refunded		(1,231)	452	(030)	344		
Tax Telulided			402		J 44		
Net cash used in operating activities		(16,254)	(35,679)	(5,473)	(32,986)		
Cash flows from investing activities							
Purchases of tangible non-current assets		(1,039)	(3,172)	(982)	(2,909)		
Net outcome on sale of tangible non-current		(1,039)	(3,172)	(902)	(2,909)		
<u> </u>		24.4	0.044	64	0.044		
assets Proceeds from sale of assets classified as		214	9,844	64	9,844		
		2 520		2 4 0 4			
held for sale		3,530	-	3,181	-		
Proceeds from disposal of property in assets		40.000					
held for sale		10,090	-	-	-		
Proceeds from disposal of associates		-	5,224	(0.407)	5,224		
Increase of shares in subsidiaries		-	(222)	(3,487)	- (4.040)		
Loans granted to subsidiaries and associates		-	(226)	(1,119)	(1,310)		
Loan repayments received from subsidiaries and							
associates		124	-	2,780	343		
Acquisition of available-for-sale financial assets		(3,343)	(1,938)	-	-		
Proceeds from redemption of available-for-							
financial assets upon maturity		4,277	4,659	366	4,659		
Funds advanced under term placements		(5,964)	(3,585)	-	-		
Proceeds from maturity of term placements		2,160	5,963	-	-		
Net cash generated from investing activities		10,049	16,769	803	15,851		
Cook flows from financing activities							
Cash flows from financing activities		0.220	11.051	0 744	11 600		
Proceeds from bank borrowings		9,329	11,951	8,744	11,608		
Repayments of bank borrowings		(4,578)	(22,056)	(2,269)	(21,993)		
Net cash generated from/(used in) financing							
activities		4,751	(10,105)	6,475	(10,385)		
activities			(10,100)	0,473	(10,303)		
Net movement in cash and cash equivalents		(1,454)	(29,015)	1,805	(27,520)		
Cash and cash equivalents at beginning							
		0 666	20.404	3,614	22.055		
of year		8,666	39,404	3,014	33,055		
Exchange differences on cash and cash							
equivalents		(53)	(1,723)	(153)	(1,921)		
oquivalonis		(55)	(1,723)	(100)	(1,321)		
Cash and cash equivalents at end of year	15	7,159	8,666	5,266	3,614		
Table and order of art and the order of your	.0		5,000	<u> </u>	5,511		

The notes on pages 22 to 95 are an integral part of these financial statements.

Notes to the consolidated financial statements

1. Summary of significant accounting policies

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

1.1 Basis of preparation

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

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

1.1.1 Assessment of going concern

During the financial year ended 31 March 2010, the group incurred losses from continuing operations amounting to €13.9 million (2009: €35.5 million) putting the group's equity base under significant strain as a result. The group's current liabilities as at 31 March 2010 exceeded its current assets by €20.6 million, excluding the impact of sales in advance from the group's current liabilities.

In view of the group's financial position, management had during the previous financial year, formulated a business and financing plan with a view to improving the airline's equity base and its financial results. The plan consisted in the introduction of several business initiatives focusing on revenue enhancement and cost management, the disposal of the group's remaining surplus assets that were not relevant to the core operations, and capital injections to strengthen the airline's capital base and its liquidity position.

During the financial year ended 31 March 2010, the group's trading conditions have been adversely impacted by the significant unfavourable market situation experienced within the local and international economic sectors, which had a negative effect on both the revenue enhancement and cost containment programmes referred to above. The disposal process of the group's surplus assets has also been delayed in view of the prevailing market and economic conditions.

The operating results for the first six months after the reporting period deteriorated by €13,600,000 when compared to same period in the previous year mainly as a result of an increase in fuel prices and a drop in revenues. Up to 30 September 2010, fuel costs were €7 million higher than for the same period of the previous year whereas revenues dropped by €5.6 million. The airline's revenues in summer 2010 were severely hit inter alia by the volcanic eruptions and by substantial drops in yields driven by pressure on margins originating from competition on existing routes and other market dynamics.

1.1 Basis of preparation - continued

1.1.1 Assessment of going concern - continued

The Government of Malta, which owns 98% of the issued share capital of the company, has during summer 2010 consulted with the European Commission about the potential for approval of a capital injection of €100 million under the Market Economic Investment Principle. The Government of Malta was not encouraged to pursue the objective; consequently a decision was taken whereby a formal request for clearance by the EU for State Aid to Air Malta p.l.c., under the 'Rescue and Restructuring' protocol was submitted to the EU.

The type(s) of aid available under the Rescue and Restructuring protocol may be described as follows:

- (i) Rescue Aid: Rescue aid is liquidity support. Its purpose is to keep the company in funds, and able to continue operating, meeting all its commitments, and all its engagements. Additionally, 'Rescue Aid' provides the company with a reasonable amount of time wherein it (the company) would be able to finalise a 'Restructuring Plan', whereby to return the 'Enterprise' to a sustainable and enduring profitable situation within a reasonable, and (market) acceptable period of time. Any loan or guarantee received under Rescue Aid must be reimbursed or come to an end within a period of not more than six months after the disbursement of the first instalment to the firm.
- (ii) Restructuring Aid: Restructuring aid is, aid which will enable the company to return to long-term viability as a result of a successful execution of a feasible restructuring plan.

On 15 November 2010, the European Commission communicated to the Government of Malta its approval of a rescue aid loan facility worth €52,000,000, which will have to be repaid no later than 6 months following the disbursement of the first instalment to the company, and stated that the aid is in line with EU state aid rules. The loan is regulated by the terms and conditions laid down in the relevant Loan Agreement drawn up and agreed to by the Government of Malta and Air Malta, and sanctioned by an Act of the House of Representatives (Act XVIII of 2010 'Government Borrowing and Granting of Loans to Air Malta plc Act, 2010'). The 'Loan Agreement' was executed by the relevant parties on 15 November 2010 and the first tranche amounting to €15,000,000 was drawn down by the company from the facility, and deposited in Air Malta's Bank Accounts on 16 November 2010.

The European Commission has not raised any objections to the measure on the grounds that the aid is compatible with the internal market rules. Furthermore, the Maltese authorities are committed to notify the European Commission of a Restructuring Plan for Air Malta within a short period of time, in order to be able to get approvals and initiate implementation of the approved Restructuring Plan within 6 months of the first disbursement of the Rescue Aid.

The European Commission will only allow an entity to receive restructuring aid if it can be persuaded that it will be returned to long-term viability as a result of the restructuring. Any decision by the European Commission on the restructuring aid will therefore be based on the proposed Restructuring Plan for the company. Legal advice obtained by the directors concerning the likelihood of a successful restructuring aid application states that there is a good chance that the European Commission will approve such aid, if the Government can provide a convincing Restructuring Plan showing a realistic prospect of a return to profit of the company within a reasonable time.

1.1 Basis of preparation - continued

1.1.1 Assessment of going concern - continued

The financial aid needed under the Restructuring Plan (which restructuring aid is in addition to the €52,000,000 received under the rescue aid to cover up to the next 6 months of operations) is yet to be quantified. The Government of Malta has given its commitment to the directors that it will ensure that the company will be able to honour its financial obligations in full as they fall due during the restructuring period, once the Restructuring Plan has been approved by the European Commission. The Government of Malta has indicated to the Board of Directors of the company that it considers the company an essential and material component of Malta's tourism and transport infrastructure given Malta's isolated peripheral position in the EU.

There can be no assurance that the European Commission will approve the Government's restructuring proposal for the company. Without the Government of Malta's aid, the company cannot continue operating as a going concern. In addition, the Restructuring Plan would need to be implemented by the company in a timely manner in consultation with all the relevant stakeholders. Nevertheless, on the basis of the following considerations:

- (i) the current level of commitment shown by the Government of Malta;
- (ii) the directors' belief, based amongst other things on financial advice available, that the Government of Malta can submit to the European Commission a Restructuring Plan showing a realistic prospect of a return to profit of the company within a reasonable time;
- (iii) the legal advice stating that, on the basis that a convincing Restructuring Plan is submitted to the European Commission, there is a good chance of European Commission approval of the Restructuring Aid application; and
- (iv) the underlying assumption that the Restructuring Plan can be implemented in a timely manner and in accordance with its terms,

it is the view of the directors that there is a reasonable expectation that the company and the group are able to continue in operational existence for a period of at least 12 months from the end of the reporting period. Accordingly, the directors continue to adopt the going concern basis in preparing the financial statements.

1.1.2 Changes in accounting policy and disclosures

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

During the current financial year, the group adopted new standards, amendments and interpretations to existing standards that are mandatory for the group's accounting period beginning on 1 April 2009. The adoption of these revisions to the requirements of IFRSs as adopted by the EU did not result in substantial changes to the group's accounting policies. In particular the group adopted IAS 1 (revised), 'Presentation of financial statements' which is effective for periods beginning on or after 1 January 2009. IAS 1 (revised) requires 'non-owner changes in equity' to be presented separately from 'owner changes in equity' in a statement of comprehensive income. Accordingly the group presents all 'owner changes in equity' in the statement of changes in equity, whereas all items of income and expense ('non-owner changes in equity') are presented in a performance statement. Comparative information has been re-presented so that it is also in conformity with the revised standard.

1.1 Basis of preparation - continued

1.1.2 Changes in accounting policy and disclosures - continued

Other new standards, amendments to standards and interpretations which are mandatory for the first time for the financial year beginning on 1 April 2009 and which are relevant to the group include:

- IFRIC 13 'Customer loyalty programmes'. IFRIC 13 clarifies that where goods or services are sold together with a customer loyalty incentive, the arrangement is a multiple-element arrangement, and the consideration receivable from the customer is allocated between the components of the arrangement using fair values. This application of the requirements of this interpretation did not have a significant impact on the group's financial results.
- IFRS 7 (amendment), 'Financial instruments Disclosures'. The amendment requires enhanced disclosures about fair value measurement by level of a fair value measurement hierarchy. In accordance with the transition provisions of the standard, the group does not need to provide comparative information for the disclosures required by the amendment.
- IFRS 8, 'Operating segments'. The new standard requires a 'management approach', under which segment information is presented on a similar basis to that used for internal reporting purposes. The company has one reportable segment and accordingly does not need to include revised disclosures in these financial statements.

(b) Voluntary changes in accounting policies

The changes in accounting policies noted below result in the financial statements providing reliable and more relevant information about the effects of events or conditions on the group's financial position and financial performance.

Property, plant and equipment

During the current financial year, the group changed its accounting policy with respect to subsequent measurement of the land and buildings component of property, plant and equipment whereby these assets shall be subsequently carried at revalued amounts, being fair value at the date of the revaluation, less subsequent accumulated depreciation and accumulated impairment losses. This change in accounting policy has been dealt with as a revaluation in accordance with the requirements of IAS 16, 'Property, plant and equipment' and has been reflected at the valuation date i.e. 31 March 2010. Increases in the carrying amount as a result of a revaluation are recognised in other comprehensive income and accumulated within equity. Revaluations shall be carried out on a regular basis to ensure that the carrying amount of property does not differ materially from that which would be determined using fair values at the end of the reporting period. Prior to the change in accounting policy, land and buildings were subsequently stated at historical cost less accumulated depreciation and accumulated impairment losses. The financial impacts of this change in accounting policy comprise the recognition of a revaluation surplus of €27,350,000 (Note 5), a deferred tax liability of €9,572,000 (Note 23) and the net impact of €17,778,000 within equity (Note 19) as at 31 March 2010.

1.1 Basis of preparation - continued

1.1.2 Changes in accounting policy and disclosures - continued

Investment property

During the financial year ended 31 March 2010, the group also changed its accounting policy with respect to subsequent measurement of investment property whereby these assets shall be subsequently measured at fair value at the end of each reporting period. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. Gains or losses arising from changes in the fair value of investment property shall be recognised in profit or loss for the period in which they arise. This change in accounting policy has been applied retrospectively in accordance with the requirements of IAS 8, 'Accounting policies, changes in accounting estimates and errors'. Accordingly the group has adjusted the opening balance of each affected component of equity for the earliest period presented in these financial statements and other comparative amounts disclosed for the comparative period presented as if the revised accounting policy had always been applied. Consequently, and in line with the requirements of IAS 1 (revised), three statements of financial position, being as at 1 April 2008, 31 March 2009 and 31 March 2010, are being presented.

Prior to the change in accounting policy, investment property was subsequently carried at historical cost less accumulated depreciation and accumulated impairment losses. The capitalised costs of buildings were amortised over 100 years at most, in accordance with their useful lives. The financial impacts of this change in accounting policy comprise the retrospective recognition of a fair value gain of €8,236,000 (Note 6), of a deferred tax liability of €2,883,000 (Note 23) and of the net resultant effect of €5,353,000 within accumulated losses as at 1 April 2008. In accordance with the requirements of IAS 1 (revised), the notes for investment property and deferred tax include information as at 1 April 2008, 31 March 2009 and 31 March 2010. Other notes have not been impacted by the restatement, and accordingly include information as at 31 March 2009 and 31 March 2010.

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

Certain new standards, amendments and interpretations to existing standards have been published by the date of authorisation for issue of these financial statements but are mandatory for the group's accounting periods beginning after 1 April 2009. The group has not early adopted these revisions to the requirements of IFRSs as adopted by the EU and the company's directors are of the opinion that there are no requirements that will have a possible significant impact on the group's financial statements in the period of initial application.

1.2 Consolidation

(a) Subsidiaries

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

1.2 Consolidation - continued

(a) Subsidiaries - continued

Subsidiaries are fully consolidated from the date on which effective control is transferred to the group and are no longer consolidated from the date that control ceases. The purchase method of accounting is used to account for the acquisition of subsidiaries by the group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the group's share of the identifiable net assets of the subsidiary acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in profit or loss. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. All intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of impairment of the assets transferred. Where necessary, accounting policies of subsidiaries have been changed to ensure consistency with the policies adopted by the group. Separate disclosure is made of minority interests.

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

(b) Transactions with 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.

(c) Associates

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

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

The interest in the associate is carried in the statement of financial position at an amount that reflects the share of the net assets of the associates. When the group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the group does not recognise further losses, unless the group has incurred obligations or made payments on behalf of the associates. 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 in Note 41.2 to these financial statements.

1.3 Foreign currencies

(a) Functional and presentation currency

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

(b) Transactions and balances

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

(c) Group companies

Income statements of foreign entities are translated into the group's presentation currency at the weighted average exchange rates for the year and statements of financial position 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 profit or loss as part of the gain or loss on sale.

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

1.4 Property, plant and equipment

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

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

1.4 Property, plant and equipment - continued

Increases in the carrying amount arising on revaluation of land and buildings are credited to the revaluation reserve in shareholders' equity. Decreases that offset previous increases of the same asset are charged against the revaluation reserve; all other decreases are charged to profit or loss. Each year the difference between depreciation based on the revalued carrying amount of the asset (the depreciation charged to profit or loss) and depreciation based on the asset's original cost, net of any related deferred income taxes, is transferred from the revaluation reserve to retained earnings.

Depreciation is calculated on the straight-line method to allocate the cost or revalued amounts of the assets to their residual value over their estimated useful operational lives as described below:

- Buildings held on a freehold basis are depreciated at 1% per annum. Freehold land is not depreciated as it is deemed to have an indefinite economic life. Properties held on long-term leases are amortised over the period of the respective leases.
- Hotel land and buildings are mainly held on long-term leases and the costs thereof are amortised over the period of the respective leases.
- 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%.
- The estimated useful lives of equipment, motor vehicles and other assets, held at hotels and otherwise, vary from 3 to 20 years, depending on their nature.

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

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

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

1.5 Investment property

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

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

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

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

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

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

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

1.5 Investment property - continued

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

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

1.6 Impairment of non financial assets

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

1.7 Financial assets

Classification

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

(a) Loans and receivables

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

(b) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories under the requirements of IAS 39. They are included in non-current assets unless management intends to dispose of the investment within twelve months of the end of the reporting period.

1.7 Financial assets - continued

Recognition and measurement

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

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

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

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

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

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

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

1.7 Financial assets - continued

Impairment

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

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

(a) Assets carried at amortised cost

For financial assets carried at amortised cost, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The asset's carrying amount is reduced and the amount of the loss is recognised in profit or loss. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in profit or loss. Impairment testing of trade and other receivables is described in note 1.11.

(b) Assets classified as available for sale

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

1.8 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 profit or loss over the lease period. The property, plant and equipment acquired under finance leasing contracts is depreciated over the useful life of the asset.

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

1.9 Maintenance of aircraft

Costs for routine aircraft maintenance as well as repair costs are charged to profit or losses 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 over the unexpired term of the lease.

1.10 Inventories

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

1.11 Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other 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 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 profit or loss.

1.12 Cash and cash equivalents

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

1.13 Trade and other payables

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

1.14 Borrowings and borrowing costs

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

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

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

1.15 Deferred taxation

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

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

Tax rates (and laws) that have been enacted or substantively enacted by the end of the reporting period 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.

1.16 Provisions

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

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

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

1.17 Revenue recognition

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

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

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

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

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

1.18 Sale and leaseback transactions

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

1.19 Obligations under bonus mile programmes

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

1.20 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.

1.20 Derivative financial instruments and hedging - continued

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

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

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

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

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

Changes in the fair value of derivatives that are designated and qualify as cash flow hedges and that prove to be highly effective in relation to the hedged risk, are recognised in the hedging reserve in equity. In respect of option contracts, designated as hedging instruments, the group splits fair value into the intrinsic value and time value components. Changes in the intrinsic value of options are designated as the hedging instrument, while the remaining component of the option (its time value) is excluded from the hedging relationship. Accordingly changes in the time value would be accounted for in profit or loss. 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 profit or loss and classified as revenue or expense in the periods during which the hedged forecast transaction affects profit or loss.

1.20 Derivative financial instruments and hedging - continued

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

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

The fair values of derivative instruments held for trading and hedging purposes are disclosed in Note 10 to the financial statements.

1.21 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.

2. Financial risk management

2.1 Financial risk factors

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

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

- 2.1 Financial risk factors continued
- (a) Market risk
- (i) Foreign exchange risk

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

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

As at 31 March 2010, the group forecasts net receipts denominated in UK sterling amounting to €34 million (2009: €36.3 million) for the twelve month period ending 31 March 2011 and €42.2 million (2009: €37.1 million) for the subsequent twelve months. The group also forecasts net payments denominated in US dollar amounting to €61.2 million (2009: €64.8 million) for the twelve month period ending 31 March 2011 and €45.2 million (2009: €53.1 million) for the subsequent twelve months. These exposures were hedged as at the end of the reporting period, in accordance with the policy parameters referred to previously, through the use of derivative contracts having a notional amount of €15 million (2009: €39.6 million) covering US dollar exposures. As at 31 March 2009, UK sterling exposures were hedged through the use of derivative contracts having a notional amount of €20.2 million.

2.1 Financial risk factors - continued

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

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

	Group		Company	
	2010 2009		2010	2009
	€000	€000	€000	€000
Net UK sterling liability position	(6,310)	(5,558)	(6,310)	(5,558)
Net US dollar liability position	(31,911)	(22,943)	(32,139)	(23,095)

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

	Group		Com	pany
	(+) 10% €000	(-) 10% €000	(+) 10% €000	(-) 10% €000
UK sterling				
At 31 March 2010	574	(701)	574	(701)
At 31 March 2009	505	(618)	505	(618)
US dollar				
At 31 March 2010	2,931	(3,581)	2,922	(3,571)
At 31 March 2009	2,120	(2,591)	2,100	(2,566)

- 2.1 Financial risk factors continued
- (a) Market risk continued
- (i) Foreign exchange risk continued

If as at 31 March 2010 the UK sterling had strengthened/weakened by 10% against the US dollar with all other variables held constant, equity (prior to tax effects) as at the year-end would change as follows:

	Group and	d Company
	(+) 10%	(-) 10%
	€000	€000
At 31 March 2010	(244)	3,035

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

If as at 31 March 2009, the UK sterling had strengthened/weakened by 10% against the US dollar and euro whilst the euro had strengthened/weakened by 10% against the US dollar with all other variables held constant, equity (prior to tax effects) as at the year-end would not change in a substantial manner taking cognisance of the amounts presented on the statement of financial position of Air Malta p.l.c. The impact on equity would consist of the effects of the changes in exchange rates reflected above on the fair valuation of the group's foreign currency derivatives classified as hedging instruments. In view of the nature and terms of such derivative contracts as at 31 March 2009, these effects were not deemed material for disclosure purposes for the sake of giving a true and fair view.

(ii) Cash flow and fair value interest rate risk

The group's interest rate risk principally arises from bank borrowings issued at variable rates (Note 22) and advances to related parties subject to floating interest rates which expose the group to cash flow interest rate risk. The group's borrowings mainly consist of facilities subject to variable interest rates which are principally based on reference rates. Management monitors the impact of changes in market interest rates on amounts reported in profit or loss in respect of these instruments. Based on this analysis, management considers the potential impact on profit or loss of a defined interest rate shift that is reasonably possible at the end of the reporting period to be immaterial and accordingly the level of interest rate risk is contained. The group's operating cash flows are substantially independent of changes in market interest rates.

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

- 2.1 Financial risk factors continued
- (a) Market risk continued
- (iii) Price risk

During the financial year ended 31 March 2010, fuel expenses amounted to €42 million (2009: €86 million) as disclosed in Note 26.2 to the financial statements and accounted for approximately 17% (2009: 28%) of the total operating expenses of the group from continuing operations. Fluctuations in crude oil, jet fuel and other fuel product prices may have a significant effect on the group's results. Different hedging instruments with regard to the crude oil and fuel products markets are used to limit the fuel price risk. These instruments mainly comprise combined purchased call and written put options, together with other options and commodity swap agreements. The group's policy during the current and preceding years aimed at hedging, in normal circumstances, a minimum of 40% of the expected fuel expenditure of the ensuing twelve months. As at 31 March 2010, the notional amounts of the hedging derivatives outstanding amounted to approximately €11 million (2009: €51 million) in view of the prevailing market and trading conditions (refer to Note 10).

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

Combined purchased call and written put options represent the combination of a purchase of a call option by the group and the simultaneous sale of a put option to the same derivative counterparty. These combination options substantially amount to a collar arrangement with a floor and a cap (fluctuation band) whereby settlements are effected by either party, usually on a monthly basis, if and only if, the reference market price for the particular month during the set period does not fall within the band.

Commodity swap agreements are commitments to exchange one set of cash flows based on fixed contracted fuel prices (determined by reference to the contract's notional amount) for another set of cash flows determined by variable prices. Alternatively, two sets of cash flows determined by variable prices may be exchanged particularly when the two sets of variable prices are determined by reference to different commodity reference prices.

If as at 31 March 2010 the price of fuel products had strengthened/weakened by 10% with all other variables held constant, equity (prior to tax effects) as at the year-end would change as follows:

	Group and	d Company
	(+) 10% €000	(-) 10% €000
At 31 March 2010	(882)	825

Disclosure of sensitivity analysis for price risk attributable to a reasonable shift in the price of fuel products at the end of the preceding financial year, reflecting how the results for the year and equity would have been affected by applying the change in the relevant risk variable to the risk exposures in existence at that date, was not deemed necessary in view of the nature and terms of the outstanding fuel derivative hedging instruments as at 31 March 2009 (Note 10). As at 31 March 2009, a reasonable shift in the price of fuel products would not have had a material impact on the fair valuation of the derivative contracts as at the end of the reporting period.

2.1 Financial risk factors - continued

(b) Credit risk

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

	Group		Con	npany
	2010	2009	2010	2009
	€000	€000	€000	€000
Loans and receivables category:				
Cash and cash equivalents (Note 15)	9,180	15,099	7,179	9,835
Term placements with banks (Note 14)	5,964	2,160	-	-
Trade and other receivables	42,608	46,844	43,563	46,206
Loans to subsidiaries and associates				
(Notes 7, 8 and 16)	259	290	10,568	12,136
	58,011	64,393	61,310	68,177
Available-for-sale financial assets:				
Debt securities (Note 9)	-	2,341	-	354
Financial instruments held for hedging:				
Derivative financial instruments (Note 10)	2,996	7,388	2,996	7,388
	61,007	74,122	64,306	75,919

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

2.1 Financial risk factors - continued

(b) Credit risk - continued

Cash and cash equivalents and term placements with banks

Group undertakings principally bank with local and foreign financial institutions which have high quality credit standing or rating. The group's main foreign bank counterparties as at the end of the reporting periods have a satisfactory external credit rating, as determined by major rating agencies such as Fitch. Exposures to foreign banking institutions as at 31 March 2010 amounted to approximately €5.7 million (2009: €7.6 million). Term placements with banks with contractual terms of more than three months mature within a period of nineteen (2009: five) months from the end of reporting period and are held principally with local bank counterparties, hence credit risk in this respect is quite limited.

Trade and other receivables

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

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

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

The group manages credit limits and exposures actively in a practicable manner such that past due amounts receivable from customers are within controlled parameters. The credit quality of the group's trade and other receivables, which are not impaired or past due financial assets, reflects the nature of these assets which are principally debts in respect of transactions with customers for whom there is no recent history of default. Management does not expect any losses from non-performance by these customers. As at 31 March 2010, the group holds collateral in the form of bank guarantees for the amount of €2,675,000 (2009: €2,925,000) as security in respect of trade receivables. At 31 March 2010 and 2009, no trade or other receivables that would otherwise be past due or impaired have been renegotiated.

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

2.1 Financial risk factors - continued

(b) Credit risk - continued

Trade and other receivables - continued

As at 31 March 2010, the group's and company's trade receivables amounting to €4,431,000 (2009: €4,299,000) and €3,026,000 (2009: €2,803,000) respectively were impaired and the amount of the provisions in this respect are equivalent to these amounts. The individually impaired receivables mainly relate to a number of independent customers which are in unexpectedly difficult economic situations and which are accordingly not meeting repayment obligations. The group does not hold any significant collateral as security in respect of the impaired assets.

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

	Group		Com	pany
	2010	2009	2010	2009
	€000	€000	€000	€000
At beginning of year Increase in provisions	4,299	3,184	2,803	2,819
	469	1,654	396	390
Reversals of provisions which are no longer required Other movements	(367)	(426)	(188)	(426)
	30	(113)	15	20
	4,431	4,299	3,026	2,803

Reversals of provisions for impairment arise in those situations where customers recover from unfavourable circumstances and accordingly start meeting repayment obligations. The movements in these provisions are disclosed in Note 26.2 and are included in 'Administrative expenses' in the group's income statement.

As at 31 March 2010, trade receivables and amounts owed by related parties amounting to €2,064,000 and €328,000 (2009: €2,445,000 and €2,732,000) respectively were past due but not impaired. These relate to a number of customers for whom there is no recent history of default and in respect of which the group has obtained no significant collateral. Categorisation of receivables as past due is determined by the group on the basis of the nature of the credit terms in place and credit arrangements actually utilised in managing exposures with customers.

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

	2010 €000	2009 €000
Up to 30 days	1,090	875
30 to 60 days	9	600
60 to 90 days	311	175
90 to 120 days	130	131
Over 120 days	524	664
	2,064	2,445

2.1 Financial risk factors - continued

(b) Credit risk - continued

Trade and other receivables - continued

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

As at 31 March 2010, the company also had amounts receivable from subsidiaries amounting to €2,182,000 (2009: €1,709,000) which were past due but not impaired. Such amounts were mainly past due for less than one year.

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

Loans to subsidiaries and associates

The group's and company's loans referred to in the table above consist of advances to subsidiaries and associates forming part of the Air Malta group. The group's credit control function monitors intra-group credit exposures and ensures timely performance in the context of overall group liquidity management. Management does not expect any losses from non-performance or default, except as disclosed below. Loans to subsidiaries and associates which are impaired are reflected in Notes 7 and 8 and the provisions for impairment in this respect are equivalent to the impaired assets. The impaired assets consist of loans to entities which are in adverse trading and operational circumstances.

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

	Comp	Company		
	2010	2009		
	€000	€000		
Provisions on loans to subsidiaries				
At beginning of year	2,980	2,867		
Increase in provisions	-	113		
Reversals of provisions which are no longer required in view of waiver of loans	(2,980)	-		
		2,980		

2.1 Financial risk factors - continued

(b) Credit risk - continued

Loans to subsidiaries and associates - continued

	Group		Company	
	2010	2009	2010	2009
	€000	€000	€000	€000
Provisions on loans to associates				
At beginning of year	274	2,199	274	2,199
Reversals of provisions which are no longer required	(93)	-	(93)	-
Reversals of provisions which are no				
longer required in view of waiver of loans	-	(1,925)	-	(1,925)
	181	274	181	274

Derivative financial instruments

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

(c) Liquidity risk

The group is exposed to liquidity risk in relation to meeting future obligations associated with its financial liabilities, which comprise principally borrowings (Note 22) and payables. Prudent liquidity risk management includes maintaining sufficient cash and committed credit lines to ensure the availability of an adequate amount of funding to meet the group's obligations. Management monitors liquidity risk by reviewing expected group cash flows, and ensures that liquid resources and facilities that are expected to be required over the coming year are in place.

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

2.1 Financial risk factors - continued

(c) Liquidity risk - continued

The overall liquidity requirements of the Air Malta group involve maintaining available net liquidity equivalent to a number of weeks' cash outflows from operations depending on seasonality and expected volatility. The risk is actively managed by taking cognisance of the matching of operational cash inflows and outflows including those arising from expected maturities of financial instruments, the group's committed bank borrowing facilities and shareholder financing that it can access. In view of the group's financial position as at 31 March 2010 and its operating results for the year then ended, the airline's liquidity management process in the circumstances is significantly influenced by the Government's committed support as the principal shareholder. As outlined previously (refer to Note 1.1.1), the Government is committed to supporting the group financially to ensure that the required financing is injected to allow the group to meet its obligations in full as they fall due during the restructuring process. The Government has requested and obtained approval from the European Commission to grant a loan to the company for an amount of up to €52,000,000 to help the company meet its short-term liquidity requirements. The group will also continue to manage its bank financing programme and the process of disposal of non-core assets in the context of the shareholder's financing commitment.

The group expects to meet the contractual cash outflows arising from financial liabilities disclosed below, extending beyond the subsequent twelve month period, through operating cash flows and in particular financing cash inflows as referred to previously.

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

Group

	Within 3 months €000	3 - 6 months €000	6 - 12 months €000	1 - 2 years €000	2 - 5 years €000	Over 5 years €000	Total €000
At 31 March 2010 Bank borrowings Trade and other	3,675	21,184	934	1,198	107	230	27,328
payables	52,248	-	-	-	-	-	52,248
	55,923	21,184	934	1,198	107	230	79,576
At 31 March 2009 Bank borrowings	8,190	3,803	13,148	2,676	1,271	347	29,435
Trade and other payables	56,323	-	-	19	-	-	56,342
	64,513	3,803	13,148	2,695	1,271	347	85,777

2.1 Financial risk factors - continued

(c) Liquidity risk - continued

Company

	Within 3 months €000	3 - 6 months €000	6 - 12 months €000	1 - 2 years €000	2 - 5 years €000	Over 5 years €000	Total €000
At 31 March 2010 Bank borrowings Trade and other	3,143	21,175	916	1,162	-	-	26,396
payables	52,391	-	-	-	-	-	52,391
	55,534	21,175	916	1,162	-	-	78,787
At 31 March 2009 Bank borrowings Trade and other	6,966	949	13,125	2,629	1,131	-	24,800
payables	51,869	-	-	-	-	-	51,869
	58,835	949	13,125	2,629	1,131	-	76,669

The group's derivatives that will be settled on a gross basis consist principally of forward foreign exchange contracts (Note 10). The table below analyses the group's derivative financial liabilities that will be settled on a gross basis into relevant maturity groupings based on the remaining period at 31 March 2010 to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

Group and Company

	Within 3 months €000	3 - 6 months €000	6 - 12 months €000	Total €000
At 31 March 2010 Foreign exchange derivatives:	(4.000)	(0.405)	(40.775)	(45,000)
- Outflows - Inflows	(1,800) 1,938	(2,425) 2,611	(10,775) 11,681	(15,000) 16,230
	138	186	906	1,230

2.1 Financial risk factors - continued

(c) Liquidity risk - continued

The table below analyses the group's derivative financial liabilities settled on a net basis into relevant maturity groupings based on the remaining period at 31 March 2009 to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

Group and Company

	Within 3 months €000	3 - 6 months €000		Total €000
At 31 March 2009 Fuel derivatives	(319)	(312)	(131)	(762)

2.2 Capital risk management

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

Consistent with others in the industry, the group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (as shown in the consolidated statement of financial position) less cash and cash equivalents. Total capital is calculated as equity as shown in the consolidated statement of financial position plus net debt. The group's gearing ratio as at 31 March 2010 was as follows:

	2010 €000	2009 €000
Total borrowings Less: cash and cash equivalents	27,061 (9,180)	24,868 (15,099)
Net debt Total equity	17,881 15,519	9,769 7,673
Total capital	33,400	17,442
Net debt/total capital	53.5%	56%

2.2 Capital risk management - continued

The improvement in the gearing ratio is principally attributable to the impact on equity of the fair valuation of the group's property.

The group maintains the level of capital by reference to its financial obligations and commitments arising from operational requirements. Taking cognisance of the financial circumstances prevailing at 31 March 2010, it is envisaged that difficult trading conditions caused by severe competition and other market factors will continue to prevail. These factors will be reflected in the funding requirements highlighted in the business and financing plan which will constitute an intrinsic part of the restructuring plan referred to in Note 1.1.1. As outlined in that Note, the Government is committed to supporting the group financially to ensure that the company's financial obligations are met in full during the restructuring process.

As outlined in Note 1.1.1, the principal shareholder of the companies is in the process of preparing an application to the European Commission for approval of aid for the company under the so-called Rescue and Restructuring Aid available to an entity in difficulty if such aid will restore the entity to long-term viability without ongoing state support. Insofar as rescue aid is concerned, the Government of Malta has obtained approval for the company to be granted a loan by the Government of up to €52,000,000 to help the company to meet its short term liquidity requirements and enable it to continue with its operations until the restructuring plan has been put into place. The European Commission will only allow an entity to receive restructuring aid if it can be persuaded that the company will be returned to long-term viability as a result of the restructuring. Any decision by the European Commission on the restructuring aid will therefore be based on the proposed restructuring plan for the company.

Also, the group continues to be committed to dispose of non-core assets to manage the level of gearing and the availability of liquidity, although this process has been delayed due to market conditions.

The directors are constantly reviewing the adequacy of the capital level in the context of the challenging business environment and expected operating results of the group on the basis of management's forecasts. The group's business and financing plan is the principal tool utilised in this respect particularly considering the modifications thereto in view of the envisaged restructuring plan. The monitoring process takes cognisance of the group's intentions to handle and restructure its activities to ensure that, with the shareholder's support, the capital base is safeguarded and availability of liquidity resources managed in the manner outlined.

2.3 Fair values of financial instruments

At 31 March 2010 and 2009 the carrying amounts of cash at bank, receivables, payables, accrued expenses and short-term borrowings reflected in the financial statements are reasonable estimates of fair value in view of the nature of these instruments or the relatively short period of time between the origination of the instruments and their expected realisation.

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

2.3 Fair values of financial instruments - continued

Information on the fair value of the group's term placements with banks is disclosed in Note 14. The fair value of derivative financial instruments is determined in accordance with the group's accounting policy disclosed in Note 1.20. Fair values are determined using forward exchange market rates at the end of the reporting period for forward foreign exchange contracts and using dealer quotes from counterparties or valuation techniques, including discounted cash flow models, for other derivative contracts (see Notes 10 and 20). The valuation techniques used are supported by observable market prices or rates since their variables include only data from observable markets.

With effect from the financial year which commenced on 1 April 2009, the group adopted the amendment to IFRS 7 for financial instruments that are measured in the statement of financial position at fair value. This amendment requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

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

At 31 March 2010, all the group's derivative financial instruments disclosed in Note 10 are categorised as level 2 instruments, since these contacts are fair valued through valuation techniques utilising data solely from observable markets. The fair value of all the group's available-for-sale assets is approximated by the carrying amount of these assets and accordingly no fair value changes have been reflected. The fair values utilised in this respect have been estimated on the basis of techniques utilising observable inputs categorised as level 2 inputs.

3. Critical accounting estimates and judgements

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

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

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

4. Segment reporting

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

5. Property, plant and equipment

Group

	Land and buildings €000	Aircraft and flight equipment €000	Other assets €000	Total €000
At 1 April 2008 Cost	56,087	24,876	23,827	104,790
Accumulated depreciation and impairment losses	(11,339)	(17,567)	(20,459)	(49,365)
Net book amount	44,748	7,309	3,368	55,425
Year ended 31 March 2009 Opening net book amount Impairment charges recognised in profit or loss (effect on accumulated depreciation and	44,748	7,309	3,368	55,425
impairment losses) Additions Reclassifications	- 262 495	(808) 587	2,312 (495)	(808) 3,161
Disposals Depreciation charge Depreciation released on	(1,375) (1,062)	(7) (913)	(1,064) (1,272)	(2,446) (3,247)
disposals Exchange differences Reclassification to investment	294 -	6	644 (111)	944 (111)
property (Note 6)	(615)	-	-	(615)
Closing net book amount	42,747	6,174	3,382	52,303
At 31 March 2009 Cost Accumulated depreciation and impairment losses	54,857 (12,110)	25,456 (19,282)	22,311 (18,929)	102,624 (50,321)
Net book amount	42,747	6,174	3,382	52,303

5. Property, plant and equipment - continued

	Land and buildings €000	Aircraft and flight equipment €000	Other assets €000	Total €000
Year ended 31 March 2010				
Opening net book amount	42,747	6,174	3,382	52,303
Revaluation surplus arising during	27.250			27.250
the year (Note 19) Additions	27,350 286	- 251	- 486	27,350 1,023
Reclassifications	(214)	(244)	458	1,023
Disposals	(134)	(244)	(480)	(614)
Depreciation charge	(1,255)	(870)	(1,143)	(3,268)
Depreciation released on disposal disposals	` 89		311	400
Exchange differences	-	-	34	34
Other movements	14	-	-	14
Closing net book amount	68,883	5,311	3,048	77,242
A4 24 March 2040				
At 31 March 2010 Cost or valuation	69,141	25,677	22,754	117,572
Accumulated depreciation	03,141	20,011	22,134	111,012
and impairment losses	(258)	(20,366)	(19,706)	(40,330)
Net book amount	68,883	5,311	3,048	77,242

The group's land and buildings were revalued on 31 March 2010 by an independent professionally qualified valuer in view of the group's voluntary change in accounting policy effected during the current financial year in respect of subsequent measurement of the land and buildings category of property, plant and equipment (see Note 1.1.2b). Valuations were made on the basis of open market value taking cognisance of the specific location of the properties, the size of the sites and the availability of similar properties in the area.

The book value of the properties has been adjusted to the revaluation and the resultant surplus, net of applicable deferred taxation, has been credited to the revaluation reserve in shareholders' equity (Note 19).

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

The impairment charges recognised during the preceding financial year are attributable to flight equipment, in view of the management's decision to cease utilisation of these assets within the group's operations. The assets were deemed to have no recoverable amount and accordingly, the flight equipment's carrying amount had been entirely written down through impairment charges.

5. Property, plant and equipment - continued

Company

	Land and buildings €000	Aircraft and flight equipment €000	Other assets €000	Total €000
At 1 April 2008 Cost Accumulated depreciation	55,469	24,876	19,919	100,264
and impairment losses	(11,301)	(17,567)	(17,511)	(46,379)
Net book amount	44,168	7,309	2,408	53,885
Year ended 31 March 2009 Opening net book amount Impairment charges recognised in profit or loss (effect on accumulated depreciation and	44,168	7,309	2,408	53,885
impairment losses) Additions Disposals	- 262 (1,375)	(808) 587 (7)	2,060 (1,064)	(808) 2,909 (2,446)
Depreciation charge Depreciation released on	(1,020)	(913)	(1,059)	(2,992)
disposals Reclassification to investment	294	6	644	944
property (Note 6)	(615)	-	-	(615)
Closing net book amount	41,714	6,174	2,989	50,877
At 31 March 2009 Cost	53,688	25,456	20,915	100,059
Accumulated depreciation and impairment losses	(11,974)	(19,282)	(17,926)	(49,182)
Net book amount	41,714	6,174	2,989	50,877

5. Property, plant and equipment - continued

	Land and buildings €000	Aircraft and flight equipment €000	Other assets €000	Total €000
Year ended 31 March 2010				
Opening net book amount	41,714	6,174	2,989	50,877
Revaluation surplus arising during				
the year (Note 19)	27,350	-	-	27,350
Additions	286	251	445	982
Reclassifications	(214)	(244)	458	(005)
Disposals	(134)	(070)	(261)	(395)
Depreciation charge	(1,246)	(870)	(1,027)	(3,143)
Depreciation released on disposals	89		242	331
Other movements	14	-	242	14
Other movements	14		-	14
Closing net book amount	67,859	5,311	2,846	76,016
At 31 March 2010				
Cost or valuation Accumulated depreciation	67,972	25,463	21,557	116,049
and impairment losses	(113)	20,152	18,711	(39,169)
Net book amount	67,859	5,311	2,846	76,016

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

	Gre	Group		npany
	2010	2009	2010	2009
	€000	€000	€000	€000
Cost	54,557	54,857	53,388	53,688
Accumulated depreciation	(12,975)	(12,110)	(12,830)	(11,974)
Net book amount	41,582	42,747	40,558	41,714

6. Investment property

	Group €000	Company €000
Year ended 31 March 2009 Opening carrying amount		
 as previously reported effect of change in accounting policy 	13,715 8,236	14,274 8,236
 as restated Disposals Other movements Reclassification from property, plant and 	21,951 (109) (180)	22,510 (109) (221)
equipment (Note 5) Reclassification to assets classified as held for sale (see Note 16)	615 (2,281)	615 (2,281)
Closing carrying amount	19,996	20,514
At 31 March 2009	44.700	40.070
Cost Fair value gains	11,760 8,236	12,278 8,236
Carrying amount	19,996	20,514
Year ended 31 March 2010		
Opening carrying amount Other movements	19,996 (215)	20,514 (224)
Closing carrying amount	19,781	20,290
At 31 March 2010		
Cost Fair value gains	11,545 8,236	12,054 8,236
Carrying amount	19,781	20,290

The group's investment properties are fair valued annually on 31 March at fair value, comprising open market value, by an independent professionally qualified valuer in view of the group's voluntary change in accounting policy effected during the current financial year in respect of subsequent measurement of investment property (see Note 1.1.2b). Valuations were made on the basis of open market value taking cognisance of the specific location of the properties, the size of the sites and the availability of similar properties in the area.

This change in accounting policy has been applied retrospectively in accordance with the requirements of IAS 8, 'Accounting policies, changes in accounting estimates and errors' and accordingly the group adjusted the opening carrying amount of investment property in the comparative period presented in these financial statements as if the new accounting policy had always been applied.

6. Investment property - continued

The transfer from investment property, to assets classified as held for sale reflected in the table above and effected during the preceding financial year relates to reclassification of property in view of management's intentions to dispose of such assets, which disposal materialised during that same financial year.

The following amounts have been recognised in profit or loss:

	Group and Company		
	2010	2009	
	€000	€000	
Rental income from investment property	603	532	

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

	Group		Com	oany
	2010	2009	2010	2009
	€	€	€	€
Cost	12,755	12,769	13,318	13,332
Accumulated depreciation	(1,210)	(1,009)	(1,264)	(1,054)
Net book amount	11,545	11,760	12,054	12,278

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

	At 31 March	At 31 March	At 1 April
	2010	2009	2008
	€000	€000	€000
Carrying amounts	16,065	15,978	15,978

7. Investments in subsidiaries

Company

At 1 April 2008	2,702		
Cost	•	2,997	5,699
Provisions for impairment	(641)	(2,867)	(3,508)
Carrying amount	2,061	130	2,191
Year ended 31 March 2009			
Opening carrying amount Additions	2,061	130 31	2,191 31
Cost of investments written off	(322)	-	(322)
Loans written off Movement in provisions for impairment	- 297	(11) (113)	(11) 184
Closing carrying amount	2,036	37	2,073
At 31 March 2009			
Cost Provisions for impairment	2,380 (344)	3,017 (2,980)	5,397 (3,324)
Carrying amount	2,036	37	2,073
Year ended 31 March 2010			
Opening carrying amount	2,036	37	2,073
Additions Repayment of loans	3,487	437 (37)	3,924 (37)
Loans written off	-	(2,980)	(2,980)
Movement in provisions for impairment	(1,417)	2,980	1,563
Closing carrying amount	4,106	437	4,543
At 31 March 2010			
Cost Provisions for impairment	5,867 (1,761)	437 -	6,304 (1,761)
Carrying amount	4,106	437	4,543

At 31 March 2010, loans to subsidiaries are unsecured, repayable on demand and subject to a weighted average effective interest rate of 3.95% per annum.

8. Investments in associates

Group

	Shares in associates €000	Loans to associates €000	Total €000
At 1 April 2008	6000	6000	6000
Cost	4,115	2,276	6,391
Share of undertakings' post acquisition	1.10		1.10
profits and reserves Provisions for impairment	149 (29)	(2,199)	149 (2,228)
1 Tovisions for impairment	(23)	(2,133)	(2,220)
Carrying amount	4,235	77	4,312
Year ended 31 March 2009			
Opening carrying amount	4,235	77	4,312
Additions	- (=0)	226	226
Cost of investments written off	(56)	- (4.020)	(56)
Loans written off Share of results	136	(1,938)	(1,938) 136
Dividends received	(311)	_	(311)
Movements in provisions for impairment	29	1,925	1,954
Reclassification to assets classified as held		,	,
for sale (see Note 16)	(3,960)	-	(3,960)
Closing carrying amount	73	290	363
A4 24 March 2000			
At 31 March 2009 Cost	99	564	663
Share of undertakings' post acquisition	99	304	003
profits and reserves	(26)	_	(26)
Provisions for impairment	` -	(274)	(274)
Carrying amount	73	290	363
Year ended 31 March 2010	70	000	000
Opening carrying amount Repayment of loans	73	290 (124)	363 (124)
Share of results	121	(124)	121
Dividends received	(114)	-	(114)
Movements in provisions for impairment	-	93	` 93 [′]
Closing carrying amount	80	259	339
At 31 March 2010	00	440	F20
Cost Share of undertakings' post acquisition	99	440	539
profits and reserves	(19)	-	(19)
Provisions for impairment	-	(181)	(181)
Carrying amount	80	259	339

8. Investments in associates - continued

During the current financial year the group disposed of its holdings in Sabratha Duty Free Company Limited, Stakes Holding Limited and Heritage Insurance Management (Malta) Limited. These assets had been classified as assets held for sale as at 31 March 2009. During the preceding financial year, the group also reclassified its interest in Malpro Limited to assets held for sale; which disposal materialised during that same year.

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

	Assets €000	Liabilities €000	Revenues €000	Profit €000	Interest held %
2010 World Aviation Group Limited	349	307	292	121	50
2009 Sabratha Duty Free Company Limited Stakes Holding Limited World Aviation Group Limited Heritage Insurance Management (Malta) Limited	1,276 313 319	713 1 285 59	2,418 14 144 231	75 15 29	50 18 50 49
Littited	2,000	1,058	2,807	136	-

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

8. Investments in associates - continued

Company

	Shares in associates €000	Loans to associates €000	Total €000
At 1 April 2008			
Cost Provisions for impairment	640 (29)	2,276 (2,199)	2,916 (2,228)
Carrying amount	611	77	688
Year ended 31 March 2009			
Opening carrying amount Additions	611	77	688
Cost of investments written off Loans written off	(56)	226 - (1,938)	226 (56) (1,938)
Movements in provisions for impairment Reclassification to assets classified	29	1,925	1,954
as held for sale (see Note 16)	(485)	-	(485)
Closing carrying amount	99	290	389
At 31 March 2009			
Cost Provisions for impairment	99	564 (274)	663 (274)
·		• • • • • • • • • • • • • • • • • • • •	
Carrying amount	99	290	389
Year ended 31 March 2010			
Opening carrying amount	99	290	389
Repayment of loans Movements in provisions for impairment	-	(124) 93	(124) 93
Closing carrying amount	99	259	358
Closing carrying amount		239	
At 31 March 2010			
Cost	99	440	539
Provisions for impairment	-	(181)	(181)
Carrying amount	99	259	358

Loans to associates are unsecured and repayable on demand. At 31 March 2010, these loans are subject to a weighted average effective interest rate of 1.00% (2009: 1.50%) per annum.

9. Available-for-sale financial assets

Group

	Equity instruments €000	Government of Malta Treasury Bills €000	Quoted debt securities €000	Total €000
At 1 April 2008 Amortised cost Provisions for impairment	1,308 (459)	4,613 -	354 -	6,275 (459)
Carrying amount	849	4,613	354	5,816
Year ended 31 March 2009 Opening carrying amount Additions at cost Amortisation of discounts arising on	849	4,613 1,938	354	5,816 1,938
acquisition Disposals	-	95 (4,659)	-	95 (4,659)
Closing carrying amount	849	1,987	354	3,190
At 31 March 2009 Amortised cost Provisions for impairment	1,308 (459)	1,987 -	354 -	3,649 (459)
Carrying amount	849	1,987	354	3,190
Year ended 31 March 2010 Opening carrying amount Additions at cost Disposals Other movements	849 3,343 (1,924)	1,987 - (1,940) (47)	354 - (354)	3,190 3,343 (4,218) (47)
Closing carrying amount	2,268	-	-	2,268
At 31 March 2010 Amortised cost Provisions for impairment	2,727 (459)	- -	- -	2,727 (459)
Carrying amount	2,268	-	-	2,268

9. Available-for-sale financial assets - continued

Analysis of total available-for-sale financial assets:

of Malta Quoted Equity Treasury debt instruments Bills securities €000 €000	Total €000
6000 6000	2000
At 31 March 2010	
Non-current 849	849
Current 1,419	1,419
2,268	2,268
A4 24 Marah 2000	
At 31 March 2009 Non-current 849 - 354	1,203
Current - 1,987 -	1,987
849 1,987 354	3,190

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

	31 March 2010 €000	31 March 2009 €000
Between one and two years	-	235
Over five years	-	119
	-	354

The weighted average effective interest rates of these quoted debt securities as at 31 March 2009 was 5.9%. The fair value of the group's quoted debt securities as at that date was not significantly different from the carrying amount.

The weighted average effective interest rate of Government of Malta Treasury Bills as at 31 March 2009 was 4.26%. The fair value of the group's Government of Malta Treasury Bills as at that date was not materially different from the amortised cost.

The fair value of the group's available-for-sale, comprising equity investments, was deemed to approximate the carrying amounts as at 31 March 2010, as reflected in the tables above.

9. Available-for-sale financial assets - continued

Company

	Equity instruments €000	Government of Malta Treasury Bills €000	Quoted debt securities €000	Total €000
At 1 April 2008 Amortised cost and carrying amount	688	4,613	354	5,655
Year ended 31 March 2009 Opening carrying amount Amortisation of discounts arising on	688	4,613	354	5,655
acquisition Disposals	-	46 (4,659)	-	46 (4,659)
Closing carrying amount	688	-	354	1,042
At 31 March 2009 Amortised cost and carrying amount	688	-	354	1,042
Year ended 31 March 2010 Opening carrying amount Disposals	688	- -	354 (354)	1,042 (354)
Closing carrying amount	688	-	-	688
At 31 March 2010 Amortised cost and carrying amount	688	-	-	688

Analysis of total available-for-sale financial assets:

	Equity instruments €000	Quoted debt securities €000	Total €000
At 31 March 2010 Non-current	688	-	688
At 31 March 2009 Non-current	688	354	1,042

10. Derivative financial instruments

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

	Group and Comp are Fair values Assets Liabilitie €000 €00	
At 31 March 2010		
Derivatives held for hedging (cash flow hedges)		
Foreign exchange derivatives - currency forwards	1,243	-
Fuel price hedging derivatives - combined options	1,753	-
Total derivative assets - Current	2,996	-
At 31 March 2009		
Derivatives held for hedging (cash flow hedges)		
Foreign exchange derivatives - currency options	6,870	-
Fuel price hedging derivatives - combined bought call and written put options - other options	- 518	(632)
	518	(632)
Total derivative assets/(liabilities) - Current	7,388	(632)

10. Derivative financial instruments - continued

The currency forward contracts outstanding as at 31 March 2010 have the following contract terms:

Fair value -Assets €000

Forward sale of EUR15.0 million against USD (at average contracted rate of EUR1:USD1.4585)

1,243

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

The terms and approximate notional amounts of the hedging commodity derivatives outstanding as at 31 March 2010 are as follows:

			1,753
Seven month period to 31 October 2010	USD4,342,000	\$75.00 / \$95.00	397
Seven month period to 31 October 2010	USD4,342,000	\$75.00 / \$100.00	413
Seven month period to 31 October 2010	USD6,079,000	\$70 00 / \$110.00	943
Combined bought call options and written	call options at higher s	trike:	
Contract cover	Notional amount	Strike prices	Fair value - Assets €000

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

The terms and conditions of the derivative instruments outstanding as at 31 March 2009 are disclosed in the consolidated financial statements of the preceding financial year.

11. Other receivables

	Group and Company	
	2010	2009
	€000	€000
Non-current:		
Security deposits arising from operating lease agreements	4,526	4,584
Other long-term deposits and receivables	379	316
	4,905	4,900

11. Other receivables - continued

Security deposits, amounting to €4,526,000 (2009: €4,584,000), will be refunded to the company on termination of the company's fleet and engine lease periods up to March 2020.

'Other long-term deposits and receivables' are principally receivable within five years (2009: five years) from the end of the reporting period.

12. Inventories

	Group and	Group and Company	
	2010	2009	
	€000	€000	
Aircraft engineering spares	1,630	1,322	
Other stocks	202	231	
	1,832	1,553	

13. Trade receivables

	Group		Company	
	2010 €000	2009 €000	2010 €000	2009 €000
Trade receivables – gross Less: Provisions for impairment of	28,962	26,912	27,013	23,742
trade receivables	(4,431)	(4,299)	(3,026)	(2,803)
Trade receivables – net	24,531	22,613	23,987	20,939

14. Term placements with banks

These term placements comprise bank deposits with contractual terms of three months or more. The placements mature within nineteen (2009: five) months from the end of the reporting period. Term placements with contractual terms of three months or less are included within 'Cash and cash equivalents' (Note 15). Interest receivable is presented within 'Finance income' (Note 30). The weighted average effective interest rate on these assets as at 31 March 2010 was 3.93% (2009: 3.26%). The fair value of the group's term bank placements as at that date was not significantly different from the carrying amount.

	Gro	Group	
	2010	2009	
	€000	€000	
Maturity of deposits with banks:			
- within one year	3,664	2,160	
- between one and two years	2,300	-	
	5,964	2,160	

15. Cash and cash equivalents

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

	Group		Company	
	2010	2009	2010	2009
	€000	€000	€000	€000
Attributable to continuing operations:				
Cash at bank and in hand	9,180	15,099	7,179	9,835
Bank overdrafts (Note 22)	(2,437)	(6,679)	(1,913)	(6,221)
	6,743	8,420	5,266	3,614
Attributable to discontinued operations: Cash at bank and in hand	416	246	-	-
Total cash and cash equivalents	7,159	8,666	5,266	3,614

The group's bank balances reflected in the table above are call accounts and deposits with contractual terms of three months or less. Bank and cash balances include an amount of €1,336,000 (2009: €798,000) that is held in overseas bank accounts subject to currency restrictions which lead to delays in remittance to Malta.

16. Assets classified as held for sale and discontinued operations

16.1 Amounts presented in the income statement

	Group		Company	
	2010	2009	2010	2009
	€000	€000	€000	€000
Profit/(loss) after tax of discontinued operations:				
Hotel segment (see Note 16.1.1)	5,888	(791)	-	-
Post-tax dividend income receivable from assets classified as held for sale – attributable to discontinued operations				
(see Note 16.1.2) Post-tax gain/(loss) recognised on the	-	-	3,569	-
disposal of assets (see Note 16.1.2)	24	5,116	(1,242)	7,647
Profit for the year from discontinued				
operations	5,912	4,325	2,327	7,647

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

16.1.1The group had publicly announced its intention to discontinue the operations of its hotel segment in previous years. The operations at Hal Ferh Company Limited have been discontinued in preceding periods and during the year the group disposed of its interest in this company. The group had also formulated its intentions to dispose of its interest in Selmun Palace Hotel Company Limited. The subsidiaries comprising this segment are reported in these consolidated financial statements as a discontinued operation in accordance with the requirements of IFRS 5 'Non-current assets held for sale and discontinued operations'. An analysis of the result of the discontinued operations is as follows:

	2010 €000	2009 €000
Revenue Operating costs Gain on disposal of property, plant and equipment (Note 38)	1,811 (2,618) 8,202	2,442 (3,051)
Operating profit/(loss) Finance costs	7,395 (136)	(609) (182)
Profit/(loss) before tax of discontinued operations Tax	7,259 (1,371)	(791)
Profit/(loss) after tax of discontinued operations	5,888	(791)
Operating cash flows Investing cash flows Financing cash flows	(2,089) 10,206 (1,684)	(644) (11) 343
Total cash flows	6,433	(312)

16.1.2During the financial year, the group disposed of its interest in Holiday Malta Gmbh and Hal-Ferh Company Limited, which were group entities, and of its interest in Sabratha Duty Free Limited, Stakes Company Limited and Heritage Insurance Management (Malta) Limited, which were associates of the group. As at 31 March 2009, the carrying amount of these investments had been principally classified within assets classified as held for sale. The resulting gain on disposal is reflected in the table below:

	Group 2010 €000	2010 €000
Net assets disposed of/cost of shares	2,142	3,178
Proceeds on disposal	(3,530)	(3,300)
Pre-tax gain on disposal	(1,388)	(122)
Deferred taxation (Note 23)	1,364	1,364
Post-tax (gain)/loss on disposal	(24)	1,242

€000

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

Prior to disposal, Hal Ferh Company Limited distributed a net dividend of €3,569,000 to the parent company:

Dividend income from asset classified as held for sale: Gross dividend Tax	(4,057) 488
	(3,569)

During the preceding financial year, the group disposed of its interest in the associates, Mediterranean Aviation Company Limited and Malpro Limited (see Note 8), and a property interest held by the parent company (see Note 6). There assets were classified as assets held for sale that same year. The resulting gain on disposal is reflected below:

	Group	Company
	2009	2009
	€000	€000
Net assets disposed of/cost of shares	7,141	4,610
Proceeds on disposal	(12,875)	(12,875)
Pre-tax gain on disposal	(5,734)	(8,265)
Deferred taxation (Note 23)	618	618
Post-tax gain on disposal	(5,116)	(7,647)

16.2 Amounts presented in the statement of financial position

16.2.1 **Group**

	2010 €000	2009 €000
Assets classified as held for sale: Hotel assets (see Note 16.2.2) Investments in associates (see Note 16.2.3)	5,462 -	8,598 784
	5,462	9,382
Liabilities directly associated with assets classified as held for sale: Hotel liabilities (see Note 16.2.2)	2,505	4,638

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

16.2.2The non-current assets, other assets and liabilities attributable to the hotel segment are presented as held for sale as follows:

	2010 €000	2009 €000
Assets classified as held for sale:	4.760	7 004
Property, plant and equipmentOther current assets	4,760 702	7,991 607
	5,462	8,598
Liabilities directly associated with assets classified as held for sale: - Bank borrowings - Trade and other payables	1,830 675 2,505	3,514 1,124 4,638

16.2.3The group's assets classified as held for sale, other than those relating to the hotel segment, are analysed as follows:

	Shares in associates €000	Investment property €000	Total €000
Year ended 31 March 2010 Opening carrying amount Disposals	784 (784)	- -	784 784
Closing carrying amount	-	-	-
Year ended 31 March 2009 Opening carrying amount Reclassification from investment property (see Note 6) Reclassification from investments in associates (see Note 8) Disposals	1,684 - 3,960 (4,860)	- 2,281 - (2,281)	1,684 2,281 3,960 (7,141)
Closing carrying amount	784	-	784

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

16.2.4 **Company**

Assets classified as held for sale:

	Shares in subsidiaries €000	Loans to subsidiaries €000	Shares in associates €000	Investment property €000	Total €000
Year ended 31 March 2010 Opening carrying amount	2,696	11,809	485	_	14,990
Additions	2,000	682		_	682
Repayment of loans	-	(2,619)	-	-	(2,619)
Disposals	(2,696)	-	(485)		(3,181)
Closing carrying amount	-	9,872	-	-	9,872
Year ended 31 March 2009					
Opening carrying amount	2,696	11,099	2,329	-	16,124
Additions	-	1,053	-	-	1,053
Repayment of loans Reclassification from investment	-	(343)	-	-	(343)
property (Note 6)	-	-	-	2,281	2,281
Reclassification from investments in associates (Note 8)	_	_	485	_	485
Disposals	-	-	(2,329)	(2,281)	(4,610)
Closing carrying amount	2,696	11,809	485	-	14,990

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

Shares in subsidiaries s €000	Loans to ubsidiaries €000	Shares in associates €000	Total €000
(2,763)	(552)	(163)	(3,478)
-	-	163	163
(2,763)	(552)	-	(3,315)
	subsidiaries s €000 (2,763)	subsidiaries subsidiaries €000 €000 (2,763) (552)	subsidiaries subsidiaries associates €000 €000 €000 (2,763) (552) (163) 163

Loans to subsidiaries are unsecured and repayable on demand. At 31 March 2010, these loans are interest free. At 31 March 2009, loans to subsidiaries amounting to €10,020,000 were subject to interest at 2.75% per annum.

17. Share capital

	Group and 2010 €000	d Company 2009 €000
Authorised 35,000,000 (2009: 35,000,000) ordinary shares of €2.329373 each	81,528	81,528
Issued and fully paid 11,115,478 (2009: 11,115,478) ordinary shares of €2.329373 each	25,892	25,892

18. Share premium

	Group and	Company
	2010	2009
	€000	€000
At beginning and end of year	42,762	42,762

19. Revaluation reserve

The reserve represents the revaluation surplus arising during the year on the fair valuation of the land and buildings component to property, plant and equipment following the group's voluntary change in accounting policy in this respect (see Note 5). The movements in the revaluation reserve are analysed as follows:

	Group and Company	
	2010	2009
	€000	€000
Revaluation surplus arising during the year (Note 5) Deferred income tax on revaluation	27,350	-
surplus (Note 23)	(9,572)	-
	17,778	-

The tax impact relating to this component of other comprehensive income is presented in the above table.

The revaluation reserve is non-distributable.

20. Hedging reserve

Group and Company

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

	808	1,071	1,879
At 31 March 2010 Gross amounts of gains Deferred income tax	1,243 (435)	1,648 (577)	2,891 (1,012)
	(2,433)	(3,066)	(5,499)
Reclassified to profit or loss as a reclassification adjustment Deferred income tax	(3,743) 1,310	(4,717) 1,651	(8,460) 2,961
	(723)	4,471	3,748
Movements in year ended 31 March 2010 (Losses)/gains from changes in fair value Deferred income tax	(1,112) 389	6,879 (2,408)	5,767 (2,019)
	3,964	(334)	3,630
At 1 April 2009 Gross amounts of gains/(losses) Deferred income tax	6,098 (2,134)	(514) 180	5,584 (1,954)
	Currency forwards and options €000	Fuel options €000	Total €000

20. Hedging reserve - continued

	Currency forwards and options €000	Fuel options and swaps €000	Total €000
At 1 April 2008	6000	6000	6000
Gross amounts of (losses)/gains	(1,171)	290	(881)
Movements in year ended 31 March 2009			
Gains/(losses) from changes in fair value	9,891	(11,598)	(1,707)
Deferred income tax	(2,134)	180	(1,954)
	7,757	(11,418)	(3,661)
Reclassified to profit or loss	()		
as a reclassification adjustment	(2,622)	10,794	8,172
At 31 March 2009			
Gross amounts of gains/(losses)	6,098	(514)	5,584
Deferred income tax	(2,134)	180	(1,954)
	3,964	(334)	3,630

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

The net fair value gains as at 31 March 2010 on open forward foreign exchange contracts which hedge anticipated future foreign currency transactions will be reclassified from the hedging reserve to profit or loss as a reclassification adjustment when the forecast transactions occur, at various dates up to seven months from the end of the reporting period.

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

21. Other reserve

Group

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

	2010 €000	2009 €000
At beginning and end of year	(3,497)	(3,497)

22. Borrowings

	Group		Company	
	2010	2009	2010	2009
	€000	€000	€000	€000
Current				
Bank overdrafts	2,437	6,679	1,913	6,221
Bank loans	23,136	14,393	23,104	14,358
	25,573	21,072	25,017	20,579
Non-current				
Bank loans	1,488	3,796	1,161	3,431
Total harmoniana	27.004	04.000	00 470	24.040
Total borrowings	27,061	24,868	26,178	24,010

At 31 March 2010, banking facilities of the group and company for an amount of €13,976,000 are secured by general and special hypothecs on immovable property held by a subsidiary. Bank loans taken out by subsidiaries are secured by charges over their assets and are also supported by guarantees from the holding company (also refer to borrowings presented in Note 16).

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

	Group		Company	
	2010 2009		2010	2009
	%	%	%	%
Bank overdrafts	3.79	3.51	3.14	3.40
Bank loans	3.70	3.48	4.02	3.47

Maturity of non-current borrowings:

	Gr	Group		Company	
	2010	2009	2010	2009	
	€000	€000	€000	€000	
Between one and two years	1,488	2,348	1,161	2,316	
Between two and five years	-	1,211	-	1,115	
Over five years	-	237	-	-	
	1,488	3,796	1,161	3,431	

23. Deferred taxation

Deferred income taxes are calculated on all temporary differences under the liability method and are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled based on tax rates (and tax laws) that have been enacted by the end of the reporting period. The principal tax rate used is 35% (2009: 35%).

Group

The movement on the deferred tax account is as follows:

	Deferred tax assets			Deferre			
	Provisions €000	Unabsorbed tax losses carried forward €000	Unabsorbed capital losses carried forward €000	Remeasurement of derivative instruments €000	Fair valuation of investment property €000	Revaluation of property, plant and equipment €000	Net €000
Balance at 1 April 2009	193	1,954	1,364	(1,954)	(2,883)	-	(1,326)
Credited/(charged) to profit or loss	12	11,512	(1,364)	-	-	-	10,160
Credited/(debited) to other comprehensive income in equity	-	-	-	943	-	(9,572)	(8,629)
Balance at 31 March 2010	205	13,466	-	(1,011)	(2,883)	(9,572)	205

	Deferred tax assets			Deferred tax	liabilities	
Polongo et 1 April 2009	Provisions €000	Unabsorbed tax losses carried forward €000	Unabsorbed capital losses carried forward €000	Remeasurement of derivative instruments €000	Fair valuation of investment property €000	Net €000
- as previously reported - effect of change in	238	-	1,982	-	-	2,220
accounting policy (Note 6)	-	-	-	-	(2,883)	(2,883)
- as restated	238	-	1,982	-	(2,883)	(663)
(Charged)/credited to profit or loss	(45)	1,954	(618)	-	-	1,291
Debited to other comprehensive income in equity	-	-	-	(1,954)	-	(1,954)
Balance at 31 March 2009	193	1,954	1,364	(1,954)	(2,883)	(1,326)

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

23. Deferred taxation - continued

Deferred tax assets are recognised to the extent that realisation of the related tax benefit through future taxable profits is probable. At 31 March 2010 and 2009, the group had the following unutilised tax credits and deductible temporary differences in respect of which deferred taxation has not been recognised:

	2010 €000	2009 €000
Unutilised tax credits arising from: Unabsorbed tax losses and capital allowances Unabsorbed capital losses	111,971 46,818	114,861 48,040
Deductible temporary differences arising principally from non-current assets and provisions	13,253	15,142

Accordingly, the group has a potential deferred tax asset amounting to €60,215,000 (2009: €62,315,000) which has not been recognised in these financial statements. Whereas tax losses and capital losses have no expiry date and may be carried forward indefinitely, unabsorbed capital allowances are forfeited upon cessation of the trade. Capital losses may be offset solely against future capital gains.

Company

The movement on the deferred tax account is as follows:

	Deferred tax assets		Defer			
	Unabsorbed tax losses carried forward €000	Unabsorbed capital losses carried forward €000	Remeasurement of derivative instruments €000	Fair valuation of investment property €000	Revaluation of property plant and equipment €000	Net €000
Balance at 1 April 2009	1,954	1,364	(1,954)	(2,883)	-	(1,519)
Credited/(charged) to profit or loss	11,512	(1,364)	-	-	-	10,148
Credited/(debited) to other comprehensive income in equity	-	-	943	-	(9,572)	(8,629)
Balance at 31 March 2010	13,466	-	(1,011)	(2,883)	(9,572)	-

23. Deferred taxation - continued

	Deferred tax assets		Deferred tax		
	Unabsorbed tax losses carried forward €000	Unabsorbed capital losses carried forward €000	Remeasurement of derivative instruments €000	Fair Valuation of investment property €000	Net €000
 Balance at 1 April 2008 as previously reported effect of change in accounting policy (Note 6) 	-	1,982	-	- (2.992)	1,982 (2,883)
- as restated		1,982	-	(2,883)	(901)
Credited/(charged) to profit or loss	1,954	(618)	-	-	1,336
Debited to other comprehensive income in equity	-	-	(1,954)	-	(1,954)
Balance at 31 March 2009	1,954	1,364	(1,954)	(2,883)	(1,519)

The recognised deferred tax assets and liabilities are expected to be recovered or settled principally within twelve months from the end of the reporting period.

24. Provisions in respect of maintenance costs

Group and Company

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

The amount of the provisions at 31 March 2010 and 2009 represent the excess of amounts charged to profit or loss over the actual costs incurred.

	2010 €000	2009 €000
Year ended 31 March		
At beginning of year	25,051	16,638
Charged to profit or loss: - Additional provisions, including effects of unwinding non-current provisions	12,787	15,252
Used during year	(9,262)	(6,839)
At end of year	28,576	25,051

24. Provisions in respect of maintenance costs - continued

Analysis of total provisions:

At 31 March	2010 €000	2009 €000
Non-current Current	26,086 2,490	24,650 401
	28,576	25,051

25. Other provisions

Group and Company

	€000
At 1 April 2008	478
Used during year	(58)
At 31 March 2009	420
Used during year	(2)
At 31 March 2010	418

The above principally represent provisions against commitments and guarantees issued in favour of AZZURRAair S.p.A. These provisions are classified as current liabilities.

26. Information on operating results

26.1 Revenue

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

	Group 2010 2009 €000 €000 215,072 264,667 - 1,616 9,271 8,655	
	2010	2009
	€000	€000
Revenue on airline activities	215,072	•
Aircraft leasing revenue	-	1,616
Ground related and other revenue	9,271	8,655
	224,343	274,938

26. Information on operating results

26.2 Expenses by nature

	Group		Group Company	
	2010	2009	2010	2009
	€000	€000	€000	€000
Aircraft fuel and oils	42,061	85,969	42,061	85,969
Aircraft operating lease rentals	28,258	33,210	28,258	33,210
Aircraft maintenance	20,627	21,016	20,627	21,016
Other flight related costs	54,485	55,365	54,485	55,365
Marketing, distribution and representation				
costs	19,657	17,059	18,856	15,945
Depreciation of property, plant and				
equipment (Note 5)	3,268	3,247	3,143	2,992
Impairment and other related charges on property, plant and equipment (Included	·		·	
in 'Cost of sales')	-	822	-	822
Employee benefit expense (Note 27)	48,171	52,857	47,548	50,828
Net movement in provisions for				
impairment of trade receivables (included				
in 'Administrative expenses')	132	1,115	223	(16)
Exchange differences	995	(1,006)	953	(1,5 ⁹⁵)
Other expenses	31,211	41,094	18,331	18,853
•	·	•	,	
Total cost of sales, selling and distribution costs and administrative				
expenses	248,865	310,748	234,485	283,389
·				·

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

26.3 Auditors' fees

Fees charged by auditors for services rendered during the financial periods ended 31 March 2010 and 2009 relate to the following:

Audit services – annual statutory €000 €000 Audit services – annual statutory Parent company auditors: 100 100 - company 100 100 100 82 Other services Parent company auditors: company 57 44 <		Gr	oup
Audit services – annual statutory - Parent company auditors: - company - subsidiaries Other services - Parent company auditors: company - other assurance services - tax advisory and compliance services - other non-audit services 15 12 15 12		2010	2009
- Parent company auditors: - company		€000	€000
- Parent company auditors: - company	Audit services – annual statutory		
- company 100 100 - subsidiaries 76 82 Other services - Parent company auditors: company - other assurance services 57 44 - tax advisory and compliance services 15 12 - other non-audit services 307 91	•		
- subsidiaries 76 82 Other services - Parent company auditors: company - other assurance services 57 44 - tax advisory and compliance services 15 12 - other non-audit services 307 91	• •	100	100
Other services - Parent company auditors: company - other assurance services - tax advisory and compliance services - other non-audit services 307 91	·		
- Parent company auditors: company - other assurance services - tax advisory and compliance services - other non-audit services 57 44 - tax advisory and compliance services 307 91	- Subsidiaries	70	02
- other assurance services 57 44 - tax advisory and compliance services 15 12 - other non-audit services 307 91	Other services		
- other assurance services 57 44 - tax advisory and compliance services 15 12 - other non-audit services 307 91	- Parent company auditors: company		
- other non-audit services 307 91		57	44
- other non-audit services 307 91	- tax advisory and compliance services	15	12
	·		91
- Other firms: company	other hen dual services	001	01
	- Other firms: company		
- tax and other services 16 29	• •	16	20
- tax and other services 10 29	- tax and other services		29

26. Information on operating results - continued

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

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

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

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

In addition to the amounts disclosed in the table above, fees amounting to €75,000 had been paid to the parent company auditors during the financial year ended 31 March 2009 in respect of secondment of staff to the company's finance function. These staff members reported directly to the company's management. As from March 2009 the parent company's finance function has been staffed solely by recruited full timers, and accordingly the secondment arrangement ceased.

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

27. Employee benefit expense

	Group		Company	
	2010	2009	2010	2009
	€000	€000	€000	€000
Wages and salaries	46,804	51,353	45,045	48,351
Social security costs	2,748	2,853	2,503	2,477
	49,552	54,206	47,548	50,828

Included in employee benefit expense for the preceding financial year are termination benefits amounting to €1,899,000. Employee benefit expense included in the group's figures above relating to discontinued operations amount to €1,381,000 (2009: €1,349,000).

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

	Group and	d Company
	2010	2009
	€000	€000
Cost of sales	-	995
Cost of sales Selling and distribution costs Administrative expenses	-	216
		688
		1,899

27. Employee benefit expense - continued

The amounts disclosed in the table above for the preceding year relate to the Voluntary Redundancy Scheme that was announced during the year ended 31 March 2007.

	Gr	Group		Company	
	2010	2009	2010	2009	
By category Direct Indirect Administrative	691 626 195	749 663 201	570 624 162	603 661 163	
	1,512	1,613	1,356	1,427	

Group figures in respect of employee numbers, disclosed in the table above, include 75 (2009: 121) employees attributable to discontinued operations.

28. Investment and other related income

	Group		Company	
	2010	2009	2010	2009
	€000	€000	€000	€000
Gross dividends receivable from				
investments in subsidiaries	-	-	2,000	2,450
Gross dividends receivable from investments in associates			114	402
	-	-		
Income from other financial assets Gain on disposal of investment	1	96	12	159
property	-	355	-	355
	1	451	2,126	3,366

29. Results of subsidiaries and associates

	Group		Company	
	2010 €000	2009 €000	2010 €000	2009 €000
Provisions against subsidiaries and associates Share of results and other losses of	-	-	(2,824)	(498)
associates	214	96	-	-
	214	96	(2,824)	(498)

29. Results of subsidiaries and associates - continued

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

	Group Comp		Group Company	
	2010	2009	2010	2009
	€000	€000	€000	€000
Movement in provisions for impairment and				
other provisions in respect of subsidiaries	-	-	(63)	125
Cost of investment in subsidiary written off	-	-	-	322
Waiver of loans granted to subsidiaries	-	-	2,980	11
Movement in provisions for impairment in				
respect of associates	(93)	(1,954)	(93)	(1,954)
Cost of investment in associate written off	•	56		56
Waiver of loans granted to associates	-	1,938	-	1,938
Share of results of associates	(121)	(136)	-	-
-	(214)	(96)	2,824	498
-				

30. Finance income

	Group		Company	
	2010	2009	2010	2009
	€000	€000	€000	€000
Interest receivable and similar income				
from subsidiaries	-	-	193	493
Interest receivable and similar income				
from associates	43	206	43	206
Interest receivable from bank deposits Exchange differences on bank	301	734	71	573
deposits	(26)	(1,306)	(127)	(1,632)
	318	(366)	180	(360)

Company figures disclosed above in respect of interest receivable and similar income from subsidiaries include amounts of €178,000 (2009: €472,000) relating to discontinued operations. No interest income earned by the group was attributable to these discontinued operations.

31. Finance costs

i mance costs	Gr 2010 €000	2009 €000	Con 2010 €000	n pany 2009 €000
Interest payable on bank loans and overdrafts Interest payable to subsidiaries Interest payable to associates Bank charges and similar expenses, including exchange differences on	1,171 - -	1,190 - 51	1,000 7 -	1,164 86 51
borrowings	795	817	795	609
	1,966	2,058	1,802	1,910

Company figures disclosed above in respect of interest payable to subsidiaries do not include amounts relating to discontinued operations. Interest costs incurred by the group, mainly arising from bank financing, attributable to these discontinued operations is disclosed in Note 16 to the financial statements.

32. Taxation

	Group		Company		
	2010 €000	2009 €000	2010 €000	2009 €000	
Current taxation: Current tax expense/(income)	1,458	(58)	488	-	
Deferred taxation: Deferred tax credit Adjustment recognised in financial period	(10,160)	(1,084)	(10,148)	(1,129)	
for deferred tax recognised in prior years	-	(207)	-	(207)	
	(10,160)	(1,291)	(10,148)	(1,336)	
	(8,702)	(1,349)	(9,660)	(1,336)	
Attributable to: Continuing operations (reflected on face of income statement)					
- current taxation - deferred taxation (Note 23)	87 (11,524)	(58) (1,909)	- (11,512)	- (1,954)	
	(11,437)	(1,967)	(11,512)	(1,954)	
Discontinued operations - current taxation - deferred taxation (Note 16)	1,371 1,364	- 618	488 1,364	- 618	
	2,735	618	1,852	618	
	(8,702)	(1,349)	(9,660)	(1,336)	

32. Taxation - continued

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

	G	roup	Company			
	2010 €000	2009 €000	2010 €000	2009 €000		
Loss before tax from continuing operations Profit before tax from discontinued	(25,369)	(37,418)	(25,469)	(33,279)		
operations (Note 16)	8,647	4,943	4,179	8,265		
Loss before tax for the year	(16,722)	(32,475)	(21,290)	(25,014)		
Tax on loss before tax at the statutory rate of 35%	(5,853)	(11,366)	(7,451)	(8,755)		
Tax effect of: Deferred tax asset in respect of unutilised tax losses arising in prior years recognised						
in current year Deferred tax asset in respect of unutilised tax losses and unabsorbed capital allowances arising during the current year	(4,882)	-	(4,882)	-		
not recognised Over provision of tax in previous years Unrecognised temporary differences and other movements, mainly attributable to tangible non-current assets and	2,442 -	11,579 (207)	1,325 -	10,278 (207)		
provisions on onerous contracts Income effectively taxed at reduced rates	795 (1,204)	70 (1,425)	1,740 (392)	(382) (2,270)		
Tax credit in the accounts	(8,702)	(1,349)	(9,660)	(1,336)		

33. Directors' emoluments

	Group and	Company
	2010	2009
	€000	€000
Emoluments of directors of Air Malta p.l.c.:		
Total fees and other emoluments charged in these financial statements	34	34
Benefits in kind as computed for Income Tax	34	34
purposes	4	2
	38	36

33. Directors' emoluments - continued

Insurance premia of €179,000 (2009: €216,000) have been paid during the year in respect of professional indemnity cover relating to the liability of the directors of Air Malta p.l.c. and other officers.

In addition to the above emoluments, fees amounting to €51,000 (2009: €60,000) were earned by other officers, not directors of Air Malta p.l.c., in their capacity as directors appointed by Air Malta p.l.c. on the boards of group and associated companies.

34. Earnings per share

Earnings per share is calculated by dividing the result attributable to the owners of the company by the weighted average number of ordinary shares of Air Malta p.l.c. in issue during the year.

	Group		
	2010	2009	
Net loss from continuing operations attributable to the owners of the company (in €000)	(13,932)	(35,451)	
Net profit from discontinued operations attributable to the owners of the company (in €000)	5,912	4,325	
Net result attributable to the owners of the company (in €000)	(8,020)	(31,126)	
Weighted average number of ordinary shares in issue (in thousands)	11,115	11,115	
Earnings per share for loss from continuing operations	(€1.25)	(€3.19)	
Earnings per share for profit from discontinued operations	€0.53	€0.39	

35. Cash used in operations

Reconciliation of operating loss to cash used in operations:

	Gı	roup	Company			
	2010	2009	2010	2009		
	€000	€000	€000	€000		
Operating loss from continuing operations Operating profit/(loss) from discontinued	(23,936)	(35,541)	(23,149)	(33,877)		
operations (Note 16)	7,395	(609)	-	-		
Operating loss for the year	(16,541)	(36,150)	(23,149)	(33,877)		
Adjustments for:						
Depreciation of property, plant and		0.047	0.440	0.000		
equipment (Note 5)	3,268	3,247	3,143	2,992		
Impairment charges on property, plant and equipment (Note 5)	_	808	_	808		
Gains on disposal of property of assets		000		000		
classified as held for sale	(8,202)	-	-	-		
assets other than aircraft	-	-	122	-		
Gains on disposal of tangible non-current		(007)		(0.07)		
assets other than aircraft	-	(227)	-	(227)		
Net movement in provisions for impairment of trade receivables	132	1,230	223	(36)		
Movement in provisions in respect of	102	1,200	220	(00)		
maintenance costs	12,787	15,252	12,787	15,252		
Effects of exchange rate movements	(195)	505	· -	-		
Other movements related to investment						
property	201	180	210	221		
Changes in working capital:						
Inventories	(284)	12	(279)	(6)		
Trade and other receivables	6,423	5,483	4,119	3,751		
Trade and other payables	(1,654)	(19,058)	2,603	(17,953)		
Provisions used during year	(9,264)	(6,897)	(9,264)	(6,897)		
•						
Cash used in operations	(13,329)	(35,615)	(9,485)	(35,972)		

36. Commitments

Capital and other commitments

	Group and 2010 €000	2009 €000
Capital expenditure in respect of property, plant and equipment: - Authorised and contracted for	352	292
Other commitments	19,484	25,169
	19,836	25,461

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

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

	Group and Company		
	2010	2009	
	€000	€000	
Not later than one year	4,734	5,352	
Later than one year and not later than five years	11,643	15,313	
Later than five years	3,107	4,504	
	19,484	25,169	

Operating lease commitments – where a group undertaking is the lessee

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

2010 €000	2009
€000	
200	€000
Not later than one year 27,283 26	6,301
Later than one year and not later than five years 112,291 108	3,376
Later than five years 63,461 89	9,250
203,035 223	3,927

37. Contingencies

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

	2010 €000	2009 €000
Other indemnities, bank guarantees and documentary credits	30,373	23,693

As at the end of the reporting period, the company has contingent liabilities amounting to €1,795,000 (2009: €4,568,000) in respect of guarantees given to secure the banking facilities of subsidiaries.

The company has also undertaken to provide financial support to a number of subsidiaries so as to enable these entities to meet their liabilities as they fall due and to continue as a going concern. The subsidiaries' losses for the period ended 31 March 2010 amounted to €3,161,000 (2009: €4,736,000) and as at 31 March 2010 their total liabilities exceeded their total assets by €9,620,000 (2009: €14,974,000).

38. Related party transactions

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

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

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

38. Related party transactions - continued

Except for transactions disclosed or referred to previously, the following significant operating transactions, which were carried out with the respective categories of related parties, have a material effect on the operating results and financial position of the group.

	G	roup	Company		
	2010	2009	2010	2009	
	€000	€000	€000	€000	
Government and other entities controlled by Government:					
- Sales of services	3,711	3,072	3,274	3,026	
- Sale of property	-	466	-	466	
- Purchases of materials and services	33,536	52,138	33,300	52,060	
	37,247	55,676	36,574	55,552	
Subsidiaries					
- Sales of services	-	-	8,359	14,935	
- Purchases of services		-	3,742	3,984	
	-	-	12,101	18,919	
Associates					
- Sales of services	818	2,093	818	2,010	
- Purchases of services	2,606	3,280	2,327	2,999	
	3,424	5,373	3,145	5,009	
Key management personnel - Sales of services	14	11	14	11	
- Jaies di seivices		11	14		

During the current financial year, the group surrendered temporary emphyteutical concessions entered into with the Government of Malta and simultaneously disposed of its shares in the group entity that held these concessions to a third party. The impact of the connected transactions with the Government of Malta on the group's financial results comprises a group post-tax gain of €1,308,000.

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

Expenditure amounting to €634,000 (2009: €876,000) has been recharged by the parent company to associates and other related parties.

Remuneration and other benefits payable to key management personnel are disclosed in Note 33 to these financial statements.

Interest receivable from related parties and interest payable to related parties are disclosed in Notes 30 and 31 respectively.

39. Statutory information

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

40. Comparative information

During the current financial year, the group has changed its accounting policy on subsequent measurement of investment property. This change in accounting policy was applied retrospectively in accordance with the requirements of IAS 8, 'Accounting policies, changes in accounting estimates and errors'. Accordingly the group adjusted the opening balance of each affected component of equity for the earliest period presented in these financial statements and other comparative amounts disclosed for the comparative period presented as if the revised accounting policy had always been applied.

41. The Air Malta group

Subsidiaries and associates within the group as at 31 March 2010 and 2009 were the following:

41.1 Subsidiaries

	Group % holding 2010 2009		Company % holding 2010 2009		Country of incorporation
Air Malta p.l.c. Air Malta Buildings, Head Office, Luqa	N/A	N/A	N/A	N/A	Malta
Holiday Malta Company Limited Air Malta House, 314/316 Upper Richmond Road, Putney, London	100	100	100	100	United Kingdom
Malta Air Charter Company Limited Air Malta Buildings, Vjal I-Avjazzjoni, Luqa (in liquidation)	100	100	100	100	Malta
Holiday Malta Transport Company Limited Air Malta House, 314/316 Upper Richmond Road, Putney, London (held by Holiday Malta Company Limited)	100	100	-	-	United Kingdom
The Holiday Travel Club Company Limited Air Malta House, 314/316 Upper Richmond Road, Putney, London (held by Holiday Malta Company Limited)	100	100	-	-	United Kingdom
Holiday Malta (Russia) Limited Air Malta Buildings, Vjal I-Avjazzjoni, Luqa (held by Holiday Malta Company Limited)	100	100	-	-	Malta

41. The Air Malta group - continued

	Gro % ho 2010	oup Iding 2009	Comp % hol 2010		Country of incorporation
Holiday Malta (Italia) S.r.l. Corso Martiri della Liberta, 188 95131 Catania, Sicily (held by Holiday Malta Company Limited)	100	100	-	-	Italy
Holiday Malta GmbH Kaiserstrasse 13, 60311 Frankfurt am Main (held by Holiday Malta Company Limited)	-	100	-	-	Germany
Holiday Malta (Hellas) Tourism EPE 91, Alexandras Ave, 11474 Athens (held by Holiday Malta Company Limited)	100	100	-	-	Greece
The Holiday Travel Club Transport Company Limited Air Malta House, 314/316 Upper Richmond Road, Putney, London (held by The Holiday Travel Club Company Limited)	100	100	-	-	United Kingdom
Travel 2000 S.r.l. Corso Martiri della Liberta, 184 95131 Catania, Sicily (held by Holiday Malta (Italia) S.r.l) (in liquidation)	100	100	-	-	Italy
Hal Ferh Company Limited Air Malta Buildings, Vjal I-Avjazzjoni, Luqa	-	100	-	100	Malta
Selmun Palace Hotel Company Limited Air Malta Buildings, Vjal I-Avjazzjoni, Luqa	100	100	100	100	Malta
Airport Services Company Limited Air Malta Buildings, Vjal I-Avjazzjoni, Luqa (in liquidation)	100	100	100	100	Malta
Osprey Insurance Brokers Company Ltd Air Malta Buildings, Vjal I-Avjazzjoni, Luqa	100	100	100	100	Malta
Shield Insurance Company Limited (formerly known as Shield Insurance Company (Guernsey) Limited) Air Malta Buildings, Vjal I-Avjazzjoni, Luqa (re-domiciled to Malta on 24 March 2009)	100	100	100	100	Malta

41. The Air Malta group - continued

41.2 Associates

	Group % holding 2010 2009		Company % holding 9 2010 200		Country of incorporation
AZZURRAair S.p.A. Viale Papa Giovanni XXIII, 48 24121 Bergamo (in liquidation)	49	49	49	49	Italy
Cottonera Properties Co. Ltd. c/o Malta Investment Management Co. Ltd. Trade Centre, San Gwann Industrial Estate, San Gwann (in liquidation)	49	49	49	49	Malta
Flight Catering Company Limited 22, Europa Centre, Floriana	30	30	30	30	Malta
Heritage Insurance Management (Malta) Limited Air Malta Buildings, Vjal L-Avjazzjoni, Luqa (held by Osprey Insurance Brokers Company Ltd)	-	49	-	-	Malta
Sabratha Duty Free Company Limited Air Malta Buildings, Vjal I-Avjazzjoni, Luqa	-	50	-	50	Malta
World Aviation Group Limited Floor 1, Aviation Centre, Luqa	50	50	50	50	Malta
Stakes Holding Limited Air Malta Buildings, Vjal I-Avjazzjoni, Luqa	-	18	-	18	Malta