1. Summary of significant accounting policies - continued

1.21 Derivative financial instruments and hedging - continued

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.

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

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

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

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

2. Financial risk management

2.1 Financial risk factors

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

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

2. **Financial risk management** - continued

2.1 **Financial risk factors** - continued

(a) Market risk

(i) Foreign exchange risk

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

Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities which are denominated in a currency that is not the respective entity's functional currency. The Group is exposed to foreign exchange arising from various currency exposures, primarily with respect to the US dollar and UK sterling. With respect to the US dollar, the Group is in a net payer position from its operating business particularly in view of a significant portion of purchases denominated in this currency, including fuel, operating leases, maintenance and other related costs. In relation to other currencies the Group is in a net surplus position which is attributable to a portion of Group's revenue which is denominated in these currencies. UK sterling is considered to be the main risk exposure in this respect. A subsidiary domiciled overseas (see Note 39.1) has a functional currency which is different from the euro. This subsidiary is also subject to currency risk in respect of purchases and intra-Group financing denominated in euro; but these exposures are not deemed material in the context of the Group figures.

The expected future cash flows in individual major currencies usually over the coming 12 months (2010: 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 2011, the Group forecasts net receipts denominated in UK sterling amounting to €14.6 million (2010: €34 million) for the twelve months immediately after the end of the reporting period. The Group also forecasts net payments denominated in US dollar amounting to €59.5 million (2010: €61.2 million) for the twelve months immediately after the end of the reporting period. 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 €31.2 million (2010: €15 million) covering US dollar exposures, and €4.8 million (2010: nil) covering GBP exposures.

2. **Financial risk management** - continued

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	
	2011	2010	**2011**	2010
	€000	€000	**€000**	€000
Net UK sterling liability position	**(7,711)**	(6,310)	**(7,711)**	(6,310)
Net US dollar liability position	**(34,038)**	(31,911)	**(34,331)**	(32,139)

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		Company	
	(+) 10%	(-) 10%	(+) 10%	(-) 10%
	€000	€000	€000	€000
UK sterling				
At 31 March 2011	701	(857)	701	(857)
At 31 March 2010	574	(701)	574	(701)
US dollar				
At 31 March 2011	3,095	(3,782)	3,121	(3,815)
At 31 March 2010	2,931	(3,581)	2,922	(3,571)

2. **Financial risk management** - continued

2.1 **Financial risk factors** - continued

(a) Market risk - continued

(i) Foreign exchange risk - continued

If as at 31 March 2011 the Euro had strengthened/weakened by 10% against the US dollar and UK Sterling with all other variables held constant, equity (prior to tax effects) as at the year-end would change as follows:

	Group and Company	
	(+) 10%	(-) 10%
	€000	€000
At 31 March 2011	(3,981)	2,068

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

(ii) Cash flow and fair value interest rate risk

The Group's 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. **Financial risk management** - continued

2.1 Financial risk factors - continued

(a) Market risk - continued

(iii) Price risk

During the financial year ended 31 March 2011, fuel expenses amounted to €52 million (2010: €42 million) as disclosed in Note 26.2 to the financial statements and accounted for approximately 20% (2010: 19%) of the total operating expenses of the Group from continuing operations. Fluctuations in crude oil, jet fuel and other fuel product prices may have a significant effect on the Group's results. Different hedging instruments with regard to the crude oil and fuel products markets are used to limit the fuel price risk. The Group's policy during the current and preceding years is aimed at hedging, in normal circumstances, a minimum of 40% of the expected fuel expenditure of the ensuing twelve months. As at 31 March 2011, the notional amounts of the hedging derivatives outstanding amounted to approximately €4 million (2010: €11 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.

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 2011 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 Company	
	(+) 10%	(-) 10%
	€000	€000
At 31 March 2011	(6,871)	6,871
At 31 March 2010	(4,852)	4,852

(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:

2. Financial risk management - continued

2.1 Financial risk factors - continued

(b) Credit risk - continued

	Group		Company	
	2011	2010	**2011**	2010
Continuing operations:	**€000**	€000	**€000**	€000
Loans and receivables category:				
Cash and cash equivalents (Note 15)	**23,531**	9,180	**22,915**	7,179
Term placements with banks (Note 14)	**5,856**	5,964	**-**	-
Trade and other receivables	**36,435**	42,068	**35,381**	43,563
Loans to subsidiaries and associates (Notes 7 and 8)	**213**	259	**213**	696
	66,035	57,471	**58,509**	51,438
Financial instruments held for hedging:				
Derivative financial instruments (Note 10)	**650**	2,996	**650**	2,996
	66,685	60,467	**59,159**	54,434
Discontinued operations:				
Loans and receivables category:				
Cash and cash equivalents (Note 16)				
- Hotel operations	**151**	416	**-**	-
- Tour Operator business	**1,212**	-	**-**	-
Trade and other receivables (Note 16)				
- Hotel operations	**44**	167	**-**	-
- Tour Operator business	**1,039**	-	**-**	-
Loans to subsidiaries and associates (Note 7, 8 and 16)				
- Hotel operations	**-**	167	**4,323**	9,872
	2,446	750	**4,323**	9,872

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.

2. **Financial risk management** - continued

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 2011 amounted to approximately €4.4 million (2010: €5.7 million). Term placements with banks with contractual terms of more than three months mature within a period of thirty-four (2010: nineteen) 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 2011, the Group holds collateral in the form of bank guarantees for the amount of €4,212,000 (2010: €2,675,000) as security in respect of trade receivables. At 31 March 2011 and 2010, no trade or other receivables that would otherwise be past due or impaired have been renegotiated.

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

2. **Financial risk management** - continued

2.1 Financial risk factors - continued

(b) Credit risk - continued

As at 31 March 2011, the Group's and Company's trade receivables amounting to €4,855,000 (2010: €4,431,000) and €3,536,000 (2010: €3,026,000) 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		Company	
	2011	2010	**2011**	2010
Continuing operations:	**€000**	€000	**€000**	€000
At beginning of year	**3,026**	2,803	**3,026**	2,803
Increase in provisions	**718**	396	**718**	396
Reversals of provisions which are no longer required	**(135)**	(168)	**(135)**	(168)
Other movements	**(73)**	(5)	**(73)**	(5)
At end of year	**3,536**	3,026	**3,536**	3,026
Discontinued operations:				
At beginning of year	**1,405**	1,498	**-**	-
Increase in provisions	**184**	82	**-**	-
Reversals of provisions which are no longer required	**(265)**	(173)	**-**	-
Other movements	**(5)**	(2)	**-**	-
At end of year	**1,319**	1,405	**-**	-
Total	**4,855**	4,431		

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.

2. **Financial risk management** - continued

2.1 Financial risk factors - continued

(b) Credit risk - continued

As at 31 March 2011, trade receivables and amounts owed by related parties amounting to €1,795,000 and €258,000 (2010: €2,064,000 and €328,000) 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:

	2011	2010
	€000	€000
Up to 30 days	**667**	1,090
30 to 60 days	**97**	9
60 to 90 days	**425**	311
90 to 120 days	**68**	130
Over 120 days	**538**	524
	1,795	2,064

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 2011, the Company also had amounts receivable from associates amounting to €264,000 which were past due but not impaired. Such amounts were mainly past due for less than one year.

As at 31 March 2011, the Company had amounts receivable from subsidiaries amounting to €179,000 (2010: €2,182,000) 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 on page 46 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.

2. **Financial risk management** - continued

2.1 **Financial risk factors** - continued

(b) Credit risk - continued

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

	Company	
	2011	2010
	€000	€000
Provisions on loans to subsidiaries		
At beginning of year	**552**	3,532
Increase in provisions	**5,877**	-
Reversals of provisions which are no longer required in view of waiver of loans	**-**	(2,980)
At end of year	**6,429**	552

	Group		Company	
	2011	2010	**2011**	2010
	€000	€000	**€000**	€000
Provisions on loans to associates				
At beginning of year	**-**	93	**-**	93
Reversals of provisions which are no longer required	**-**	(93)	**-**	(93)
At end of year	**-**	-	**-**	-

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.

2. **Financial risk management** - continued

2.1 **Financial risk factors** - continued

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

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 2011 and its operating results for the year then ended, the airline's liquidity management process has significantly influenced the Restructuring Plan approved by the Government of Malta and submitted for approval to the European Commission. As outlined previously in Note 1.1.1, a number of financing arrangements have been projected in the Restructuring Plan and the key steps in implementing the financing process required through the five year period subsequent to 31 March 2011 include :

- The Rescue Aid Loan from the principal shareholder, amounting to €52 million, that was due for repayment in November 2011 has been extended for a further period to November 2012.

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

- The Company has successfully negotiated fresh bank loans amounting to €30 million on the back of the Promise of Sale Agreement referred to above. Further facilities of €20 million will be required during the later part of the 5 year plan.

- The disposal process of the Company's subsidiaries and other strategic investments, which have been earmarked for sale, has been initiated.

- Government will make a fresh commercial loan of €52 million to the Company on the approval of the Restructuring Plan by the European Commission. These funds will be used by the Company to pay back the Rescue Aid Loan in line with Rescue and Restructuring Guidelines. The commercial loan will be converted to equity in the later part of the 5 year plan.

- The Company will allocate €78 million of fresh equity to Government on the approval of the Restructuring Plan by the European Commission. The capital will be called up in tranches in due course in accordance with the program established in the Restructuring Plan.

2. **Financial risk management** - continued

2.1 **Financial risk factors** - continued

(c) Liquidity risk - continued

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

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

Group

At 31 March 2011	**Within 3 months** €000	**3 - 6 months** €000	**6 - 12 months** €000	**1 - 2 years** €000	**2 - 5 years** €000	**Over 5 years** €000	**Total** €000
Continuing operations:							
Bank borrowings	1,496	2,751	3,608	4,132	-	-	11,987
Loan from shareholder	-	-	43,153	-	-	-	43,153
Trade and other payables	45,814	-	-	-	-	-	45,814
	47,310	2,751	46,761	4,132	-	-	100,954
Discontinued operations:							
Bank borrowings	2,663	-	-	-	-	-	2,663
Trade and other payables	5,177	-	-	-	-	-	5,177
	7,840	-	-	-	-	-	7,840
Total	**55,150**	**2,751**	**46,761**	**4,132**	**-**	**-**	**108,794**
At 31 March 2010							
Continuing operations:							
Bank borrowings	3,675	21,184	934	1,198	107	230	27,328
Trade and other payables	44,331	-	-	-	-	-	44,331
	48,006	21,184	934	1,198	107	230	71,659
Discontinued operations:							
Bank borrowings	1,830	-	-	-	-	-	1,830
Trade and other payables	675	-	-	-	-	-	675
	2,505	-	-	-	-	-	2,505
Total	**50,511**	**21,184**	**934**	**1,198**	**107**	**230**	**74,164**

Subsequent to the end of the current financial reporting period, the term of the shareholder's loan was extended to 15 November 2012.

2. **Financial risk management** - continued

2.1 **Financial risk factors** - continued

(c) Liquidity risk - continued

Company

	Within 3 months €000	3 - 6 months €000	6 - 12 months €000	1 - 2 years €000	2 - 5 years €000	Over 5 years €000	Total €000
At 31 March 2011							
Bank borrowings	1,496	2,751	3,608	4,132	-	-	11,987
Loan from shareholder	-	-	43,153	-	-	-	43,153
Trade and other payables	49,190	-	-	-	-	-	49,190
	50,686	**2,751**	**46,761**	**4,132**	-	-	**104,330**
At 31 March 2010							
Bank borrowings	3,143	21,175	916	1,162	-	-	26,396
Trade and other payables	52,391	-	-	-	-	-	52,391
	55,534	**21,175**	**916**	**1,162**	-	-	**78,787**

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 2011 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 2011				
Foreign exchange derivatives:				
- Outflows	(12,050)	(12,050)	(2,300)	(26,400)
- Inflows	11,549	11,549	2,261	25,359
	(501)	(501)	(39)	(1,041)

Group and Company

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

2. **Financial risk management** - continued

2.1 **Financial risk factors** - continued

(c) Liquidity risk - continued

The Group's derivative financial liabilities as at 31 March 2011 which will be settled on a net basis are not deemed material for the purpose of disclosing the contractual undiscounted cash flows.

2.2 Capital risk management

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

Consistent with others in the industry, the Group usually monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (as shown in the consolidated statement of financial position) less cash and cash equivalents. Total capital is calculated as equity as shown in the consolidated statement of financial position plus net debt. In view of the fact that the Group has negative activity on net liabilities at 31 March 2011, the Group's gearing ratio is not currently deemed to be a relevant benchmark for capital management. The current and prior year adverse financial results have impacted the financial position of the Group in particular the equity levels.

As outlined in Note 1.1.1, on 30 November 2011, the Directors have approved the Restructuring Plan, and Government has taken ownership of the Restructuring Plan and communicated this to the European Commission. This Restructuring Plan sets out the turnaround strategy for Air Malta for the five-year period FY2012 to FY2016. This strategy is set out over five years after a careful assessment by management of the shortest time required to restore the long-term viability and capital position of the Company, keeping in mind possible future operating conditions. Included within the Restructuring Plan are long-term financing arrangements that will address the Capital position of the Company during the five year period. In particular, apart from the improvement in trading performance and operating cash flows together with management of borrowings as reflected under the Liquidity risk management section above, the equity base of the Company will be strengthened though the following:

- Government will make a fresh commercial loan of €52 million to the Company on the approval of the Restructuring Plan by the European Commission. These funds will be used by the Company to pay back the Rescue Aid Loan in line with Rescue and Restructuring Guidelines. The commercial loan will be converted to equity in the later part of the 5 year plan.

- The Company will allocate €78 million of fresh equity to Government on the approval of the Restructuring Plan by the European Commission. The capital will be called up in tranches in due course in accordance with the program established in the Restructuring Plan.

2. Financial risk management - continued

2.3 Fair values of financial instruments

At 31 March 2011 and 2010 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.

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 1.21. 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 2010, the Group adopted the amendment to IFRS 7 for financial instruments that are measured in the statement of financial position at fair value. This amendment requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

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

At 31 March 2011, all the Group's derivative financial instruments disclosed in Note 10 are categorised as level 2 instruments, since these contracts are fair valued through valuation techniques utilising data solely from observable markets. The fair value of all the Group's available-for-sale assets is approximated by the carrying amount of these assets and accordingly no fair value changes have been reflected. The fair values utilised in this respect have been estimated on the basis of techniques utilising observable inputs categorised as level 2 inputs.

3. Critical accounting estimates and judgements

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

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

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

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

4. **Segment reporting**

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

5. **Property, plant and equipment**

Group

	Land and buildings €000	Aircraft and flight equipment €000	Other assets €000	Total €000
At 1 April 2009				
Cost	54,857	25,456	22,311	102,624
Accumulated depreciation and impairment losses	(12,110)	(19,282)	(18,929)	(50,321)
Net book amount	42,747	6,174	3,382	52,303
Year ended 31 March 2010				
Opening net book amount	42,747	6,174	3,382	52,303
Revaluation surplus arising during the year (Note 19)	27,350	-	-	27,350
Additions	286	251	486	1,023
Reclassifications	(214)	(244)	458	-
Disposals	(134)	-	(480)	(614)
Depreciation charge	(1,255)	(870)	(1,143)	(3,268)
Depreciation released on disposals	89	-	311	400
Exchange differences	-	-	34	34
Other movements	14	-	-	14
Closing net book amount	68,883	5,311	3,048	77,242
At 31 March 2010				
Cost or valuation	69,141	25,677	22,754	117,572
Accumulated depreciation and impairment losses	(258)	(20,366)	(19,706)	(40,330)
Net book amount	68,883	5,311	3,048	77,242

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

	Land and buildings €000	Aircraft and flight equipment €000	Other assets €000	Total €000
Year ended 31 March 2011				
Opening net book amount	68,883	5,311	3,048	77,242
Adjustment arising on revaluation (Note 19)	(13,482)	-	-	(13,482)
Additions	107	6,168	646	6,921
Reclassification to investment property	(468)	-	-	(468)
Transfer to assets classified as held for sale (Note 16)	-	-	(697)	(697)
Disposals	-	(12,612)	(895)	(13,507)
Depreciation charge	(1,202)	(629)	(888)	(2,719)
Depreciation released on disposals	-	2,439	791	3,230
Closing net book amount	**53,838**	**677**	**2,005**	**56,520**
At 31 March 2011				
Cost or valuation	53,838	19,233	20,862	93,933
Accumulated depreciation and impairment losses	-	(18,556)	(18,857)	(37,413)
Net book amount	**53,838**	**677**	**2,005**	**56,520**

The Group's land and buildings were revalued on 31 March 2010 by an independent professionally qualified valuer. Valuations were made on the basis of open market value at that date taking cognisance of the specific location of the properties, the size of the sites and the availability of similar properties in the area. At 31 March 2010, the book value of the properties had been adjusted to the revaluation and the resultant surplus, net of applicable deferred taxation, had been credited to the revaluation reserve in shareholders' equity (Note 19).

In view of the circumstances as outlined in Note 1.1.1, on 7 December 2011, the Company entered into an irrevocable Promise of Sale Agreement with the Government of Malta in respect of the principal elements of its land and buildings category. The carrying amounts of the Group's land and buildings as at 31 March 2011 have been adjusted to take into account the sale prices contracted within the Promise of Sale Agreement, which prices are considered by the directors to reflect fair values as at 31 March 2011. A downward adjustment to the carrying amount of property, plant and equipment of €13.5 million was required in this respect, with related adjustments to the revaluation reserve and deferred taxation (Notes 19 and 23).

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

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

In view of the Group's intentions to dispose of its tour operator business, property, plant and equipment attributable to this operation, have been transferred to assets classified as held for sale at 31 March 2011.

Company

	Land and buildings €000	Aircraft and flight equipment €000	Other assets €000	Total €000
At 1 April 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
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	-
Disposals	(134)	-	(261)	(395)
Depreciation charge	(1,246)	(870)	(1,027)	(3,143)
Depreciation released on disposals	89	-	242	331
Other movements	14	-	-	14
Closing net book amount	67,859	5,311	2,846	76,016
At 31 March 2010				
Cost or valuation	67,972	25,463	21,557	114,992
Accumulated depreciation and impairment losses	(113)	(20,152)	(18,711)	(38,976)
Net book amount	67,859	5,311	2,846	76,016

5. Property, plant and equipment - continued

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

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

	Group		Company	
	2011 €000	2010 €000	**2011 €000**	2010 €000
Cost	**54,378**	54,557	**53,209**	53,388
Accumulated depreciation	**(14,145)**	(12,975)	**(13,991)**	(12,830)
Net book amount	**40,233**	41,582	**39,218**	40,558

6. Investment property

	Group €000	Company €000
At 1 April 2009		
Cost	11,760	12,278
Fair value gains	8,236	8,236
Carrying amount	19,996	20,514
Year ended 31 March 2010		
Opening carrying amount	19,996	20,514
Other movements	(215)	(224)
Closing carrying amount	19,781	20,290
At 31 March 2010		
Cost	11,545	12,054
Fair value gains	8,236	8,236
Carrying amount	19,781	20,290
Year ended 31 March 2011		
Opening carrying amount	19,781	20,290
Reclassification from property, plant and equipment (Note 5)	468	468
Losses from changes in fair value	(4,426)	(4,426)
Other movements	(346)	(355)
Closing carrying amount	**15,477**	**15,977**
At 31 March 2011		
Cost	12,030	12,530
Fair value gains	3,447	3,447
Carrying amount	**15,477**	**15,977**

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. 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.

6. **Investment property** - continued

In view of the circumstances as outlined in Note 1.1.1, on 7 December 2011, the Company entered into an irrevocable Promise of Sale Agreement with the Government of Malta in respect of its investment property. The carrying amounts of the Group's investment property as at 31 March 2011 have been adjusted to take into account the sale prices contracted within the Promise of Sale Agreement, which prices are considered by the directors to reflect fair values as at 31 March 2011. A downward adjustment to the carrying amount of investment property of €4.4 million was required in this respect, with related adjustments to the pre-tax results and deferred taxation (Note 23).

The following amounts have been recognised in profit or loss:

	Group and Company	
	2011	2010
	€000	€000
Rental income from investment property	**600**	603

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

	Group		**Company**	
	2011	2010	**2011**	2010
	€	€	**€**	€
Cost	**12,755**	12,755	**13,604**	13,318
Accumulated depreciation	**(1,417)**	(1,210)	**(1,511)**	(1,264)
Net book amount	**11,338**	11,545	**12,093**	12,054

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

	At 31 March 2011	At 31 March 2010	At 1 April 2009
	€000	€000	€000
Carrying amounts	**15,460**	16,065	15,978

7. Investments in subsidiaries

Company

	Shares in subsidiaries €000	Loans to subsidiaries €000	Total €000
At 1 April 2009			
Cost	2,380	3,017	5,397
Provisions for impairment	(344)	(2,980)	(3,324)
Carrying amount	2,036	37	2,073
Year ended 31 March 2010			
Opening carrying amount	2,036	37	2,073
Additions	3,487	437	3,924
Repayment of loans	-	(37)	(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	5,867	437	6,304
Provisions for impairment	(1,761)	-	(1,761)
Carrying amount	4,106	437	4,543
Year ended 31 March 2011			
Opening carrying amount	4,106	437	4,543
Repayment of loans	-	(189)	(189)
Transfer to assets classified as held for sale (Note 16)	(2,243)	(248)	(2,491)
Closing carrying amount	**1,863**	-	**1,863**
At 31 March 2011			
Cost	2,207	-	2,207
Provisions for impairment	(344)	-	(344)
Carrying amount	**1,863**	-	**1,863**

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

The net investments transferred to assets classified as held for sale relate to the Company's investments attributable to the Group's tour operator business, which the Group intends to dispose of.

8. Investments in associates

Group

	Shares in associates €000	Loans to associates €000	Total €000
At 1 April 2009			
Cost	99	383	482
Share of undertakings' post acquisition profits and reserves	(26)	-	(26)
Provisions for impairment	-	(93)	(93)
Carrying amount	73	290	363
Year ended 31 March 2010			
Opening carrying amount	73	290	363
Repayment of loans	-	(124)	(124)
Share of results	121	-	121
Dividends received	(114)	-	(114)
Movements in provisions for impairment	-	93	93
Closing carrying amount	80	259	339
At 31 March 2010			
Cost	99	259	358
Share of undertakings' post acquisition profits and reserves	(19)	-	(19)
Carrying amount	80	259	339
Year ended 31 March 2011			
Opening carrying amount	80	259	339
Transfer to assets classified as held for sale (Note 16)	(87)	-	(87)
Repayment of loans	-	(46)	(46)
Share of results	658	-	658
Dividends received	(225)	-	(225)
Closing carrying amount	**426**	**213**	**639**
At 31 March 2011			
Cost	12	213	225
Share of undertakings' post acquisition profits and reserves	414	-	414
Carrying amount	**426**	**213**	**639**

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

During the preceding 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.

8. Investments in associates - continued

The Group's share of results of its principal associate, which is unlisted, and its share of the respective assets and liabilities are as follows:

	Assets €000	Liabilities €000	Revenues €000	Profit €000	Interest held %
2011					
World Aviation Group Limited	**2,233**	**1,381**	**3,789**	**260**	**50**
2010					
World Aviation Group Limited	2,579	1,581	3,696	366	50

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

Company

	Shares in associates €000	Loans to associates €000	Total €000
At 1 April 2009			
Cost	99	383	482
Provisions for impairment	-	(93)	(93)
Carrying amount	99	290	389
Year ended 31 March 2010			
Opening carrying amount	99	290	389
Repayment of loans	-	(124)	(124)
Movements in provisions for impairment	-	93	93
Closing carrying amount	99	259	358
At 31 March 2010			
Cost	99	259	358
Provisions for impairment	-	-	-
Carrying amount	99	259	358
Year ended 31 March 2011			
Opening carrying amount	99	259	358
Transfer to assets classified as held for sale (Note 16)	(87)	-	(87)
Repayment of loans	-	(46)	(46)
Closing carrying amount	**12**	**213**	**225**
At 31 March 2011			
Cost	12	213	225
Carrying amount	**12**	**213**	**225**

Loans to associates are unsecured and repayable on demand. At 31 March 2011, these loans are subject to a weighted average effective interest rate of 1% (2010: 1%) 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 2009				
Amortised cost	1,308	1,987	354	3,649
Provisions for impairment	(459)	-	-	(459)
Carrying amount	849	1,987	354	3,190
Year ended 31 March 2010				
Opening carrying amount	849	1,987	354	3,190
Additions at cost	3,343	-	-	3,343
Disposals	(1,924)	(1,940)	(354)	(4,218)
Other movements	-	(47)	-	(47)
Closing carrying amount	2,268	-	-	2,268
At 31 March 2010				
Amortised cost	2,727	-	-	2,727
Provisions for impairment	(459)	-	-	(459)
Carrying amount	2,268	-	-	2,268
Year ended 31 March 2011				
Opening carrying amount	2,268	-	-	2,268
Additions at cost	1,091	-	504	1,595
Disposals	(1,839)	-	-	(1,839)
Increase in provision for impairment	(581)	-	-	(581)
Other movements	(8)	-	-	(8)
Closing carrying amount	**931**	-	**504**	**1,435**
At 31 March 2011				
Amortised cost	1,971	-	504	2,475
Provisions for impairment	(1,040)	-	-	(1,040)
Carrying amount	**931**	-	**504**	**1,435**

9. Available-for-sale financial assets - continued

Analysis of total available-for-sale financial assets:

	Equity instruments €000
At 31 March 2011	
Non-current	268
Current	1,167
	1,435
At 31 March 2010	
Non-current	849
Current	1,419
	2,268

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

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

Company

	Equity instruments €000	Quoted debt securities €000	Total €000
At 1 April 2009			
Amortised cost and carrying amount	688	354	1,042
Year ended 31 March 2010			
Opening carrying amount	688	354	1,042
Disposals	-	(354)	(354)
Closing carrying amount	688	-	688
At 31 March 2010			
Amortised cost and carrying amount	688	-	688
Year ended 31 March 2011			
Opening carrying amount	688	-	688
Increase in provision for impairment	(581)	-	(581)
Closing carrying amount	**107**	-	**107**
At 31 March 2011			
Amortised cost and carrying amount	688	-	688
Provisions for impairment	(581)	-	(581)
Carrying amount	**107**	-	**107**

9. Available-for-sale financial assets - continued

Analysis of total available-for-sale financial assets:

	Equity instruments €000
At 31 March 2011	
Non-current	**107**
At 31 March 2010	
Non-current	688

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 Company Fair values Assets €000	Liabilities €000
At 31 March 2011		
Derivatives held for hedging (cash flow hedges)		
Foreign exchange derivatives		
- currency forwards	235	(788)
Fuel price hedging derivatives		
- combined options	140	-
- commodity swaps	275	(7)
	415	(7)
Total derivative assets/(liabilities) – Current	**650**	**(795)**
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	-

10. Derivative financial instruments - continued

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

	Fair value - assets €000
Forward sale of EUR31.2 million against USD (at average contracted rate of EUR1:USD1.3634)	(760)
Forward sale of GBP4.8 million against EUR (at average contracted rate of EUR1:GBP0.8436)	207
	(553)

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

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

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

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

Commodity swap agreements:

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

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 2010 are disclosed in the consolidated financial statements of the preceding financial year.

11. Other receivables

	Group and Company	
	2011	2010
	€000	€000
Non-current:		
Security deposits arising from operating lease agreements	**4,658**	4,526
Other long-term deposits and receivables	**280**	379
	4,938	4,905

Security deposits, amounting to €4,658,000 (2010: €4,526,000), 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 (2010: five years) from the end of the reporting period.

12. Inventories

	Group and Company	
	2011	2010
	€000	€000
Aircraft engineering spares	**1,579**	1,630
Other stocks	**132**	202
	1,711	1,832

13. Trade receivables

	Group		Company	
	2011	2010	**2011**	2010
	€000	€000	**€000**	€000
Trade receivables – gross	**25,285**	28,962	**25,340**	27,013
Less: Provisions for impairment of trade receivables	**(3,536)**	(4,431)	**(3,536)**	(3,026)
Trade receivables – net	**21,749**	24,531	**21,804**	23,987

14. Term placements with banks

These term placements comprise bank deposits with contractual terms of three months or more. The placements mature within thirty-four (2010: nineteen) months from the end of the reporting period. Interest receivable is presented within 'Finance income' (Note 30). The weighted average effective interest rate on these assets as at 31 March 2011 was 2.38% (2010: 3.93%). The fair value of the Group's term bank placements as at that date was not significantly different from the carrying amount.

	Group	
	2011	2010
	€000	€000
Maturity of deposits with banks:		
- within one year	**4,617**	3,664
- between one and two years	**1,239**	2,300
	5,856	5,964

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	
	2011	2010	**2011**	2010
	€000	€000	**€000**	€000
Attributable to continuing operations:				
Cash at bank and in hand	**23,531**	9,180	**22,915**	7,179
Bank overdrafts (Note 22)	**(845)**	(2,437)	**(845)**	(1,913)
	22,686	6,743	**22,070**	5,266
Attributable to discontinued operations:				
Cash at bank and in hand	**1,363**	416	**-**	-
Bank overdrafts (Note 16)	**(827)**	-	**-**	-
	536	416	**-**	-
Total cash and cash equivalents	**23,222**	7,159	**22,070**	5,266

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 €934,000 (2010: €1,336,000) 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	
	2011	2010	**2011**	2010
	€000	€000	**€000**	€000
(Loss)/profit after tax of discontinued operations:				
Hotel segment (see Note 16.1.1)	**(545)**	5,888	**-**	-
Tour operator segment (see Note 16.1.1)	**(1,238)**	(2,332)	**-**	-
Post-tax dividend income receivable from assets classified as held for sale – attributable to discontinued operations (see Note 16.1.2)	**-**	-	**-**	3,569
Post-tax gain/(loss) recognised on disposal of assets (see Note 16.1.2)	**221**	24	**221**	(1,242)
Movement in provisions on subsidiaries classified as held for sale (see Note 16.1.3)	**-**	-	**(10,730)**	(2,917)
(Loss)/profit for the year from discontinued operations	**(1,562)**	3,580	**(10,509)**	(590)

16.1.1 During the current year the Group resolved to dispose of its tour operator business, which comprises Holiday Malta Company Limited, based in the United Kingdom, and its subsidiary undertakings. In prior years, the Group had also publicly announced its intention to discontinue its hotel operations. Hal Ferh Company Limited, which formed part of the Group's hotel operations was disposed in the prior year. The subsidiaries comprising the tour operator and hotel are reported in these consolidated financial statements as discontinued operations in accordance with the requirements of IFRS 5 'Non-current assets held for sale and discontinued operations'. An analysis of the result of the discontinued operations is as follows:

Hotel operations

	2011	2010
	€000	€000
Revenue	**1,567**	1,811
Operating costs	**(2,032)**	(2,618)
Gain on disposal of property, plant and equipment (Note 37)	**-**	8,202
Operating (loss)/profit	**(465)**	7,395
Finance costs	**(80)**	(136)
(Loss)/profit before tax of discontinued operations	**(545)**	7,259
Tax	**-**	(1,371)
(Loss)/profit after tax of discontinued operations	**(545)**	5,888
Operating cash flows	**(468)**	(2,089)
Investing cash flows	**(21)**	10,206
Financing cash flows	**6**	(1,684)
Total cash flows	**(483)**	6,433

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

16.1 Amounts presented in the income statement - continued

Expenses by nature

	2011 €000	2010 €000
Food beverage and other direct costs	**321**	346
Employee benefit expense (Note 27)	**1,170**	1,142
Heat, light and power	**207**	190
Net movement in provisions for impairment of trade receivables (included in 'Administrative expenses')	**34**	-
Other expenses	**300**	940
Total cost of sales, selling and distribution costs and administrative expenses	**2,032**	2,618

Tour operator business

	2011 €000	2010 €000
Revenue	**18,934**	21,955
Operating costs	**(20,098)**	(24,287)
Operating loss	**(1,164)**	(2,332)
Finance income	**4**	216
Finance costs	**(127)**	(212)
Loss before tax of discontinued operations	**(1,287)**	(2,328)
Tax	**49**	(4)
Loss after tax of discontinued operations	**(1,238)**	(2,332)
Operating cash flows	**(267)**	(4,527)
Investing cash flows	**(18)**	108
Financing cash flows	**(57)**	3,446
Total cash flows	**(342)**	(973)

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

16.1 Amounts presented in the income statement - continued

Expenses by nature

	2011 €000	2010 €000
Other flight related costs	**5,910**	8,896
Depreciation of property, plant and equipment	**99**	114
Employee benefit expense (Note 27)	**1,484**	1,661
Marketing and advertising costs	**786**	801
Net movement in provisions for impairment of trade receivables (included in 'Administrative expenses')	**(284)**	69
Other expenses	**12,103**	12,746
Total cost of sales, selling and distribution costs and administrative expenses	**20,098**	24,287

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

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

During the preceding 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. The carrying amount of these investments had been classified within assets classified as held for sale. The resulting gain on disposal is reflected in the table below:

	Group 2010 €000	Company 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**

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

16.1 Amounts presented in the income statement - continued

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

	€000
Dividend income from asset classified as held for sale:	
Gross dividend	(4,057)
Tax	488
	(3,569)

16.1.3 During the year the following movements in respect of provisions for impairment on subsidiaries classified as held for sale were registered.

	2011 €000	2010 €000
	10,730	2,917

16.2 Amounts presented in the statement of financial position

16.2.1 **Group**

	2011 €000	2010 €000
Assets classified as held for sale:		
Hotel assets (see Note 16.2.2)	5,017	5,462
Tour Operator assets (see Note 16.2.2)	2,897	-
	7,914	5,462
Liabilities directly associated with assets classified as held for sale:		
Hotel liabilities (see Note 16.2.2)	2,546	2,505
Tour Operator liabilities (see Note 16.2.2)	5,294	-
	7,840	2,505

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

16.2 Amounts presented in the statement of financial position

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

	2011 €000	2010 €000
Hotel operations		
Assets classified as held for sale:		
- Property, plant and equipment	4,780	4,760
- Other current assets	237	702
	5,017	5,462
Liabilities directly associated with assets classified as held for sale:		
- Bank borrowings	1,836	1,830
- Trade and other payables	710	675
	2,546	2,505

	2011 €000	2010 €000
Tour operator business		
Assets classified as held for sale:		
- Property, plant and equipment	584	-
- Trade and other receivables	1,101	-
- Cash balances	1,212	-
	2,897	-
Liabilities directly associated with assets classified as held for sale:		
- Bank borrowings	827	-
- Trade and other payables	4,467	-
	5,294	-

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

16.2 Amounts presented in the statement of financial position - continued

16.2.3 **Company**

Assets classified as held for sale:

	Shares in subsidiaries €000	Loans to subsidiaries €000	Shares in associates €000	Total €000
Year ended 31 March 2011				
Opening carrying amount	-	9,872	-	9,872
Additions	-	80	-	80
Reclassified from Investments in subsidiaries	2,243	248	-	2,491
Reclassified from Investments in associates	-	-	87	87
Increase in provisions for impairment	(2,243)	(5,877)	-	(8,120)
Disposals	-	-	(87)	(87)
Closing carrying amount	-	**4,323**	-	**4,323**
Year ended 31 March 2010				
Opening carrying amount	2,696	11,809	485	14,990
Additions	-	682	-	682
Repayment of loans	-	(2,619)	-	(2,619)
Disposals	(2,696)	-	(485)	(3,181)
Closing carrying amount	-	**9,872**	-	**9,872**

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

	Shares in subsidiaries €000	Loans to subsidiaries €000	Total €000
Year ended 31 March 2011			
At beginning of year	(2,763)	(552)	(3,315)
Reclassified from Investments in subsidiaries	(1,417)	-	(1,417)
Increase in provisions for impairment	(2,243)	(5,877)	(8,120)
At end of year	**(6,423)**	**(6,429)**	**(12,852)**

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

16.2 Amounts presented in the statement of financial position - continued

	Shares in subsidiaries €000	Loans to subsidiaries €000	Shares in associates €000	Total €000
Year ended 31 March 2010				
At beginning of year	(2,763)	(552)	(163)	(3,478)
Reversal of provision upon disposal	-	-	163	163
At end of year	(2,763)	(552)	-	(3,315)

At 31 March 2011, loans to subsidiaries amounting to €248,000 are unsecured, repayable on demand and subject to a weighted average effective interest rate of 3.95% per annum. All other loans to subsidiaries are unsecured, repayable on demand and interest-free.

17. Share capital

	Group and Company 2011 €000	2010 €000
Authorised		
35,000,000 (2010: 35,000,000) ordinary shares of €2.329373 each	**81,528**	81,528
Issued and fully paid		
11,115,478 (2010: 11,115,478) ordinary shares of €2.329373 each	**25,892**	25,892

18. Share premium

	Group and Company 2011 €000	2010 €000
At beginning and end of year	**42,762**	42,762

19. Revaluation reserve

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

	Group and Company	
	2011	2010
	€000	€000
At beginning of year	**17,778**	-
Adjustments to surplus arising on revaluation	**(13,482)**	27,350
Deferred income tax on adjustments to surplus (Note 23)	**4,719**	(9,572)
Reversal of deferred income tax arising on revaluation (Note 23)	**4,853**	-
At end of year	**13,868**	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:

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

20. **Hedging reserve** – continued

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

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 2011 on open forward foreign exchange contracts which hedge anticipated future foreign currency transactions will be reclassified from the hedging reserve to profit or loss as a reclassification adjustment when the forecast transactions occur, at various dates up to one year from the end of the reporting period.

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

21. Other reserve

Group

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

	2011 €000	2010 €000
At beginning and end of year	**(3,497)**	(3,497)

22. Borrowings

	Group		Company	
	2011 €000	2010 €000	**2011 €000**	2010 €000
Current				
Bank overdrafts	**845**	2,437	**845**	1,913
Bank loans	**7,142**	23,136	**7,142**	23,104
Borrowings from ultimate shareholder	**41,000**	-	**41,000**	-
	48,987	25,573	**48,987**	25,017
Non-current				
Bank loans	**4,000**	1,488	**4,000**	1,161
Total borrowings	**52,987**	27,061	**52,987**	26,178

During the course of the year, the Government of Malta, under the terms of Act XVIII of 2010 entitled 'An Act to authorise and regulate the raising of loans for the purposes of entering into re-lending agreements with Air Malta Plc', has consented, following the approval of the European Commission, to the request made by the Company, under the European Community Guidelines on State Aid for Rescuing and Restructuring Firms in Difficulty (2004/C 244/02), to be granted a loan of €52,000,000 to enable the Company to meet its short-term liquidity requirements and enable it to continue its operations until the Restructuring Plan has been put into place. As at the reporting date, €41,000,000 worth of drawdowns have been made, with the remaining balance of €11,000,000 drawn after year-end.

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

At 31 March 2011, 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.

22. Borrowings - continued

The weighted average effective interest rates for borrowings at the end of the reporting period are as follows:

	Group		Company	
	2011	2010	**2011**	2010
	%	%	**%**	%
Bank overdrafts	**4.72**	3.79	**4.72**	3.14
Bank loans	**5.95**	3.70	**5.95**	4.02
Borrowings from ultimate shareholder	**6.49**	-	**6.49**	-

Maturity of non-current borrowings:

	Group		Company	
	2011	2010	**2011**	2010
	€000	€000	**€000**	€000
Between one and two years	**4,000**	1,488	**4,000**	1,161
	4,000	1,488	**4,000**	1,161

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% (2010: 35%).

Group

The movement on the deferred tax account is as follows:

	Deferred tax assets			Deferred tax liabilities			
	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 2010	205	13,466	-	(1,011)	(2,883)	(9,572)	205
Credited/(charged) to profit or loss	(19)	(13,466)	-	-	2,883	-	(10,602)
Credited/(debited) to other comprehensive income in equity	-	-	-	1,011	-	9,572	10,583
Balance at 31 March 2011	**186**	-	-	-	-	-	**186**

23. Deferred taxation - continued

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

Included in the Group's deferred tax assets as at 31 March 2011 is a balance of €62,000 (2010: Nil) relating to discontinued operations.

	Deferred tax assets			Deferred tax liabilities			
	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**

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

Deferred tax assets are recognised to the extent that realisation of the related tax benefit through future taxable profits is probable. At 31 March 2011 and 2010, the Group had the following unutilised tax credits and deductible temporary differences in respect of which deferred taxation has not been recognised:

	2011 **€000**	2010 €000
Unutilised tax credits arising from:		
Unabsorbed tax losses and capital allowances	**145,948**	111,971
Unabsorbed capital losses	**45,597**	46,818
Deductible temporary differences arising principally from non-current assets and provisions	**53,061**	13,253

Accordingly, the Group has a potential deferred tax asset amounting to €85,962,000 (2010: €60,215,000) 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.

23. Deferred taxation - continued

Company

The movement on the deferred tax account is as follows:

	Deferred tax assets		Deferred tax liabilities			
	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 2010	13,466	-	(1,011)	(2,883)	(9,572)	-
Credited/(charged) to profit or loss	(13,466)	-	-	2,883	-	(10,583)
Credited/(debited) to other comprehensive income in equity	-	-	1,011	-	9,572	10,583
Balance at 31 March 2011	-	-	-	-	-	-

	Deferred tax assets		Deferred tax liabilities			
	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)**	**-**

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 2011 and 2010 represent the excess of amounts charged to profit or loss over the actual costs incurred.

	2011 €000	2010 €000
Year ended 31 March		
At beginning of year	**28,576**	25,051
Charged to profit or loss: - Additional provisions, including effects of unwinding non-current provisions	**13,437**	12,787
Used during year	**(5,721)**	(9,262)
At end of year	**36,292**	28,576

Analysis of total provisions:

	2011 €000	2010 €000
At 31 March		
Non-current	**32,885**	26,086
Current	**3,407**	2,490
	36,292	28,576

Through its aircraft lease agreements, the Company entered into an arrangement with the lessors to pay in advance maintenance reserves so as to meet maintenance and re-delivery lease conditions. As at 31 March 2011, these reserves which are reflected with the provisions disclosed above, amounted to €39,265,000 (2010: €30,995,000). Furthermore, the Company has agreed to provide to the lessor irrevocable letters of credit as security to cover costs related to maintenance of engines. At 31 March 2011, the amounts in this respect amounted to €35,477,000 (2010: €29,320,000) (Note 36).

25. Other provisions

Group and Company

	€000
At 1 April 2009	420
Used during year	(2)
At 31 March 2010	418
Used during year	-
At 31 March 2011	**418**

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

26. Information on operating results

26.1 Revenue and Other operating income from continuing operations

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

	Group	
	2011	2010
	€000	€000
Revenue on airline activities	**190,123**	193,116
Aircraft leasing revenue	**1,896**	-
Ground related and other revenue	**10,011**	9,271
	202,030	202,387

Other operating income principally comprises gains on disposal of engines realised through sale and leaseback arrangements.

26. Information on operating results

26.2 Expenses by nature

	Group		Company	
	2011	2010	**2011**	2010
	€000	€000	**€000**	€000
Aircraft fuel and oils	**52,466**	42,061	**52,466**	42,061
Aircraft operating lease rentals	**30,971**	28,258	**30,971**	28,258
Aircraft maintenance	**19,757**	20,627	**19,757**	20,627
Other flight related costs	**47,637**	45,588	**53,547**	54,485
Restructuring costs (Note 26.3)	**31,700**	-	**31,700**	-
Marketing, distribution and representation costs	**16,945**	18,856	**16,945**	18,856
Depreciation of property, plant and equipment (Note 5)	**2,719**	3,268	**2,709**	3,143
Employee benefit expense (Note 27)	**46,937**	46,749	**46,715**	47,548
Net movement in provisions for impairment of trade receivables (included in 'Administrative expenses')	**510**	223	**510**	223
Exchange differences	**1,359**	958	**1,362**	953
Other expenses	**16,969**	17,939	**18,198**	18,331
Total cost of sales, selling and distribution costs and administrative expenses	**267,970**	224,527	**274,880**	234,485

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

26.3 Restructuring costs

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

The Company has reflected the estimated impact on its financial results of restructuring costs, primarily in respect of voluntary and early retirement schemes, which the Board approved in principle prior to 31 March 2011 (refer to Note 1.1.1), and professional fees incurred in the initial stages of implementation of the Restructuring Plan. As at 31 March 2011, the Company was subject to a restriction on its ability to withdraw the applicability of the voluntary and early retirement schemes in view of the existing circumstances, particularly the actions approved by the Board and the Company's principal shareholder which have been included within the plans submitted to the European Commission. The estimated impact of the voluntary and early retirement schemes (€28.2 million) has been reflected as a current provision in the statement of financial position.

The Company has, subsequent to the end of the reporting period, resolved to commence a number of projects which had been earmarked as part of the restructuring process. Estimated costs related to these projects amount to approximately to €15.2 million, but such expenses have not been reflected in the provision for restructuring costs as at 31 March 2011 in view of the timing of the decisions relating to such projects.

26. Information on operating results - continued

26.4 Auditors' fees

Fees charged by auditors for services rendered during the financial periods ended 31 March 2011 and 2010 relate to the following:

	Group	
	2011	2010
	€000	€000
Audit services – annual statutory		
- Parent Company auditors:		
- Company	**100**	100
- subsidiaries	**90**	76
Other services		
- Parent Company auditors: Company		
- other assurance services	**66**	57
- tax advisory and compliance services	**7**	15
- other non-audit services	**19**	307

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.

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

27. Employee benefit expense

	Group		Company	
	2011	2010	**2011**	2010
	€000	€000	**€000**	€000
Wages and salaries	**46,912**	46,804	**44,324**	45,045
Social security costs	**2,679**	2,748	**2,391**	2,503
	49,591	49,552	**46,715**	47,548

Employee benefit expense included in the Group's figures above relating to discontinued operations amount to €2,654,000 (2010: €2,803,000).

After the end of the reporting period, the Group incurred staff termination costs amounting to €179,000 as a result of the cessation of operations of a subsidiary.

27. Employee benefit expense - continued

Average number of persons employed during the year:

	Group		Company	
	2011	2010	**2011**	2010
By category				
Direct	**642**	691	**557**	570
Indirect	**593**	626	**591**	624
Administrative	**184**	195	**156**	162
	1,419	1,512	**1,304**	1,356

Group figures in respect of employee numbers, disclosed in the table above, include 109 (2010: 123) employees attributable to discontinued operations.

28. Investment and other related income

	Group		Company	
	2011 €000	2010 €000	**2011 €000**	2010 €000
Gross dividends receivable from investments in subsidiaries	**-**	-	**-**	2,000
Gross dividends receivable from investments in associates	**-**	-	**225**	114
Income from other financial assets	**26**	42	**33**	12
Provision for impairment on available-for-sale investment	**(581)**	-	**(581)**	-
	(555)	42	**(323)**	2,126

29. Results of subsidiaries and associates

	Group		Company	
	2011 €000	2010 €000	**2011 €000**	2010 €000
Provisions against associates	**-**	-	**-**	93
Share of results of associates and related amounts	**655**	214	**-**	-
	655	214	**-**	93

29. Results of subsidiaries and associates - continued

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

	Group		Company	
	2011	2010	**2011**	2010
	€000	€000	**€000**	€000
Movement in provisions for impairment in respect of associates	**-**	(93)	**-**	(93)
Share of results of associates	**(655)**	(121)	**-**	-
	(655)	(214)	**-**	(93)

30. Finance income

	Group		Company	
	2011	2010	**2011**	2010
	€000	€000	**€000**	€000
Interest receivable and similar income from subsidiaries	**-**	-	**11**	193
Interest receivable and similar income from associates	**3**	43	**2**	43
Interest receivable from bank deposits	**182**	186	**22**	71
Exchange differences on bank deposits	**(14)**	(127)	**(17)**	(127)
	171	102	**18**	180

Company figures disclosed above in respect of interest receivable and similar income from subsidiaries include amounts of €11,000 (2010: €192,000) relating to discontinued operations. No interest income earned by the Group was attributable to these discontinued operations.

31. Finance costs

	Group		Company	
	2011	2010	**2011**	2010
	€000	€000	**€000**	€000
Interest payable on bank loans and overdrafts	**952**	1,000	**952**	1,000
Interest payable to subsidiaries	**-**	-	**10**	7
Interest payable to shareholder (Note 22)	**476**	-	**476**	-
Bank charges and similar expenses, including exchange differences on borrowings	**254**	795	**254**	795
	1,682	1,795	**1,692**	1,802

31. Finance costs - continued

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	
	2011	2010	**2011**	2010
	€000	€000	**€000**	€000
Current taxation:				
Current tax expense	**340**	1,458	-	488
Deferred taxation:				
Deferred tax charge/(credit)	**10,602**	(10,160)	**10,583**	(10,148)
	10,942	(8,702)	**10,583**	(9,660)
Attributable to:				
Continuing operations (reflected on face of income statement)				
- current taxation	**408**	82	-	-
- deferred taxation (Note 23)	**10,583**	(11,524)	**10,583**	(11,512)
	10,991	(11,442)	**10,583**	(11,512)
Discontinued operations				
- current taxation	**(68)**	1,376	-	488
- deferred taxation (Note 23)	**19**	1,364	-	1,364
	(49)	2,740	-	1,852
	10,942	(8,702)	**10,583**	(9,660)

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:

	Group		Company	
	2011	2010	**2011**	2010
	€000	€000	**€000**	€000
Loss before tax from continuing operations	**(65,741)**	(23,042)	**(67,762)**	(22,552)
(Loss)/profit before tax from discontinued operations (Note 16)	**(1,611)**	6,319	**(10,509)**	1,262
Loss before tax for the year	**(67,352)**	(16,723)	**(78,271)**	(21,290)
Tax on loss before tax at the statutory rate of 35%	**(23,573)**	(5,853)	**(27,395)**	(7,451)
Tax effect of:				
Deferred tax asset in respect of unutilised tax losses arising in prior years recognised in current year	**-**	(4,882)	**-**	(4,882)
Deferred tax asset in respect of unutilised tax losses and unabsorbed capital allowances arising during the current year not recognised	**13,080**	2,442	**12,637**	1,325
Adjustment to deferred tax asset in respect of unutilised tax losses recognised in prior financial periods	**10,583**	-	**10,583**	-
Unrecognised temporary differences and other movements, mainly attributable to tangible non-current assets and provisions	**10,932**	795	**14,917**	1,740
Income effectively taxed at reduced rates	**(80)**	(1,204)	**(159)**	(392)
Tax charge/(credit) in the accounts	**10,942**	(8,702)	**10,583**	(9,660)

33. **Directors' emoluments**

	Group and Company	
	2011	2010
	€000	€000
Emoluments of directors of Air Malta p.l.c.:		
Total fees and other emoluments charged in these financial statements	**64**	34
Benefits in kind as computed for Income Tax purposes	**2**	4
	66	38

33. **Directors' emoluments** - continued

Insurance premium of €159,000 (2010: €179,000) has been paid during the year in respect of professional indemnity cover relating to the liability of the directors of Air Malta p.l.c. and other officers.

In addition to the above emoluments, fees amounting to €61,000 (2010: €51,000) 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. **Cash used in operations**

Reconciliation of operating loss to cash used in operations:

	Group		Company	
	2011	2010	**2011**	2010
	€000	€000	**€000**	€000
Operating loss from continuing operations	**(64,330)**	(21,605)	**(65,765)**	(23,149)
Operating (loss)/profit from discontinued operations (Note 16)	**(1,629)**	5,064	**221**	-
Operating loss for the year	**(65,959)**	(16,541)	**(65,544)**	(23,149)
Adjustments for:				
Depreciation of property, plant and equipment	**2,811**	3,268	**2,709**	3,143
Gains on disposal of assets classified as held for sale	**-**	-	**(221)**	122
Gains on disposal of tangible non-current assets	**(4,257)**	(8,202)	**(4,296)**	-
Net movement in provisions for impairment of trade receivables	**464**	132	**680**	223
Losses from changes in fair value of investment property	**4,426**	-	**4,426**	-
Provision for restructuring costs	**28,200**	-	**28,200**	-
Movement in provisions in respect of maintenance costs	**13,437**	12,787	**13,437**	12,787
Effects of exchange rate movements	**(96)**	(195)	**-**	-
Other movements related to investment property	**346**	201	**355**	210
Changes in working capital:				
Inventories	**196**	(286)	**121**	(281)
Trade and other receivables	**3,534**	6,423	**4,162**	4,119
Trade and other payables	**4,180**	(1,654)	**3,548**	2,603
Provisions used during year	**(5,721)**	(9,262)	**(5,721)**	(9,262)
Cash used in operations	**(18,439)**	(13,329)	**(18,144)**	(9,485)

35. Commitments

Capital and other commitments

	Group and Company	
	2011	2010
	€000	€000
Capital expenditure in respect of property, plant and equipment:		
- Authorised and contracted for	**8**	352
Other commitments	**36,291**	42,217
	36,299	42,569

Other commitments arise from agreements with related and other parties entered into by the Group principally in respect of the temporary emphyteusis on the property, outsourcing of the IT and other related functions, together with the provision of commercial business improvement consultancy services. The commitments as at 31 March 2011 which are attributable to the temporary emphyteusis, which property is covered by the Promise of Sale Agreement referred to in Note 1.1.1, amount to €19,927,000 (primarily included within "Later than five years" in table below).

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

	Group and Company	
	2011	2010
	€000	€000
Not later than one year	**5,545**	5,692
Later than one year and not later than five years	**9,557**	13,849
Later than five years	**21,189**	22,676
	36,291	42,217

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:

	Group and Company	
	2011	2010
	€000	€000
Not later than one year	**28,329**	27,283
Later than one year and not later than five years	**114,588**	112,291
Later than five years	**34,549**	63,461
	177,466	203,035

35. Commitments - continued

Operating lease commitments – where a Group undertaking is the lessor

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

	Group and Company	
	2011	2010
	€000	€000
Not later than one year	**2,043**	-
Later than one year and not later than five years	**4,136**	-
	6,179	-

36. Contingencies

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

	2011	2010
	€000	€000
Bank guarantees, documentary credits and other indemnities (refer to Note 24)	**36,617**	30,373

As at the end of the reporting period, the Company has contingent liabilities amounting to €1,795,000 (2010: €1,795,000) in respect of guarantees given to secure the banking facilities of subsidiaries.

At 31 March 2010, the Company had 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, and as at 31 March 2010 their total liabilities exceeded their total assets by €9,620,000. As at 31 March 2011, no such undertakings were provided by the Company. The net liabilities of the subsidiaries are included within the consolidated financial statements of the Company.

37. Related party transactions

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

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

37. Related party transactions - continued

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

Except for transactions disclosed or referred to previously, principally borrowings from the principal shareholder (Note 22), 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.

	Group		Company	
	2011	2010	**2011**	2010
	€000	€000	**€000**	€000
Government and other entities controlled by Government:				
- Sales of services	**2,401**	3,711	**2,312**	3,274
- Purchases of materials and services	**41,097**	33,536	**40,833**	33,300
	43,498	37,247	**43,145**	36,574
Subsidiaries				
- Sales of services	-	-	**5,910**	8,359
- Purchases of services	-	-	**4,371**	3,742
	-	-	**10,281**	12,101
Associates				
- Sales of services	**1,320**	818	**1,320**	818
- Purchases of services	**3,190**	2,606	**2,990**	2,327
	4,510	3,424	**4,310**	3,145
Key management personnel				
- Sales of services	**9**	14	**9**	14

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

During the preceding 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 for the year ended 31 March 2010 comprised 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.

37. Related party transactions - continued

Expenditure amounting to €848,000 (2010: €634,000) 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.

38. Statutory information

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

39. The Air Malta Group

Subsidiaries and associates within the Group as at 31 March 2011 and 2010 were the following:

39.1 Subsidiaries

	Group % holding		**Company % holding**		**Country of incorporation**
	2011	2010	**2011**	2010	
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 l-Avjazzjoni, Luqa (in liquidation)	-	100	-	100	Malta
Holiday Malta Transport Company Limited Air Malta House, 314/316 Upper Richmond Road, Putney, London (held by Holiday Malta Company Limited)	**100**	100	-	-	United Kingdom
The Holiday Travel Club Company Limited Air Malta House, 314/316 Upper Richmond Road, Putney, London (held by Holiday Malta Company Limited)	**100**	100	-	-	United Kingdom
Holiday Malta (Russia) Limited Air Malta Buildings, Vjal l-Avjazzjoni, Luqa (held by Holiday Malta Company Limited)	**100**	100	-	-	Malta

39. The Air Malta Group - continued

	Group % holding		Company % holding		Country of incorporation
	2011	2010	**2011**	2010	
Holiday Malta (Italia) S.r.l. Corso Martiri della Liberta, 188 95131 Catania, Sicily (held by Holiday Malta Company Limited) (in liquidation)	**100**	100	**-**	-	Italy
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
Selmun Palace Hotel Company Limited Air Malta Buildings, Vjal l-Avjazzjoni, Luqa	**100**	100	**100**	100	Malta
Airport Services Company Limited Air Malta Buildings, Vjal l-Avjazzjoni, Luqa (in liquidation)	**100**	100	**100**	100	Malta
Osprey Insurance Brokers Company Ltd Air Malta Buildings, Vjal l-Avjazzjoni, Luqa	**100**	100	**100**	100	Malta
Shield Insurance Company Limited Air Malta Buildings, Vjal l-Avjazzjoni, Luqa	**100**	100	**100**	100	Malta

39. The Air Malta Group - continued

39.2 Associates

	Group % holding		Company % holding		Country of incorporation
	2011	2010	**2011**	2010	
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	Malta
World Aviation Group Limited Floor 1, Aviation Centre, Luqa	**50**	50	**50**	50	Malta

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l-Ekonomija u Investiment

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