AIR SEYCHELLES LIMITED

Audited Financial Statements
for the year ended 31 March 2011

AIR SEYCHELLES LIMITED

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The Directors are pleased to submit the report of Air Seychelles Limited together with its audited financial statements for the year ended March 31, 2011.

PRINCIPAL ACTIVITIES

The principal activities of the Company is to provide air transport services for passengers and cargo on domestic and international sectors, as well as ground handling, technical handling and related airline support services.

These activities have remained unchanged during the year under review.

EVENTS AFTER THE REPORTING PERIOD

At March 31, 2011, the Company had net assets of € 9.3m and net current liabilities of € 6.1m. On November 17, 2011, the shareholder, the Government of Seychelles (GOS) agreed with the intent of Air Seychelles Limited to consolidate and reposition as a regional carrier with focus on the profitable routes. Subsequently, at the Budget Speech on November 30, 2011, the Minister of Finance announced at the National Assembly that the GOS will only be supporting the Company to the € 8.7m (SR156.6m) between the period January to March 2012, to meet operating costs and redundancy packages. The projected results for the year ending March 31, 2012 and new business plan 2012-2013 was approved by the Board of Directors on December 6, 2011.

A restructuration plan started to be implemented which comprised the conversion of the airline into a regional carrier and a comprehensive retrenchment plan. On January 9, 2012 , 167 employees of the Company including expatriates were informed of the decision of the Company to make them redundant and the estimated cost amounted to € 1.7m.

On January 25, 2012, a Memorandum of Understanding was signed between the Government of Seychelles and Etihad Airways to enter into a strategic partnership whereby Etihad is acquiring 40% stake in Air Seychelles for USD 20 Million, to be matched by a capital injection of USD 10 Million by the Government of Seychelles in addition to SR 156.6M already committed for. Etihad will also inject by means of a Shareholders' loan another USD 25 Million to meet working capital requirements and support network development. A Management Contract has been entered between Etihad and Air Seychelles for the next five year effective February 1, 2012. Etihad will provide a strategic plan for Air Seychelles in order to consolidate its operations and bring it in line with Etihad's operations thus permitting better synergy between the two. A code share agreement on all the destinations is also being conceived as part of the partnership agreement.

RESULTS

Net loss of the Company for the year amounted to € 10.7M (2010: Net profit amounted to € 0.6M).

DIVIDENDS

The Directors did not recommend any dividends for the year under review (2010: Nil).

PROPERTY AND EQUIPMENT

Additions to property and equipment for the year amounted to € 4.4M (2009: € 3.8M) comprising mainly aircraft and engine overhaul, aircraft spares, operating equipment, computer, office equipment and building in progress. The Company's aircrafts were revalued during the year to € 6.9M with a net revaluation reserve of € 1.9M taken to equity.

The Directors are of the opinion that the carrying amount of property and equipment as at March 31, 2011 does not differ materially from their fair value in the Statement of Financial Position as at that date.

DIRECTORS

The Directors of the Company since the date of the last report and the date of this report are:

David Ralph Savy	(up to March 31, 2011)
Simon De-Commarmond	(up to January 7, 2011)
Veronique Herminie	(up to January 7, 2011)
Jean Paul Adam	(up to January 7, 2011)
Hans Aglae	(up to January 7, 2011)
Daniella Allis Payet	(up to September 16, 2011)
Ahmed Afif	(as from January 7, 2011 and up to September 16, 2011)
Philip Morin	(as from January 7, 2011 and up to September 16, 2011)
Jean Weeling-Lee	(as from January 8, 2009)
Ahmed Saeed	(as from January 7, 2011)
Gerard Lafortune	(as from January 7, 2011)
Maurice Loustau Lalanne	(as from April 16, 2011)
Damien Thesee	(as from September 16, 2011)
Veronique Laporte	(as from September 16, 2011)
Alain Ste Ange	(as from September 16, 2011)
Bram Stell~~a~~er	(as from October 1, 2011)

None of the Directors has any direct or indirect interest in the shares of the Company.

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for the overall management of the affairs of the Company including the operations of the Company and making investment decisions.

The Board is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and in compliance with the Companies Act, 1972. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. The Directors have the general responsibility of safeguarding the assets, both owned by the Company and those that are held in trust and used by the Company.

The Directors consider they have met their aforesaid responsibilities.

AUDITORS

The retiring auditors, Messrs. BDO Associates, are eligible for re-appointment.

BY ORDER OF THE BOARD

Approved by the Board of Directors on

and signed by:

Maurice Loustau Lalanne
Director and Chairman

Bram Stellar 08/02/12
CEO & Director

Véronique Laporte
Director

Ahmed Saeed
Director

Jean Weeling-Lee
Director

Gerard Lafortune
Director

Alain Ste Ange
Director

Damien Thesee
Director

BDO

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The Creole Spirit
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Victoria
Seychelles

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS

This report is made solely to the members of Air Seychelles Limited ('the Company'), as a body, in accordance with the Companies Act, 1972. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Report on the Financial Statements

We have audited the attached financial statements of Air Seychelles Limited set out on pages 3 to 35 which comprise the statement of financial position as at March 31, 2011, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended and a summary of significant accounting policies and explanatory notes.

Board's Responsibility for the Financial Statements

As stated on Page 1(a) of the Directors' Report, the Board of Directors are responsible for preparation of the financial statements.

Auditors' Responsibility

Our responsibility is to express an opinion on those financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors as well as evaluating the overall presentation of

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

BDO

AIR SEYCHELLES LIMITED

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS (CONT'D)

Opinion

In our opinion, the financial statements on pages 3 to 35 give a true and fair view of the financial position of the Company as at March 31, 2011 and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and comply with the provisions of the Seychelles Companies Act, 1972.

Report on Other Legal Regulatory Requirements

Companies Act, 1972

We have no relationship with, or interests, in the Company other than in our capacity as auditors, tax and business advisers and dealings in the ordinary course of business.

We have obtained all information and explanations we have required.

In our opinion, proper accounting records have been kept by the Company as far as it appears from our examination of those records.

Public Enterprise (Monitoring) Act, 2009

In our opinion, proper accounting records have been kept by the Company as far as it appears from our examination of those records.

We have obtained all the information necessary for the purpose of our audit and are satisfied with the information received.

BDO Associates

BDO Associates
Chartered Accountants

Dated: 9\2\12
Victoria, Seychelles

AIR SEYCHELLES LIMITED

STATEMENT OF FINANCIAL POSITION - MARCH 31, 2011

	Notes	2011	2010
ASSETS		€'000	€'000
Non-current assets			
Property and equipment	5	**16,561**	13,303
Intangible assets	6	**14**	20
Investment in financial asset	7	**750**	786
Long term deposits	8	**19,952**	14,355
		37,277	28,464
Current assets			
Inventories	9	**6,579**	5,638
Trade and other receivables	10	**13,598**	12,048
Cash and cash equivalents	24(b)	**4,624**	2,300
		24,801	19,986
Total assets		**62,078**	48,450
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	11	**26,935**	26,935
Other reserves	12	**4,135**	2,232
Revenue deficit		**(21,755)**	(11,033)
Total equity		**9,315**	18,134
LIABILITIES			
Non-current liabilities			
Borrowings	13	**5,115**	552
Retirement benefit obligations	14	**1,963**	1,733
Provisions	15	**14,739**	9,013
		21,817	11,298
Current liabilities			
Trade and other payables	16	**15,219**	17,821
Borrowings	13	**14,617**	413
Provisions	15	**1,110**	784
		30,946	19,018
Total liabilities		**52,763**	30,316
Total equity and liabilities		**62,078**	48,450

These financial statements have been approved for issue by the Board of Directors on 08/02/12

Maurice Loustau Lalanne **Director and Chairman**	Bram Steller **CEO & Director**	Ahmed Saeed **Director**
Jean Weeling Lee **Director**	Gerard Lafortune **Director**	Veronique Laporte **Director**
Damiel Thesee **Director**	Alain Ste Ange **Director**	

The notes on pages 8 to 34 form an integral part of these financial statements.
Auditors' report on pages 2 and 2(a).

AIR SEYCHELLES LIMITED

INCOME STATEMENT - YEAR ENDED MARCH 31, 2011

	Notes	2011	2010
		€'000	€'000
Revenue	2(j)	109,715	99,721
Operating expenses	17	(112,309)	(88,450)
Gross (loss)/profit		(2,594)	11,271
Selling and marketing expenses	17	(1,314)	(2,127)
Administrative expenses	17	(9,529)	(7,831)
Other income	18	2,543	741
		(10,894)	2,054
Net finance (cost)/income	19	(274)	6
(Loss)/Profit before net foreign exchange gains		(11,168)	2,060
Net foreign exchange gains/(losses)	20	472	(1,444)
(Loss)/Profit before tax	21	(10,696)	616
Tax expense	22	(26)	(11)
(Loss)/Profit for the year		(10,722)	605

The notes on pages 8 to 34 form an integral part of these financial statements.
Auditors' report on pages 2 and 2(a).

STATEMENT OF COMPREHENSIVE INCOME - YEAR ENDED MARCH 31, 2010

	Note	2011	2010
		€'000	€'000
(Loss)/Profit for the year		(10,722)	605
Other comprehensive (expense)/income:			
(Loss)/Gain recognised directly in equity			
(Decrease)/Increase in fair value of available-for-sale financial asset and other comprehensive income for the year	7	(36)	103
Gain on revaluation of aircrafts	12	1,939	-
		1,903	103
Total comprehensive (expense)/income for the year		(8,819)	708

The notes on pages 8 to 34 form an integral part of these financial statements.
Auditors' report on pages 2 and 2(a).

STATEMENT OF CHANGES IN EQUITY - YEAR ENDED MARCH 31, 2011

	Share Capital	Other Reserves	Retained Earnings	Total
	€'000	€'000	€'000	€'000
Balance at April 1, 2010	**26,935**	**2,232**	**(11,033)**	**18,134**
Total comprehensive income/(expense) for the year	**-**	**1,903**	**(10,722)**	**(8,819)**
Balance at March 31, 2011	**26,935**	**4,135**	**(21,755)**	**9,315**
Balance at April 1, 2009	26,935	2,129	(11,638)	17,426
Total comprehensive income for the year	-	103	605	708
Balance at March 31, 2010	26,935	2,232	(11,033)	18,134

The notes on pages 8 to 34 form an integral part of these financial statements.
Auditors' report on pages 2 and 2(a).

AIR SEYCHELLES LIMITED

STATEMENT OF CASH FLOWS - YEAR ENDED MARCH 31, 2011

	Notes	2011	2010
		€'000	€'000
Cash flows from operating activities			
Net cash (absorbed by)/generated from operations	25(a)	12,537	16,765
Payment for contractual maintenance	15	(20,035)	(11,050)
Interest paid		(277)	(6)
Interest received		3	12
Tax paid		(26)	(11)
Net cash (used in)/generated from operating activities		(7,798)	5,710
Cash flows from investing activities			
Purchase of property and equipment	5	(4,353)	(1,230)
Building in progress	5	-	(2,547)
Purchase of intangible asset	6	-	(12)
Proceeds from sale of equipment		811	741
Net cash used in investing activities		(3,542)	(3,048)
Cash flows from financing activities			
Increase in long term deposits	8	(5,597)	(3,086)
Repayment on borrowings		(850)	(361)
Proceeds from borrowings		19,617	1,326
Dividends received		43	43
Net cash generated from/(used in) financing activities		13,213	(2,078)
Net increase in cash and cash equivalents		1,873	584
Movement in cash and cash equivalents			
At April 1,		2,300	2,655
Increase		1,873	584
Effect of unrealised foreign exchange gains/(losses)	20	451	(939)
At March 31,	24(b)	4,624	2,300

The notes on pages 8 to 34 form an integral part of these financial statements.
Auditors' report on pages 2 and 2(a).

1. GENERAL INFORMATION

Air Seychelles Limited is a limited liability company, incorporated and domiciled in the Republic of Seychelles and is wholly owned by the Government of Seychelles. The registered office of the Company is located at Point Larue, Mahé, Seychelles.

These financial statements will be submitted for consideration and approval at the forthcoming Annual General Meeting of the Shareholders of the Company.

2. PRINCIPAL ACCOUNTING POLICIES

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

(a) Basis of preparation

The financial statements of Air Seychelles Limited comply with the Companies Act 1972 and have been prepared in accordance with International Financial Reporting Standards (IFRS). Where necessary, comparative figures have been amended to conform with change in presentation in the current year. The financial statements are prepared under the historical cost convention, except that relevant financial assets and financial liabilities are stated at their fair value.

The financial statements are presented in Euros and all values have been rounded to the nearest thousand (Eur'000) except where otherwise stated.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the company's accounting policies. The areas involving a higher degree of judgement or complexity , or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 4.

Standards, Amendments to published Standards and Interpretations effective in the reporting period

IAS 27, 'Consolidated and Separate Financial Statements' (Revised 2008), requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The revised standard also specifies the accounting when control is lost. Any remaining interest in the entity is remeasured to fair value, and a gain or loss is recognised in profit or loss. This IAS will not have any impact on the Company's financial statements.

2. PRINCIPAL ACCOUNTING POLICIES (CONT'D)

(a) Basis of preparation (cont'd)

IFRS 3, 'Business Combinations' (Revised 2008), continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently remeasured through the statement of comprehensive income. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs should be expensed. This IFRS will not have any impact on the Company's financial statements.

Amendments to IAS 39, 'Eligible hedged items', prohibit designating inflation as a hedgeable component of a fixed rate debt. In a hedge of one-sided risk with options, it prohibits including time value in the hedged risk. The amendment is not expected to have any impact on the Company's financial statements.

Amendments to IFRS 1 and IAS 27, 'Cost of an Investment in a Subsidiary', clarify that the cost of a subsidiary, jointly controlled entity or associate in a parent's separate financial statements, on transition to IFRS, is determined under IAS 27 or as a deemed cost. Dividends from a subsidiary, jointly controlled entity or associate are recognised as income. There is no longer a distinction between pre-acquisition and post-acquisition dividends. The cost of the investment of a new parent in a group (in a reorganisation meeting certain criteria) is measured at the carrying amount of its share of equity as shown in the separate financial statements of the previous parent. The amendment is not expected to have any impact on the Company's financial statements.

IFRIC 17, 'Distributions of Non-cash Assets to Owners', clarifies that a dividend payable is recognised when appropriately authorised and no longer at the entity's discretion. An entity measures distributions of assets other than cash when it pays dividends to its owners, at the fair value of the net assets to be distributed. The difference between fair value of the dividend paid and the carrying amount of the net assets distributed is recognised in profit or loss. This IFRIC will not have any impact on the Company's financial statements.

IFRIC 18, 'Transfers of Assets from Customers', addresses the treatment for assets transferred from a customer in return for connection to a network or ongoing access to goods or services, or both. It requires the transferred assets to be recognised initially at fair value and the related revenue to be recognised immediately; or, if there is a future service obligation, revenue is deferred and recognised over the relevant service period. This IFRIC will not have any impact on the Company's financial statements.

Amendments to IFRS 1, 'Additional Exemptions for First-time Adopters' exempt entities that use the full cost method for oil and gas properties from retrospective application of IFRSs. It also exempts entities with existing leasing contracts from reassessing the classification of those contracts in accordance with IFRIC 4, 'Determining whether an arrangement contains a lease'. The amendment is not expected to have any impact on the Company's financial statements.

2. PRINCIPAL ACCOUNTING POLICIES (CONT'D)

(a) Basis of preparation (cont'd)

Amendments to IFRS 2, 'Group Cash-settled Share-based Payment Transactions'. In addition to incorporating IFRIC 8, 'Scope of IFRS 2', and IFRIC 11, 'IFRS 2 - Group and treasury share transactions', the amendments expand on the guidance in IFRIC 11 to address the classification of group arrangements that were not covered by that interpretation. This amendment is not expected to have any impact on the Company's financial statements.

Amendment to IAS 32, ' Classification of rights issues', addresses the accounting for rights issues that are denominated in a currency other than the functional currency of the issuer. Provided certain conditions are met, such rights issues are now classified as equity regardless of the currency in which the exercise price is denominated. Previously, these issues had to be accounted for as derivative liabilities. This amendment is not expected to have any impact on the Company's financial statements.

Improvements to IFRSs (issued May 22, 2008)

IFRS 5 (Amendment), 'Non-current Assets Held for Sale and Discontinued Operations', clarifies that all of a subsidiary's assets and liabilities are classified as held for sale if a partial disposal sale plan results in loss of control. Relevant disclosure should be made for this subsidiary if the definition of a discontinued operation is met. The amendment will not have an impact on the Company's operations.

Improvements to IFRSs (issued April 16, 2009)

IAS 1 (Amendment), 'Presentation of Financial Statements'. The amendment clarifies that the potential settlement of a liability by the issue of equity is not relevant to its classification as current or non-current. By amending the definition of current liability, the amendment permits a liability to be classified as non-current (provided that the entity has an unconditional right to defer settlement by transfer of cash or other assets for at least 12 months after the accounting period) notwithstanding the fact that the entity could be required by the counterparty to settle in shares at any time. This amendment is not expected to have any impact on the Company's financial statements.

IAS 7 (Amendment), 'Statement of Cash Flows', clarifies that only expenditure that results in a recognised asset in the statement of financial position can be classified as a cash flow from investing activities. This amendment is unlikely to have an impact on the Company's financial statements.

IAS 17 (Amendment) 'Leases', clarifies that when a lease includes both land and buildings, classification as a finance or operating lease is performed separately in accordance with IAS 17's general principles. Prior to the amendment, IAS 17 generally required a lease of land with an indefinite useful life to be classified as an operating lease, unless title passed at the end of the lease term. A lease newly classified as a finance lease should be recognised retrospectively. The amendment will not have an impact on the Company's operations.

2. PRINCIPAL ACCOUNTING POLICIES (CONT'D)

(a) **Basis of preparation (cont'd)**

IAS 18 (Amendment), 'Revenue'. An additional paragraph has been added to the appendix to IAS 18, providing guidance on whether an entity is acting as principal or agent.

IAS 36 (Amendment), 'Impairment of Assets', clarifies that for the purpose of impairment testing, the cash-generating unit or groups of cash-generating units to which goodwill is allocated should not be larger than an operating segment (as defined by IFRS 8, 'Operating segments') before aggregation. The amendment will not have an impact on the Company's operations.

IAS 38 (Amendment), 'Intangible Assets', clarifies guidance in measuring the fair value of an intangible asset acquired in a business combination and it permits the grouping of intangible assets as a single asset if each asset has similar useful economic lives. The amendment removes the exceptions from recognising intangible assets on the basis that their fair values cannot be reliably measured. Intangible assets acquired in a business combination that are separable or arise from contractual or other legal rights should be recognised. The amendment specifies different valuation techniques that may be used to value intangible assets where there is no active market. The amendment is unlikely to have an impact on the Company's financial statements.

IAS 39 (Amendment), 'Financial Instruments: Recognition and Measurement' clarifies that the scope exemption within IAS 39 only applies to forward contracts that will result in a business combination at a future date, as long as the term of the forward contract does 'not exceed a reasonable period normally necessary to obtain any required approvals and to complete the transaction'. The amendment removes reference to transactions between segments as being hedgeable transactions in individual or separate financial statements and clarifies that amounts deferred in equity are only reclassified to profit or loss when the underlying hedged cash flows affect profit or loss. The amendment is not expected to have an impact on the Company's income statement/statement of comprehensive income.

IFRS 2 (Amendment), 'Share-based Payment', confirms that, transactions in which the entity acquires goods as part of the net assets acquired in a business combination as defined by IFRS 3 (2008) Business Combinations, contribution of a business on formation of a joint venture and common control transactions are excluded from the scope of IFRS 2 Share-based Payment. The amendment will not have an impact on the Company's operations.

IFRS 5 (Amendment), 'Non-current Assets Held for Sale and Discontinued Operations'. The amendment clarifies that IFRS 5 specifies the disclosures required in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations. It also clarifies that the general requirement of IAS 1 still apply, in particular paragraph 15 (to achieve a fair presentation) and paragraph 125 (sources of estimation uncertainty) of IAS 1. The amendment will not have an impact on the Company's operations.

2. PRINCIPAL ACCOUNTING POLICIES (CONT'D)

(a) Basis of preparation (cont'd)

IFRS 8 (Amendment), 'Operating Segments', clarifies that the requirement for disclosing a measure of segment assets is only required when the Chief Operating Decision Maker reviews that information. This amendment is unlikely to have an impact on the Company's financial statements.

IFRIC 9 (Amendment), 'Reassessment of Embedded Derivatives', clarifies that embedded derivatives in contracts acquired in a combination between entities or businesses under common control or the formation of a joint venture are outside the scope of IFRIC 9. This amendment is unlikely to have an impact on the Company's financial statements.

IFRIC 16 (Amendment), 'Hedges of a Net Investment in a Foreign Operation', clarifies that hedging instruments may be held by any entity or entities within the group. This includes a foreign operation that itself is being hedged. This amendment is unlikely to have an impact on the Company's financial statements.

Standards, Amendments to published Standards and Interpretations issued but not yet effective

Certain standards, amendments to published standards and interpretations have been issued that are mandatory for accounting periods beginning on or after January 1, 2011 or later periods, but which the Company has not early adopted.

At the reporting date of these financial statements, the following were in issue but not yet effective:

IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments (Effective July 1, 2010)
Amendments to IFRIC 14 Prepayments of a Minimum Funding Requirement
IAS 24 Related Party Disclosures (Revised 2009)
Severe Hyperinflation and Removal of Fixed Dates for First-time Adopters (Amendments to IFRS 1)
Deferred Tax: Recovery of Underlying Assets (Amendments to IAS 12)
IFRS 9 Financial Instruments
Disclosures - Transfers of Financial Assets (Amendments to IFRS 7)
Amendment to IFRS 1 Limited Exemption from Comparatives IFRS 7 Disclosures for First-time Adopters (Effective July 1, 2010)

Improvements to IFRSs (issued May 6, 2010)

IFRS 1 First-time Adoption of International Financial Reporting Standards
IFRS 3 Business Combinations (Effective 1 July 2010)
IFRS 7 Financial Instruments: Disclosures
IAS 1 Presentation of Financial Statements
IAS 27 Consolidated and Separate Financial Statements (Effective July 1, 2010)
IAS 34 Interim Financial Reporting
IFRIC 13 Customer Loyalty Programmes

2. PRINCIPAL ACCOUNTING POLICIES (CONT'D)

(a) Basis of preparation (cont'd)

Where relevant, the Company is still evaluating the effect of these Standards, amendments to published Standards and Interpretations issued but not yet effective, on the presentation of its financial statements.

(b) Property and equipment

All property and equipment are stated at historical cost or valuation less depreciation except for the turboprop of the domestic fleet owned by the Company which are stated at revalued amount. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the assets carrying amount or recognised as a separate asset as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably.

Properties in the course of construction for operation purposes are carried at cost less any recognised impairment loss. Cost includes professional fees and for qualifying assets, borrowing costs capitalised. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Depreciation is calculated on the straight line method to write off the cost of the assets, to their residual values over their estimated useful life as follows:

Buildings	10 & 25 years
Aircraft spares	5 & 10 years
Owned aircrafts	10 years
Aircraft, engines and engine overhauls	* see note below
Other assets	4 - 10 years

* Valuation is carried out periodically by independent professional aircraft valuers. Increases in the carrying amount arising on revaluation are credited to revaluation reserve in shareholders' equity. Decreases that offset previous increases of the same asset are charged against revaluation reserve directly in equity; all other decreases are charged to the income statement.

Land is not depreciated.

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

Where the carrying amount of an asset is greater than its estimated recoverable amount, it is written down immediately to its recoverable amount.

Gains and losses on disposals of property and equipment are determined by comparing proceeds with carrying amount and are included in the income statement. On disposal of revalued assets, amounts included in revaluation reserve are transferred to retained earnings.

2. PRINCIPAL ACCOUNTING POLICIES (CONT'D)

(c) Intangible assets

Computer software

Computer software licences are capitalised on the basis of costs incurred to acquire and bring to use the specific software and are amortised using the straight line method over a period of five (5) years.

Costs associated with developing or maintaining computer software are recognised as an expense as incurred.

(d) Financial instruments

Financial assets and liabilities are recognised on the Company's statement of financial position when the Company has become a party to the contractual provisions of the instrument. The Company's accounting policies in respect of the main financial instruments are set out below.

(i) Available-for-sale financial assets

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

Purchases and sales of available-for-sale financial assets are recognised on trade-date (or settlement date), the date on which the Company commits to purchase or sell the asset. They are initially measured at fair value plus transaction costs and subsequently carried at fair value.

Available-for-sale financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership.

(ii) Trade and other receivables

Trade receivables are recognised initially at fair value less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of receivable.

The amount of provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of provision is recognised in the income statement.

2. PRINCIPAL ACCOUNTING POLICIES (CONT'D)

(iii) Trade and other payables

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

(iv) Cash and cash equivalents

Cash and cash equivalents include cash in hand, short term deposits held with banks.

(v) Share capital

Ordinary shares are classified as equity.

(e) Inventories

Inventories are stated at lower of cost and net realised value. Cost is determined by the weighted average cost method. Slow moving inventories are written down to their net realisable values. Consumables are written down with regards to their age, condition and utility. Net realisable value is the estimate of the selling price in the ordinary course of business less selling expenses.

(f) Retirement benefit obligations

Severance allowance on retirement

The employees are not covered by a pension plan and the net present value of severance allowances payable under the Seychelles Employment Act has been provided for. The obligations arising under this item are not funded.

End of contract gratuity for pilots

The terms of employment contracts with expatriate pilots include a condition for the payment of an end of contract gratuity which is calculated based on the total basic salary paid over the period of the contract. The amount of the end of contract gratuity has been estimated and provided for annually.

(g) Foreign currencies

(i) Functional and presentation currency

Items included in the financial statements are measured using Euro, the currency of the primary economic environment in which the entity operates ("functional currency"). The financial statements of the Company are presented in Euro, which is the Company's functional and presentation currency.

2. PRINCIPAL ACCOUNTING POLICIES (CONT'D)

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing on the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Non-monetary items that are measured at historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date the fair value was determined.

Exchange rates used for major currencies as at the financial position dates are as follows:

	2011	2010
	€	€
1 US Dollar	**0.7042**	0.7407
1 Pound Sterling	**1.1364**	1.1236
1 Seychelles Rupee	**0.0583**	0.0625

The average exchange rates used in respect of the same currencies as above are as follows:

	2011	2010
	€	€
1 US Dollar	**0.7561**	0.7493
1 Pound Sterling	**1.1662**	1.1076
1 Seychelles Rupee	**0.0618**	0.0550

(h) Operating leases

Leases where a significant portion of risks and rewards of ownership are retained by lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

2. PRINCIPAL ACCOUNTING POLICIES (CONT'D)

(i) Impairment of assets

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

(j) Revenue recognition

Revenue comprises the fair value for the sale of goods and services, net of tax, rebates and discounts.

Passenger tickets and cargo airway bills are recorded as current liabilities in the 'Sales in advance of carriage account' and are recognised as revenue only when passengers and cargo are actually uplifted. Commission costs are recognised at the same time as the revenue to which they relate and are charged to operating expenses. Unused tickets are recognised as revenue if not uplifted within one year.

Other revenues

Interest income - on a time-proportion basis using the effective interest method. When a receivable is impaired, the company reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at original effective interest rate, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised either as cash is collected or on a cost-recovery basis as conditions warrant.

Dividend income - when the shareholder's right to receive payment is established.

(k) Provisions

General

Provisions are recognised when the Company has a present or constructive obligation as a result of past events; it is probable that an outflow of resources that can be reliably estimated will be required to settle the obligation.

2. PRINCIPAL ACCOUNTING POLICIES (CONT'D)

(k) Provisions (Cont'd)

Contractual Maintenance Reserve

The Company has an obligation to maintain the engines and airframes of aircrafts held under operating leases in accordance with the requirements stipulated in the agreements with the lessors. As a result to this, the Company makes a provision for maintenance costs based on number of hours flown and anticipated rates per hour. Such provision is reduced by amounts paid into a maintenance account kept with the lessor and reimbursed to the Company when the maintenance is carried out or the costs are borne by the Company and subsequently refunded by the lessor.

(l) Customer loyalty programme

The Company operates a customer loyalty programme (frequent flyer) that entitles travellers to accumulated mileage credits convertible into free tickets and other benefits. Provision for the potential obligation is accrued on an incremental cost basis and is reduced as members redeem their entitlement awards or after an expiry period of two years.

3. FINANCIAL RISK MANAGEMENT

3.1 Financial Risk Factors

The Company's activities expose it to a variety of financial risks: market risk, credit risk and liquidity risk.

The Company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effect of the Company's financial performance.

A description of the significant risk factors is given below together with the risk management policies applicable.

(a) **Market risk**

Currency risk

The Company operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to US Dollar, Pound Sterling and Seychelles Rupee.

If the Euro had weakened/strengthened against the above currencies by ±5% with all other variables remaining constant, the impact (increase/(decrease)) on the results for the year would have been as depicted in the table hereunder mainly as a result of foreign exchange gains/(losses).

Impact on results	Bank balances	Receivables and deposits	Trade and other payables
	€'000	€'000	€'000
March 31, 2011	+/-	+/-	+/-
- US Dollar	**61**	**12**	**(269)**
- Pound Sterling	**8**	**84**	**(26)**
- Seychelles Rupee	**-**	**24**	**(79)**
March 31, 2010			
- US Dollar	25	25	(128)
- Pound Sterling	14	75	(214)
- Seychelles Rupee	-	1	(100)

3. FINANCIAL RISK MANAGEMENT

3.1 Financial Risk Factors (cont'd)

(b) Credit risk

The Company's credit risk is primarily attributable to its trade receivables.

The Company has a significant concentration of credit risk, with a wide exposure spread over a small number of customers. However, the Company has policies in place to ensure that sales of products and services are made to customers with an appropriate credit history.

Amount due from four major counterparties at the end of respective reporting year amounted to **€ 5.8M** (2010: € 4.0M).

(c) Cash flow and fair value interest rate risk

As the Company has no significant interest-bearing assets, its income and operating cash flows are substantially independent of changes in market interest rates.

(d) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and availability of funding through an adequate amount of committed credit facilities.

Management monitors rolling forecasts of the Company's liquidity reserve on the basis of expected cash flow.

The table below analyses the Company's financial exposure into relevant maturity groupings based on the remaining period at the end of the reporting period to the contractual maturity date.

	Less than 1 year	Greater than 1 year	Total
	€'000	€'000	€'000
At March 31, 2011			
Provisions	**1,110**	**14,739**	**15,849**
Trade and other payables	**15,219**	**-**	**15,219**
Borrowings	**14,617**	**5,115**	**19,732**
	30,946	**19,854**	**50,800**
At March 31, 2010			
Provisions	784	9,013	9,797
Trade and other payables	17,821	-	17,821
Borrowings	413	552	965
	19,018	9,565	28,583

3. FINANCIAL RISK MANAGEMENT (CONT'D)

3.2 Fair value estimation

The nominal value less estimated credit adjustments of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cashflows at the current market interest rate that is available to the Company for similar financial instruments.

3.3 Capital risk management

The Company's objectives when managing capital are:

- to safeguard the entity's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for the other stakeholders; and

- to provide an adequate return to shareholders by pricing products and services commensurately with the level of risk.

The Company sets the amount of capital in proportion to risk. It manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares, or sell assets to reduce debt.

The Company monitors capital on the basis of the debt-to-adjusted capital ratio. This ratio is calculated as net debt adjusted capital. Net debt is calculated as total debt less cash and cash equivalents. Adjusted capital comprises all components of equity (i.e. share capital, retained earnings, revaluation reserve and capital reserves).

During 2011, the Company's strategy, which was unchanged from 2010, was to maintain the debt-to-adjusted capital ratio at a reasonable level in order to secure access to finance at a reasonable cost.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

Critical accounting estimates and assumptions

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) *Impairment of available-for-sale financial assets*

The Company follows the guidance of IAS 39 on determining when an investment is other-than-temporarily impaired.This determination requires significant judgement. In making this judgement, the Company evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost, and the financial health of and near-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing

(b) *Impairment of other assets*

At the end of each reporting period, management reviews and assesses the carrying amounts of other assets and where relevant writes them down to their recoverable amounts based on best estimates.

(c) *Contractual maintenance reserve*

Contractual maintenance are provided for in accordance with the terms of the maintenance agreement on aircraft. The provisions are generally based on flying hours of each aircraft/engine and an agreed/estimated rate. The long term portion has not discounted to its net present value due to uncertainties with respect to the final maintenance costs to be incurred when compared to the estimated rate applied.

(d) *Purging of unsued tickets*

Unused tickets are purged after a period of one year and recognised as revenue. The one year period estimate is based on historical trends and uplift experience of the Company.

(e) *Limitation of sensitivity analysis*

Sensitivity analysis in respect of market risk demonstrates the effect of a change in a key assumption while other assumptions remain unchanged. In reality, there is a correlation between the assumptions and other factors. It should also be noted that these sensitivities are non-linear and larger or smaller impacts should not be interpolated or extrapolated from these results.

Sensitivity analysis does not take into consideration that the Company's assets and liabilities are actively managed. Other limitations include the use of hypothetical market movements to demonstrate potential risk that only represent the Company's views of possible near-term market changes that cannot be predicted with any certainty.

5. PROPERTY AND EQUIPMENT

	Land and buildings	Aircraft and accessories	Aircraft spares	Aircraft and engine overhaul	Operating equipment	Furniture and fittings	Computer and office equipment	Motor Vehicles	Work in progress	Total
(i) COST/ VALUATION	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000	€'000
At April 1, 2009	2,844	6,656	4,694	4,470	5,240	1,755	2,321	1,251	1,538	30,769
Additions	-	25	585	307	64	12	128	109	2,547	3,777
Disposals	-	(1,019)	-	(3,465)	-	-	(29)	-	-	(4,513)
At April 1, 2010	**2,844**	**5,662**	**5,279**	**1,312**	**5,304**	**1,767**	**2,420**	**1,360**	**4,085**	**30,033**
Additions	-	**2,667**	**294**	**272**	**173**	**461**	**291**	**195**	-	**4,353**
Disposals	-	**(850)**	-	-	-	-	**(2)**	-	-	**(852)**
Adjustments	**1,942**	**1,415**	**(629)**	**(412)**	**292**	**3**	**5**	-	**(4,052)**	**(1,436)**
Revaluation adjustment	-	**(1,973)**	-	-	-	-	-	-	-	**(1,973)**
At March 31, 2011										
COST	**4,786**	**55**	**4,944**	**1,172**	**5,769**	**2,231**	**2,714**	**1,555**	**33**	**23,259**
VALUATION	-	**6,866**	-	-	-	-	-	-	-	**6,866**
	4,786	**6,921**	**4,944**	**1,172**	**5,769**	**2,231**	**2,714**	**1,555**	**33**	**30,125**
DEPRECIATION										
At April 1, 2009	1,186	4,727	1,953	2,093	3,611	1,244	1,720	928	-	17,462
Charge for the year	227	267	498	344	293	176	243	180	-	2,228
Disposal adjustments	-	(791)	-	(2,151)	(5)	-	(13)	-	-	(2,960)
At April 1, 2010	**1,413**	**4,203**	**2,451**	**286**	**3,899**	**1,420**	**1,950**	**1,108**	-	**16,730**
Charge for the year	**405**	**530**	**569**	**565**	**323**	**194**	**232**	**157**	-	**2,975**
Disposal adjustments	-	**(792)**	-	-	-	-	**(1)**	-	-	**(793)**
Adjustments	-	**4**	**(1,098)**	**(352)**	-	**1**	**8**	**1**	-	**(1,436)**
Revaluation adjustment	-	**(3,912)**	-	-	-	-	-	-	-	**(3,912)**
At March 31, 2011	**1,818**	**33**	**1,922**	**499**	**4,222**	**1,615**	**2,189**	**1,266**	-	**13,564**
NET BOOK VALUE										
At March 31, 2011	**2,968**	**6,888**	**3,022**	**673**	**1,547**	**616**	**525**	**289**	**33**	**16,561**
At March 31, 2010	1,431	1,459	2,828	1,026	1,405	347	470	252	4,085	13,303

5. PROPERTY AND EQUIPMENT (CONT'D)

(ii) The aircrafts of the domestic fleet were revalued effective March 31, 2011 on an open market basis based on existing use by The Aircraft Value Analysis Company from England. If the aircrafts were carried at historical cost less depreciation, their net book value would have been as follows:

	2011
	€'000
Cost	8,839
Accumulated depreciation	(3,911)
Net book value	4,928

(iii) Bank borrowings are secured over the Company's assets including property and equipment.

6. INTANGIBLE ASSETS

	Computer software	
	2011	2010
Cost	**€'000**	€'000
At April 1,	**29**	17
Additions during the year	**-**	12
At March 31,	**29**	29
Amortisation		
At April 1,	**9**	5
Amortisation charge for the year	**6**	4
At March 31,	**15**	9
Net book value	**14**	20

Amortisation charge of € 6K (2010: € 4K) has been charged to administrative expenses.

7. INVESTMENT IN FINANCIAL ASSET

(a) Available-for-sale financial asset	**2011**	2010
	€'000	€'000
At April 1,	**786**	683
(Decrease)/Increase in fair value (note 12)	**(36)**	103
At March 31,	**750**	786

The available-for-sale financial asset is denominated in Euro.

(b) At March 31, 2011	Level 1	Level 2	Level 3
	€'000	€'000	€'000
Available-for-sale financial asset	750	-	-

(c) Available-for-sale financial asset include the following:	**2011**	2010
	€'000	€'000
Equity securities at fair value:		
- Listed	**750**	786

8. LONG TERM DEPOSITS

	2011	2010
	€'000	€'000
Security deposits	5,275	6,086
Contractual maintenance reserve	14,677	8,269
	19,952	14,355

(a) Breakdown into current and non-current portions cannot be reasonably determined since utilisation is based on actual costs incurred for major maintenance and overhauls in future.

(b) Security deposits are refundable non-interest bearing amounts kept with lessor as security for lease payments.

(c) Contractual maintenance reserve is provided based on number of hours flown and anticipated rates per hour. Such provision is reduced by amounts paid into a maintenance account kept with the lessor and reimbursed to the Company when the maintenance is carried out or the costs are borne by the Company and subsequently refunded by the lessor.

(d) The carrying amounts of 'long term deposits' approximate their fair value.

(e) Long Term Deposits are denominated in US Dollars.

9. INVENTORIES

	2011	2010
	€'000	€'000
Aircraft spares	6,110	5,120
Others	469	518
	6,579	5,638

(i) Bank borrowing is secured over the Company's assets including inventories.

10. TRADE AND OTHER RECEIVABLES

	2011	2010
	€'000	€'000
Trade receivables	10,023	8,854
Less: provision for impairment	(134)	(54)
	9,889	8,800
Deposits and prepayments	1,410	1,399
Other receivables	2,299	1,849
	13,598	12,048

(a) The carrying amounts of 'trade and other receivables' approximate their fair value.

10. TRADE AND OTHER RECEIVABLES (CONT'D)

(b) As at March 31, 2011, trade receivables of € 0.011M (2010: € 0.054M) were impaired and fully provided for. The individually impaired receivables relates to invoices due from customers whose recoverability is in doubt. The ageing analysis of these receivables is as follows:

	2011	2010
	€'000	€'000
Over 6 months	123	-
Over 1 year	11	54
	134	54

(c) As at March 31, 2011, trade receivables of € 1.4M (2010: € 2.3M) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The ageing analysis of these trade receivables is as follows:

	2011	2010
	€'000	€'000
3 to 6 months	538	146
Over 6 months	44	621
Over 1 year	855	1,579
	1,437	2,346

(d) The carrying amounts of the Company's trade receivables are denominated in the following currencies:

	2011	2010
	€'000	€'000
Euro	5,790	5,212
Pound Sterling	1,675	1,361
US Dollar	247	660
Seychelles Rupee	479	342
Other currencies	1,698	1,225
	9,889	8,800

(e) Movement in the provision for impairment of trade receivables is as follows:

	2011	2010
	€'000	€'000
At April 1,	54	640
Charge for the year	123	-
Written off during the year	(43)	(586)
At March 31,	134	54

(f) The other classes within trade and other receivables do not contain impaired assets.

(g) The maximum exposure to credit risk at the reporting date is the fair value of each class of receivable.

(h) The Company does not hold any collateral as security.

11. SHARE CAPITAL

	Number of shares	Ordinary shares
		€'000
At April 1, and March 31,	189,352	26,935

12. OTHER RESERVES

	Revaluation reserves	Fair value reserves	Total
	€'000	€'000	€'000
At April 1, 2010	**1,446**	**786**	**2,232**
Movement during the year (note 5 & 7)	**1,939**	**(36)**	**1,903**
At March 31, 2011	**3,385**	**750**	**4,135**
At April 1, 2009	1,446	683	2,129
Increase in fair value	-	103	103
At March 31, 2010	1,446	786	2,232

13. BORROWINGS

	2011	2010
Non-current	**€'000**	€'000
Bank borrowings (see note (a) to (d) below)	**5,073**	552
Loan from supplier (see note (f) below)	**42**	-
	5,115	552
Current		
Bank borrowings (see note (a) to (d) below)	**12,620**	413
Shareholder's loan (see note (e) below)	**1,750**	-
Loan from supplier (see note (f) below)	**247**	-
	14,617	413
Total borrowings	**19,732**	965

Borrowings comprise the following:

(a) Bank loan 1 amounting to €472k (2010: €965K), is secured by floating charges on the assets of the Company. The rates of interest on the loan is 3% over the 3 months US LIBOR Rate.

(b) Bank loan 2 (USD 6M) are secured by 2nd line fixed charge on the assets of the Company and Insurance cover. The rates of interest on the loan is 5.3%.

(c) Bank loan 3 (SR 75M) are secured by Government Gazetted Guarantee. The rates of interest on the loan is 4.5% p.a and the same was disbursed on December 30, 2010.

(d) Bank loan 4 (SR 150M) are secured by Government Gazetted Guarantee. The rates of interest on the loan is 4.5% p.a. and the same was disbursed on January 25, 2011.

(e) Government loan include a SR 30M loan to be used exclusively for cash flow requirments of the Company and is repayable over 7 years, including 2 years grace period with interest at 365-day Treasury Bills rate plus 0.25% p.a.

(f) Supplier loan include a USD 0.4M loan from Viking Air Limited for a purchase of a Twin Otter ("Airplane") repayable in 28 quarterly installments with floating interest equal to the CIBC (Prime Rate for Canadian Dollar).

14. RETIREMENT BENEFIT OBLIGATIONS

Other post retirement benefits

Movement in the severance allowances is as follows:	2011	2010
	€'000	€'000
At April 1,	1,733	1,306
Total expense charged to income statement	230	427
At March 31,	1,963	1,733

15. PROVISIONS

	2011	2010
Contractual maintenance agreements	€'000	€'000
At April 1,	9,797	11,163
Paid during the year	(20,035)	(11,050)
Charge to income statement	26,087	9,684
At March 31,	15,849	9,797
Analysis of total provisions		
- Non-current	14,739	9,013
- Current	1,110	784
	15,849	9,797

16. TRADE AND OTHER PAYABLES

	2011	2010
	€'000	€'000
Trade payables	6,613	8,443
Sales in advance of carriage	4,224	6,233
Other payables and accruals	4,382	3,145
	15,219	17,821

(a) The carrying amount of 'trade and other payables' approximate their fair value.

17. EXPENSES BY NATURE

	2011	2010
	€'000	€'000
Depreciation (note 5)	2,975	2,228
Lease rentals - aircrafts	13,767	11,920
Fuel and oil expenses	35,151	28,538
Landing and parking fees	2,108	1,863
Air navigation charges	4,922	5,209
Engineering and overhaul costs	20,943	10,727
Inflight operation expenses	7,528	6,843
Traffic and freight charges	9,953	7,271
Employee benefit expense	12,801	10,297
Premises costs	1,193	1,093
Other expenses	11,811	12,420
	123,152	98,408

17. EXPENSES BY NATURE (CONT'D)

	2011	2010
	€'000	€'000
Analysed as:		
Operating expenses	112,309	88,450
Selling and marketing expenses	1,314	2,127
Administrative expenses	9,529	7,831
	123,152	98,408

18. OTHER INCOME

	2011	2010
	€'000	€'000
Fuel surcharge income	-	65
Profit/(loss) on disposal of equipment	752	(812)
Duty free revenue	191	211
Dividends received	43	43
Sundry income	1,557	1,234
	2,543	741

19. NET FINANCE (COSTS)/INCOME

	2011	2010
	€'000	€'000
Interest income	3	12
Interest expenses		
- bank loan	(277)	(6)
Net finance (cost)/income	(274)	6

20. NET FOREIGN EXCHANGE GAINS/(LOSSES)

	2011	2010
	€'000	€'000
Foreign exchange differences		
- Realised gain/(losses)	21	(570)
- Unrealised gain/(losses)	451	(939)
- Gain on foreign exchange hedging	-	65
	472	(1,444)

21. (LOSS)/PROFIT BEFORE TAXATION

(Loss)/Profit before taxation is arrived at after:

	2011 €'000	2010 €000
Crediting:		
Profit on disposal of equipment	752	-
and (charging):		
Depreciation on property and equipment	(2,975)	(2,228)
Loss on disposal of equipment	-	(812)
Operating lease rentals - aircraft	(13,767)	(11,920)
Auditor's remuneration	(19)	(15)
Directors' emoluments (see below)	(40)	(32)
Employee benefit expense (note 23)	(12,801)	(10,297)

Directors' remuneration are as follows:

	2011 €'000	2010 €'000
Directors fees		
S Decomarmond	0.8	-
D Alis-Payet	1.6	-
H Algae	0.2	-
V Herminie	0.6	-
P Morin	1.0	-
A Afif	1.0	-
A Saeed	1.0	-
G Lafortune	0.7	-
J Weeling Lee	1.1	0.2
F Chang Sam	-	0.1
M Lousteau- Lalanne	-	0.1
E Belle	-	0.1
F Chang-Leng	-	0.9
J Paul Adam	-	0.5
P Payet	-	0.3
F Robinson	-	0.3
C Abel	-	0.7
	8.0	3.0
Director's emoluments		
D Ralph Savy	32	29
Total	40.0	32

22. TAX EXPENSE

	2011 €'000	2010 €'000
Tax charge - Overseas stations	26	11

The Company is exempt from business tax and above tax charge is in respect of overseas transactions. No additional disclosure has been provided due to immateriality of amount involved.

23. EMPLOYEE BENEFIT EXPENSE

	2011	2010
	€'000	€'000
Wages and salaries	11,400	8,255
Social security costs	721	1,739
Other staff costs	680	303
	12,801	10,297

24. NOTES TO THE STATEMENT OF CASH FLOWS

(a) Cash generated from operations	Notes	2011	2010
		€'000	€'000
Loss/(profit) before taxation		(10,696)	616
Adjustments for:			
Depreciation on property and equipment	5	2,975	2,228
Amortisation of intangible assets	6	6	4
Provision for contractual maintenance	15	26,087	9,684
(Profit)/Loss on sale of equipment		(752)	812
Interest expense	19	277	6
Interest income	19	(3)	(12)
Investment income	18	(43)	(43)
Unrealised foreign exchange (gains)/losses	20	(451)	939
Increase in provision for retirement benefit obligations	14	230	427
		17,630	14,661
Changes in working capital			
- inventories		(941)	(834)
- trade and other receivables		(1,550)	6,233
- trade and other payables		(2,602)	(3,295)
Cash (absorbed by)/generated from operations		12,537	16,765

(b) Cash and cash equivalents

	2011	2010
	'€'000	€'000
Bank balances	4,572	2,246
Cash in hand	52	54
	4,624	2,300

25. COMMITMENTS

	2011	2010
(a) Capital commitments	**€'000**	€'000
Property and equipment		
- Approved and contracted for	**2,778**	5,409
- Approved but not contracted for	**253**	275
	3,031	5,684
(b) Financial commitments		
- Bank Guarantees	**74**	74

(c) Operating lease commitments - where the Company is the lessee

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	2011	2010
	€'000	€'000
Not later than one year	**11,416**	11,311
Later that one year and not later than five years	**15,433**	27,047
	26,849	38,358

The company leases land under non-cancellable operating lease agreements. The leases have varying terms, escalation clauses and renewable rights.

26. RELATED PARTY TRANSACTIONS

	Shareholders		Other related corporations		Directors	
	2011	2010	**2011**	2010	**2011**	2010
	€'000	€'000	**€'000**	€'000	**€'000**	€'000
Amount due to	**2**	28	**1,911**	1,909	**-**	-
Amount due from	**35**	33	**70**	35	**-**	-
Remuneration of	**-**	-	**-**	-	**40**	32

(a) Transactions with related parties are made at normal market prices.

(b) Outstanding balances at the year-end are unsecured and interest free. There has been no guarantees provided or received for any related party receivables or payables. For the year ended March 31, 2011, the Company has not recorded any impairment of receivables relating to amounts owed by related parties (2010: Nil). This assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.

(c) Key management personnel compensation

	2011	2010
	€'000	€'000
Salaries and other benefits	**660**	547

27. EVENTS AFTER THE REPORTING PERIOD

The Company is engaging itself to reposition as a regional carrier with focus on the profitable routes due to significant losses incurred in the prior years. As a result to this, a detailed and comprehensive restructuration and retrenchment plan is being implemented. This is expected to cost € 1.7m (SR 10m)

The Government of Seychelles has committed to repay the existing loan commitments of the Company with Nouvobanq as per the terms of the loan. Subsequently, at the Budget Speech on November 30, 2011, the Minister of Finance announced at the National Assembly that the GOS will only be supporting the Compnay to the tune of € 8.7m (SR 156.6M) between the period January to March 2012, to meet operating costs and redundancy packages. Thereafter, the Company will have to sustain itself financially. On January 9, 2012 , 167 employees of the Company including expatriates were informed of the decision of the Company to make them redundant and the estimated cost amounted to € 1.7m.

On January 25, 2012, a Memorandum of Understanding was signed between the Government of Seychelles and Etihad Airways to enter into a strategic partnership whereby Etihad is acquiring 40% stake in Air Seychelles for USD 20 Million, to be matched by a capital injection of USD 10 Million by the Government of Seychelles in addition to SR 156.6M already committed for. Etihad will also inject by means of a Shareholders' loan another USD 25 Million to meet working capital requirements and support network development. A Management Contract has been entered between Etihad and Air Seychelles for the next five year effective February 1, 2012. Etihad will provide a strategic plan for Air Seychelles in order to consolidate its operations and bring it in line with Etihad's operations thus permitting better synergy between the two. A code share agreement on all the destinations is also being conceived as part of the partnership agreement.

28. FIVE YEAR FINANCIAL SUMMARY

	2011	2010	2009	2008	2007
	€'000	€'000	€'000	€'000	€'000
Revenue	**109,715**	99,721	104,665	101,185	100,152
(Loss)/Profit before tax	**(10,696)**	616	(5,319)	(3,755)	3,905
Tax expense	**(26)**	(11)	(34)	(28)	(41)
(Loss)/Profit for the year	**(10,722)**	605	(5,353)	(3,783)	3,863
Revenue deficit brought forward	**(11,033)**	(11,638)	(6,285)	(2,502)	(6,366)
Revenue deficit carried forward	**(21,755)**	(11,033)	(11,638)	(6,285)	(2,502)
Capital & reserves					
Share capital	**26,935**	26,935	26,935	26,935	26,935
Other reserves	**4,135**	2,232	2,129	2,175	2,295
Revenue deficit	**(21,755)**	(11,033)	(11,638)	(6,285)	(2,502)
Total equity	**9,315**	18,134	17,426	22,825	26,729

CORPORATE INFORMATION

DIRECTORS	:	David Ralph Savy (up to March 31, 2011) Simon De-Commarmond (up to January 7, 2011) Veronique Herminie (up to January 7, 2011) Jean Paul Adam (up to January 7, 2011) Hans Aglae (up to January 7, 2011) Jean Weeling-Lee Maurice Loustau Lalanne - (as from April 16, 2011) Daniella Allis Payet (up to September 16, 2011) Ahmed Afif (as from January 7, 2011 and up to September 16, 2011) Philip Morin (as from January 7, 2011 and up to September 16, 2011) Ahmed Saeed (as from January 7, 2011) Gerard Lafortune (as from January 7, 2011) Damien Thesee (as from September 16, 2011) Veronique Laporte (as from September 16, 2011) Alain Ste Ange (as from September 16, 2011) Bram Stellar (as from October 1, 2011)
SECRETARY	:	Lekha Nair Glacis Mahé, Seychelles
REGISTERED OFFICE	:	Air Seychelles - Head Office Point Larue Mahé, Seychelles
PRINCIPAL PLACE OF BUSINESS	:	Air Seychelles - Head Office Point Larue Mahé, Seychelles
AUDITORS	:	BDO Associates Chartered Accountants Seychelles
MAIN BANKERS	:	Barclays Bank Plc Banque Francaise Commerciale The Mauritius Commercial Bank (Seychelles) Limited Nedbank Nouvobanq Standard Chartered Bank Banca Nazionale Del Lavoro Credit Suisse Thailand Citibank Commerce Bank