Air Seychelles Limited

Financial statements

31 December 2012

Registered Office: P O Box 386 | Creole Spirit Building | Pointe Larue | Mahé | Seychelles

Air Seychelles Limited

Financial statements
31 December 2012

Contents ***Page***

Directors' Report

The Directors are pleased to submit the report of Air Seychelles Limited together with its audited financial statements for the period ended 31 December 2012.

1. Principal activities

The principal activities of the Company are to provide commercial air transportation which includes passenger and cargo services on scheduled and charter basis. The Company also provides handling and lounge services to other carriers at the Seychelles International Airport in Mahé and Praslin Domestic Airport.

These activities have remained unchanged during the period under review.

2. Equity

On 23 January 2012, a Memorandum of Understanding was signed between the Government of Seychelles ("GOS") and Etihad Airways PJSC ("Etihad"), for Etihad to acquire 40% equity stake in the Company for a consideration of USD 20 million. Etihad also committed to providing USD 25 million by way of Shareholders' Loan to support the working capital requirements of the Company. Subsequently on 15 March 2012, all three parties signed an Investment Agreement and a Management Services Agreement.

3. Results

Net profit

Net profit of the Company for the period ended 31 December 2012 amounted to USD 0.945m (Year ended 31 March 2012: Net loss of USD 21.035m).

4. Dividends

The Directors did not recommend any dividends for the period under review.

5. Directors

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

Minister Joel Morgan (as from 15 March 2012)
Maurice Loustau- Lalanne (as from 16 April 2011)
Steve Fanny (as from 15 March 2012)
Jean Weeling-Lee (as from 8 January 2009)
Kevin Knight (as from 15 March 2012)
Duncan Naysmith (as from 15 March 2012)
Bassam A Al Mosa (as from 15 March 2012)

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

6. 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 Seychelles Companies Ordinance,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, wheter dur 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.

7. Auditors

KPMG were appointed as auditors of the Company by the Board of Directors on 15 March 2012.

8. By Order of the Board

Approved by the Board of Directors on 1 May 2013

and signed by:

Minister Joel Morgan
Chairman

Jean Weeling-Lee
Board Member

Bassam A Al Mosa
Board Member

Maurice Loustau-Lalanne
Board Member

Kevin Knight
Board Member

Steve Fanny
Board Member

Duncan Naysmith
Board Member

KPMG Lower Gulf Limited
Abu Dhabi Branch
P. O. Box 7613
Abu Dhabi
United Arab Emirates

Telephone +971 (2) 4014 800
Telefax +971 (2) 6327 612
Website www.ae-kpmg.com

Independent auditors' report

The Shareholders
Air Seychelles Limited
P O Box 386
Victoria
Seychelles

Report on the financial statements

We have audited the accompanying financial statements of Air Seychelles Limited ("the Company"), which comprise the statement of financial position as at 31 December 2012, the statements of comprehensive income, changes in equity and cash flows for the period from 1 April 2012 to 31 December 2012 (the "Period"), and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' responsibility

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

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

Opinion

In our opinion, the financial statements presents fairly, in all material respects, the financial position of the Company as at 31 December 2012, and its financial performance and its cash flows for the period then ended in accordance with International Financial Reporting Standards.

Report on other legal and regulatory requirements

As required by the Companies Act, 1972 and Public Enterprises (Monitoring) Act, 2009 of Seychelles, we further confirm that we have no relationship with or interests in the Company, other than in our capacity as auditors, we have obtained all information and explanations necessary for our audit and proper financial records have been kept by the Company as it appears from our examination of reports.

1 May 2013

KPMG

Air Seychelles Limited

Statement of comprehensive income

for the period/year ended*

in thousands of USD	***Note***	**December 2012***	March 2012 #
Revenue	*7*	**42,841**	111,015
Direct operating costs	*8*	**(41,600)**	(122,167)
Gross profit/(loss)		**1,241**	(11,152)
Other income	*9*	**9,466**	20,293
Administrative and marketing expenses	*10*	**(9,061)**	(26,004)
Results from operating activities		**1,646**	(16,863)
Finance income	*12*	**786**	63
Finance costs	*12*	**(1,313)**	(3,957)
Net finance costs		**(527)**	(3,894)
Profit / (loss) for the period* / year before income tax		**1,119**	(20,757)
Tax expense	*28*	**(3)**	(23)
Profit / (loss) for the period* / year		**1,116**	(20,780)
Other comprehensive income			
Net change in fair value of available-for-sale financial asset	*19*	**(171)**	(255)
Other comprehensive loss for the period* / year		**(171)**	(255)
Total comprehensive income / (loss) for the period* / year		**945**	(21,035)

The notes set out on pages 12 to 35 form an integral part of these financial statements.
The independent auditors' report is set out on pages 5 and 6.

* for the period from 1 April 2012 to 31 December 2012 (refer note 2f)

Refer note 2(d)

Air Seychelles Limited
Statement of financial position

as at
in thousands of USD

	Note	31 December* 2012	31 March # 2012
Assets			
Non-current assets			
Property, plant and equipment	13	13,569	14,686
Intangible assets	14	63	24
Deposits	15	337	227
Total non-current assets		13,969	14,937
Current assets			
Inventories	16	4,576	4,657
Trade and other receivables	17	6,460	5,939
Amounts due from related parties	18	296	16,108
Available-for-sale financial asset	19	436	607
Cash in hand and at banks	20	14,989	13,472
Total current assets		26,757	40,783
Total assets		40,726	55,720
Equity and liabilities			
Equity			
Share capital	23	72,617	72,617
Accumulated losses		(70,181)	(71,297)
Reserves	24	436	607
Total equity		2,872	1,927
Liabilities			
Non-current liabilities			
Trade and other payables	21	1,715	2,182
Loans and borrowings	22	244	18,831
Total non-current liabilities		1,959	21,013
Current liabilities			
Trade and other payables	21	19,407	21,011
Loans and borrowings	22	52	2,515
Amounts due to related parties	18	11,518	706
Unearned revenue		4,918	8,548
Total current liabilities		35,895	32,780
Total liabilities		37,854	53,793
Total equity and liabilities		40,726	55,720

The notes set out on pages 12 to 35 form an integral part of these financial statements.
The independent auditors' report is set out on pages 5 and 6.

Refer note 2(d)

These financial statements were approved and authorized for issued by Board of Directors on 1 May 2013 and signed on their behalf by:

Minister Joel Morgan
Chairman

Jean Weeling-Lee
Board Member

Bassam A Al Mosa
Board Member

Maurice Loustau-Lalanne
Board Member

Kevin Knight
Board Member

Steve Fanny
Board Member

Duncan Naysmith
Board Member

Air Seychelles Limited

Statement of changes in equity

for the period/year ended*

in thousands of USD

	Share capital (Note 23)	Accumulated losses	Reserves (Note 24)	Total equity
Balance at 1 April 2011 #	**36,093**	**(50,517)**	**862**	**(13,562)**
Share capital introduced	36,524	-	-	36,524
Loss	-	(20,780)	-	(20,780)
Other comprehensive loss	-	-	(255)	(255)
Total comprehensive loss for the year	**-**	**(20,780)**	**(255)**	**(21,035)**
Balance at 31 March 2012	**72,617**	**(71,297)**	**607**	**1,927**
Balance as at 1 April 2012	72,617	(71,297)	607	1,927
Profit	-	1,116	-	1,116
Other comprehensive loss	-	-	(171)	(171)
Total comprehensive income / (loss) for the period*	**-**	**1,116**	**(171)**	**945**
Balance at 31 December 2012	**72,617**	**(70,181)**	**436**	**2,872**

The notes set out on pages 12 to 35 form an integral part of these financial statements.
Refer note 2(d)
* for the period from 1 April 2012 to 31 December 2012 (refer note 2f)

Air Seychelles Limited

Statement of cash flows

for the period/year ended*

in thousands of USD	*Note*	31 December* 2012	31 March # 2012
Cash flows from operating activities			
Profit / (loss) for the period* / year before taxes		**1,119**	(20,757)
Adjustments for:			
Depreciation	*13*	**2,513**	4,255
Amortisation	*14*	**12**	15
(Profit) / loss on disposal and write-offs of property plant and equipment	*13*	**(242)**	72
(Profit) / loss on write-off of intangible assets	*14*	**-**	41
Loss on write-off of inventories	*16*	**79**	310
(Reversal of) / impairment loss of property plant and equipment	*13*	**(370)**	1,187
Allowance for impairment of trade receivables/(reversal)	*17*	**(748)**	1,916
Allowance for impairment of deposits	*15*	**-**	462
Reversal of/ impairment loss for obsolescence on inventories	*16*	**(810)**	2,625
Bad debts written off	*10*	**595**	-
Charge for staff terminal benefits during the year	*21*	**240**	1,417
Finance costs	*12*	**1,313**	1,900
Finance income	*12*	**(32)**	(63)
Grants relating to loan waivers and interest payments	*9*	**(6,568)**	-
		(2,899)	(6,620)
Changes in:			
- inventories	*16*	**812**	(583)
- trade and other receivables	*17*	**(367)**	10,587
- amounts due from related parties	*18*	**15,812**	(58)
- non-current deposits	*15*	**(111)**	6,380
- trade and other payables	*21*	**(1,604)**	(209)
- amounts due to related parties	*18*	**(5,099)**	(1,857)
- unearned revenue		**(3,630)**	(10,598)
Staff terminal benefits paid	*21*	**(707)**	(1,865)
Cash from/(used in) operating activities		**2,207**	(4,823)
Taxes paid	*28*	**(3)**	(23)
Net cash from/(used in) operating activities		**2,204**	(4,846)
Cash flows from investing activities			
Acquisition of property, plant and equipment	*13*	**(1,384)**	(3,126)
Acquisition of intangible assets	*14*	**(50)**	(62)
Proceeds from disposal of property, plant and equipment	*13*	**600**	1,479
Dividends received	*12*	**28**	57
Interest received	*12*	**4**	3
Net cash used in investing activities		**(802)**	(1,649)

Air Seychelles Limited

Statement of cash flows *(continued)*

for the period/year ended*

in thousands of USD		**31 December* 2012**	31 March # 2012
Cash flows from financing activities			
Proceeds from issue of share capital	***23***	**-**	20,615
Repayment of loans and borrowings	***22***	**1,428**	(5,095)
Interest paid	***12***	**(1,313)**	(1,749)
Net cash from financing activities		**115**	13,771
Net increase in cash in hand and at banks		**1,517**	7,276
Cash in hand and at banks at beginning of the period*/year	***20***	**13,472**	6,196
Cash in hand and at banks at end of the period*/year	***20***	**14,989**	13,472

The notes set out on pages 12 to 35 form an integral part of these financial statements.
The independent auditors' report is set out on pages 5 and 6.
Refer note 2(d)
* for the period from 1 April 2012 to 31 December 2012 (refer note 2f)

Notes to the financial statements

1. Legal status and principal activities

Air Seychelles Limited ("the Company") is a limited liability company, incorporated and domiciled in the Republic of Seychelles. The registered office of the Company is located at "The Creole Spirit" building, Point Larue, Mahé, Seychelles. The Company was first established on 15 September 1977, following the merger of Air Mahé and Inter-Island Airways and was registered as Seychelles Airlines under the Companies Ordinance, 1972. The present title was adopted in September 1978. The Company's share capital is held by the Government of Seychelles (60%) and Etihad Airways PJSC (40%), a Company incorporated under the laws of the United Arab Emirates.

The principal activities of the Company are to provide commercial air transportation which includes passenger and cargo services on scheduled and charter basis. The Company also provides handling and lounge services to other carriers at the Seychelles International Airport in Mahé and Praslin Domestic Airport.

2. Basis of preparation

(a) Going concern

These financial statements have been prepared on a going concern basis, which assumes that the Company will continue to operate, notwithstanding that at 31 December 2012, the Company had accumulated losses of USD 70,181 thousand (31 March 2012: USD 71,297 thousand) and had net current liabilities amounting to USD9,138 (31 March 2012: USD8,003 assets). The shareholders have committed to provide the Company with such financial support as may be required to meet its liabilities as and when they fall due. The Company's restructuring plan was approved by the Board of Directors pursuant to the Investment agreement, which entitles the Company to draw down for USD25 million as shareholders loan and USD 10 million as unconditional grants. Based on review and approval of the future cash flow forecasts the directors are satisfied that the Company has access to sufficient cash facilities to meet its obligations for the foreseeable future, and for a period of at least 12 months from the date of approval of these financial statements. Accordingly, the financial statements have been prepared on the going concern basis.

(b) Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs"), and comply where appropriate, with the applicable provisions of the Seychelles Companies Ordinance 1972 *(as amended)* .

(c) Basis of measurement

The financial statements have been prepared on the historical cost basis, except for available-for-sale financial assets, which are measured at fair value.

(d) Functional and presentation currency

These financial statements are presented in USD, which is the Company's functional currency. All financial information presented in USD has been rounded to the nearest thousand, except when otherwise indicated.

During the current period, the Board resolved to change the functional currency from Euro to United States Dollars due to change in the primary currency influencing the Company's operating and financing cash flows. Such change in functional currency has been applied prospectively and the comparatives presented have been translated using the rates prevailing on the first day of the current reporting period.

(e) Use of estimates and judgments

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Information about critical accounting estimates and judgments in applying accounting policies that have the most significant effect on the amount recognised in the financial statements are described in Note 6.

(f) Change in accounting period

During the current period, the Board resolved to change the reporting date from 31 March in earlier years to 31 December, pursuant to the change in shareholding and in order to align with reporting dates of Etihad Airways PJSC. Accordingly, the financial information presented in these financial statements relates to the nine months ended 31 December 2012.

Notes to the financial statements

3. Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

(a) Revenue and other income

Passenger and cargo sales including charter are recognised as revenue when the transportation service is provided. Passenger tickets and cargo airway bills sold but unused are classified in the statement of financial position under current liabilities as unearned revenue. Unused coupons are recognised as revenue based on the terms and conditions of the ticket.

Revenue from ground handling services is recognised when the services are rendered in accordance with the terms of agreement.

Income from liquidated damages is recognised in profit or loss when a contractual entitlement exists, amounts can be reliably measured and receipt is virtually certain.

Please refer note 3 (c) for accounting policy on finance income.

Commission costs are recognised in the same period as the revenue to which they relate is recognised, and are included in direct operating costs.

(b) Government grants

Grants that are receivable for compensation of expenses or losses already incurred, or for the purpose of giving immediate financial support to the Company with no future related costs, are recognised in profit and loss in the period in which reasonable assurance is established that the entity will comply with the conditions attached to the Grant and that the Grant will be received.

Grants that compensate the Company for expenses to be incurred are initially recognised in the statement of financial position as a deferred income. Subsequent to initial recognition, such grants are released to profit or loss on a systematic basis over the period in which the related expenses are recognised.

(c) Finance income and finance costs

Finance income mainly comprises interest on term deposits and dividend income. Interest income is recognised in profit or loss as it accrues, using the effective interest method. Dividend income is recognised when the Company's right to receive dividends is established.

Finance costs comprise interest expense on loans and borrowings.

Foreign currency gains and losses are reported on a net basis, either as exchange gains or losses depending on whether foreign currency movements are in a net gain or net loss position.

(d) Leases

Finance leases as lessee

Leases in terms of which the Company assumes substantially all the risks and rewards of ownership are classified as finance leases. On initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of minimum lease payments. The corresponding lease obligations are included under liabilities. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Minimum lease payments made under finance leases are apportioned between the finance cost and the reduction of the outstanding lease liability. The finance cost is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Notes to the financial statements

3. Significant accounting policies *(continued)*

(d) Leases *(continued)*

Operating leases as lessee

Payments made under operating leases are recognised in the statement of comprehensive income on a straight line basis over the term of the lease. Lease incentives received are recognised in the statement of comprehensive income as an integral part of the total lease expense, over the term of the lease.

(e) Property, plant and equipment

Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment. The cost of self constructed assets includes the following:
- the cost of materials and direct labour;
- any other costs directly attributable to bringing the assets to a working condition for their intended use; and
- when the Company has an obligation to remove the asset or restore the site, an estimate of the costs of dismantling and removing the items and restoring the site on which assets are located; and

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Any gain or loss on disposal of an item of property, plant and equipment (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised in the statement of comprehensive income.

Subsequent costs

Subsequent expenditure is capitalised only when it is probable that the future economic benefits associated with the expenditure will flow to the Company. Ongoing repairs and maintenance is expensed as incurred.

Depreciation

Items of property, plant and equipment are depreciated on a straight-line basis in profit or loss over the estimated useful lives of each component. Leased assets are depreciated over the shorter of the leased term and useful lives unless it is reasonably certain that the Company will obtain ownership by the end of the lease term. Land is not depreciated.

Items of property, plant and equipment are depreciated from the date that they are installed and are ready for use, or in respect of internally constructed assets, from the date that the asset is completed and ready for use.

The estimated useful lives for items of property plant and equipment in the current and comparative periods are as follows:

	Life in years
Buildings and leasehold improvements	10
Aircraft and accessories	10
Aircraft engines	5
Technical spares	10
Operating equipment	5 - 10
Motor vehicles	4
Other property, plant and equipment	5

Major modifications and improvements to property, plant and equipment are capitalised and depreciated over the remaining useful life of the asset. Subsequent major overhaul expenditure is amortised over the period to the next major overhaul.

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

Notes to the financial statements

3. Significant accounting policies *(continued)*

(e) Property, plant and equipment *(continued)*

Capital projects

Expenditures incurred on property, plant and equipment, which are not complete and ready for use at the reporting date are treated as capital projects. Depreciation is not provided on such assets until they are transferred from capital projects to the appropriate category under property, plant and equipment.

(f) Intangible assets

Recognition and measurement

Intangible assets that are acquired by the Company and have finite useful lives are measured at cost less accumulated amortisation and accumulated impairment losses, if any.

Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognised in the statement of comprehensive income when incurred.

Amortisation

Intangible assets are amortised on a straight-line basis in the statement of comprehensive income over their estimated useful lives, from the date that they are available for use. The estimated useful life of software for the current and comparative periods is 5 years. Amortisaiton methods, useful lives and residual values are reviewed at each reporting date and adjusted, if appropriate.

(g) Financial instruments

(i) Non-derivative financial assets

The Company initially recognises loans and receivables on the date that they are originated. All other financial assets are recognised initially on the trade date, which is the date that the Company becomes a party to the contractual provisions of the instrument.

The Company derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Company is recognised as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The non-derivative financial assets of the Company include loans and receivables and available-for-sale financial assets.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses.

Loans and receivables comprise trade receivables, deposits, other receivables, amounts due from a related party and cash in hand and at banks.

Notes to the financial statements

3. Significant accounting policies *(continued)*

(g) Financial instruments *(continued)*

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available for sale or are not classified in any of the other categories of financial assets. Available-for-sale financial assets are initially recognised at fair value plus any directly attributable transaction costs.

Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses (refer Note 3(h)), are recognised in other comprehensive income and presented in reserves within equity. When an investment is derecognised, the gain or loss accumulated in equity is reclassified to profit or loss. Available-for-sale financial assets comprise equity securities.

(ii) Non-derivative financial liabilities

The Company initially recognises subordinated liabilities on the date that they are originated. All other financial liabilities are recognised initially on the trade date, which is the date that the Company becomes a party to the contractual provisions of the instrument.

The Company derecognises a financial liability when its contractual obligations are discharged, cancelled, expire or the Company is legally released from the primary responsibility for the liability either by the process of law or by the creditor.

The Company classifies all its financial liabilities into the other financial liabilities category. Such financial liabilities are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest method. Other financial liabilities of the Company comprise loans and borrowings, payables and accruals and amounts due to related parties.

(h) Impairment

(i) Non-derivative financial assets

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset, and that the loss event had an impact on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired includes default or delinquency by a debtor, restructuring of an amount due to the Company on terms that the Company would not consider otherwise, indications that a debtor will enter bankruptcy or adverse changes in the payment status of the debtor, economic conditions that correlate with defaults or the disappearance of an active market for a security. In addition for an investment in an equity security, a significant prolonged decline in its fair value below cost is objective evidence of impairment.

Loans and receivables

The Company considers evidence of impairment for loans and receivables at both a specific asset and collective level. All individually significant receivables are assessed for specific impairment. All individually significant loans and receivables found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Loans and receivables that are not individually significant are collectively assessed for impairment by grouping together loans and receivables with similar risk characteristics.

In assessing collective impairment the Company uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management’s judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against receivables. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Notes to the financial statements

3. Significant accounting policies *(continued)*

(h) Impairment *(continued)*

(i) Non-derivative financial assets (continued)

Available-for-sale financial assets

Impairment losses on available-for-sale financial assets are recognised by reclassifying the losses accumulated in reserves in equity to profit or loss. The cumulative loss that is reclassified from equity to profit or loss is the difference between the acquisition cost and the current fair value, less any impairment loss recognised previously in profit or loss. Changes in cumulative impairment losses attributable to the application of effective interest method are reflected as a component of net finance costs. Any subsequent recovery in fair value of an impaired available-for-sale equity security is recognised in other comprehensive income.

(ii) Non-financial assets

The carrying amounts of the Company's non-financial assets, other than inventories, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

An impairment loss is recognised if the carrying amount of an asset exceeds its estimated recoverable amount. Impairment losses are recognised in statement of comprehensive income.

(i) Foreign currency

Transactions in foreign currencies are translated to USD at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to USD at the exchange rate at that date. Foreign currency gains or losses on monetary items are the differences between the amortised cost in USD at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the period.

Non-monetary assets and liabilities in foreign currencies that are measured in terms of historical cost are translated using the exchange rate at the date of the transaction. Foreign currency differences arising on the translation are recognised in the statement of comprehensive income.

(j) Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is determined using the weighted average cost method, with the exception of aircraft related consumables, which are measured using specific-identification method. Cost includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. Allowance for obsolete and slow moving items is made to reduce the carrying value of these items to their net realisable value. Net realisable value is the estimated selling price, in the ordinary course of business, less estimated selling expenses.

(k) Provisions

A provision is recognised if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably and it is probable that an outflow of economic benefits will be required to settle the obligation.

A provision for onerous contracts is recognised when the expected benefits to be derived by the Company from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Company recognises any impairment loss on the assets associated with that contract.

(l) Employee benefits

Defined contribution plans

A defined contribution plan is a post employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution plans are recognised as an employee benefit expense in the statement of comprehensive income in the periods during which services are rendered by employees.

Monthly pension contributions are made in respect of Seychellois employees, who are covered by the Seychelles Pension Fund Act No. 8 of 2005. The pension fund is administered by the Government of Seychelles.

Notes to the financial statements

3. Significant accounting policies *(continued)*

(l) Employee benefits *(continued)*

Defined benefit plans (continued)

A defined benefit plan is a post employment benefit other than a defined contribution plan. The Company currently operates an unfunded scheme for employees' end of service benefits that follows relevant local regulations and is based on periods of cumulative service and levels of employees' final basic salaries. The liability for staff terminal benefits is determined as the liability that would arise if employment of all staff was to be terminated at reporting date.

An actuarial valuation is not performed on post employment and other benefits as the net impact of the discount rate and future salary and benefits level on the present value of the benefits obligation is not expected by management to be significant.

Short-term employee benefits

Short term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

(m) Customer loyalty programme

For miles accrued under customer loyalty programmes operated by the Company, the liability were accrued in the prior years at fair value using internal estimation methods. In this method, the fair value of the sale consideration was allocated between the miles and the other components of the sale. The amount allocated to miles is estimated by reference to the fair value of the right to purchase tickets or other products. During the current period, the Company has integrated its customer loyalty programme with the guest loyalty program operated by Etihad Airways. For miles accrued under this programme, the Company recognizes the loyalty award expense at the time of uplift at contractually agreed rates.

(n) Taxation

Income tax expense comprises current tax. Current tax is recognised in profit or loss except to the extent that it relates to items recognised directly in equity or in other comprehensive income. Current tax is the expected tax payable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

(o) New standards and interpretations not yet adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 April 2012, and have not been applied in preparing these financial statements. None of these is expected to have a significant effect on the financial statements of the Company, except for IFRS 9 Financial instruments, which becomes mandatory for the Company's 2015 financial statements and could change the classification and measurement of financial assets. The Company does not plan to adopt this standard early and the extent of the impact has not been determined.

Notes to the financial statements

4. Determination of fair values

A number of the Company's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and / or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

Equity securities

Fair value of equity securities is determined by reference to their quoted closing price at the reporting date.

Non-derivative liabilities

Fair value is calculated based on the present value of future cash flows (including principal and interest payments), discounted at the market rate of interest at the reporting date.

5. Financial risk management

Overview

The Company has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market risk

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital. Further quantitative disclosures are included throughout these financial statements.

Risk management framework

The Board of Directors (the "Board") has overall responsibility for the establishment, oversight and monitoring of the Company's risk management framework and is assisted by the senior management. Senior management is responsible for designing, developing and monitoring the Company's risk management policies, which are approved by the Board. Senior management reports regularly to the Board and committees of the shareholders on its risk management activities.

The Company's risk management policies are established to identify and analyse the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities. The Company, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivables from customers and other receivables.

Notes to the financial statements

5. Financial risk management *(continued)*

Credit risk *(continued)*

Trade and other receivables

The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, management also considers the demographics of the Company's customer base, including the default risk of the industry and countries in which customers operate, as these factors may have an influence on credit risk. Although geographically there is no significant concentration of risk, at the reporting date, majority of the Company's trade receivables from customers were domiciled domestically.

The Company has policies in place to ensure that sale of tickets and freight on credit are made to customers who are members of an industry accredited clearing house, which in turn has adequate securities in place. Where customers are not members of the clearing house adequate credit review procedures are undertaken for the appropriate level of commercial activity. Sales to retail customers are made only on prepayment basis.

The Company establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified. The collective loss allowance is determined based on historical data of payment statistics for similar financial assets.

The Company held cash at banks amounting to USD 14,921 thousand at 31 December 2012 *(31 March 2012: USD 13,407 thousand)* , which represents its maximum credit exposure on these assets.

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

The Treasury department of the Company ensures that sufficient cash is available based on rolling short-term forecasts of expected cash flows. Additionally management also ensures the availability of funding through an adequate amount of committed credit facilities. Pursuant to the Investment Agreement entered by the Company, the Government of Seychelles and Etihad Airways PJSC, the Company received cash flows in the form of grants during the year. Also refer notes 18 and 23.

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and commodity prices will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

Currency risk

The Company operates internationally and is exposed to currency risk arising from various currency exposures that are denominated in currencies other than the functional currency. The currencies in which these transactions are primarily denominated are Euro ("EUR"), South African Rand ("ZAR") and Seychelles Rupee ("SCR"). The Company aims to aggregate a net position for each currency so that natural hedging can be achieved.

Notes to the financial statements

5. Financial risk management *(continued)*

Market risk *(continued)*

Commodity price risk
The Company's commodity price risk relates to the purchase price of its jet fuel.

Interest rate risk
The Company's cash flow exposure to interest rate risk arises primarily from long-term borrowings at floating rates.

Market risks are thoroughly discussed in monthly management meetings. The Planning department carries out regular reviews of the market outlook for fuel prices and interest rates to analyse possible risk exposures to the Company and plan for appropriate courses of action. Market risks and strategies to combat these risks are also discussed by members at the Board of Directors' meetings.

Capital management

The Board's policy is to maintain a strong capital base designed to provide sufficient liquidity to the business, maximise shareholder value, maintain market confidence and sustain future growth of the business. The Company's main objectives when managing capital are:

- to ensure that the Company has access to capital to fund contractual obligations as they become due;
- to maintain flexibility to pursue strategic business opportunities and ensure adequate liquidity to withstand weakening economic conditions;
- to maintain an appropriate balance between debt financing vis-a-vis shareholder capital as measured by gearing ratio.

There were no changes in the Company's approach to capital management during the period.

6. Significant accounting estimates and judgements

In the process of applying the Company's accounting policies, which are detailed in Note 3, management has made the following judgements that have the most significant effect on the amounts of assets and liabilities recognised in the financial statements. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(a) Impairment losses on receivables

The Company reviews its receivables to assess impairment at least on an annual basis. The Company's credit risk is primarily attributable to its trade receivables. In determining whether impairment losses should be recorded in profit or loss, the Company makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows. Accordingly, an allowance for impairment is made where there is an identified loss event or condition which, based on previous experience, is evidence of a reduction in the recoverability of the cash flows.

(b) Impairment of aircraft

A decline in the value of aircraft could have a significant effect on the amounts recognised in the financial statements. Management assesses the impairment of aircraft whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Factors that are considered important which could trigger an impairment review include the following:

(i) Significant decline in the market value beyond that which would be expected from the passage of time or normal use.
(ii) Significant changes in the technology and regulatory environments.
(iii) Evidence from internal reporting which indicates that the economic performance of the aircraft is, or will be, worse than expected.

(c) Government Grants

The Company receives contributions from the Government of Seychelles towards settling certain liabilities and ameliorating it against certain expenses. Significant judgment is required to determine whether these contributions are in the nature of government grants, in which case they are recognized in profit or loss systematically in accordance with the related liability or expense, or in the form of equity, in which case they are recognized in the statement of financial position as capital contributions.

Notes to the financial statements

6. Significant accounting estimates and judgements (continued)

(c) Estimated useful lives of property, plant and equipment

Management assigns useful lives and residual values to property, plant and equipment based on the intended use of assets and the economic lives of those assets. Subsequent changes in circumstances such as technological advances or prospective utilisation of the assets concerned could result in the actual useful lives or residual values differing from initial estimates. Management has reviewed the residual values and useful lives of major items of property, plant and equipment and determined that no adjustment is necessary.

7. Revenue

in thousands of USD	**2012 December ***	2012 March
Passenger services	**31,547**	85,482
Cargo services	**3,350**	8,220
Charter services	**1,091**	10,510
Ground handling services	**6,853**	6,803
	42,841	111,015

8. Direct operating costs

in thousands of USD	**2012 December ***	2012 March
Fuel and oil [1]	**14,306**	33,857
Aircraft and engine maintenance	**2,453**	24,233
Aircraft and engine operating leases [2]	**9,637**	10,406
Landing and parking	**767**	2,054
Overflying	**1,123**	5,146
Staff costs [3]	**4,683**	8,268
In-flight	**2,324**	7,223
Handling	**798**	4,966
Crew layover	**1,317**	3,824
Commission and incentives	**894**	1,021
Depreciation	**1,782**	2,438
Aircraft insurance	**267**	1,149
Lease return [4]	**-**	8,603
Impairment, obsolescence and write-offs	**79**	3,837
Other direct operating costs	**1,170**	5,142
	41,600	122,167

[1] Fuel and oil charges are stated net of government grants amounting to nil *(March 2012: USD 9,924).*

[2] Aircraft operating lease charges are stated net of government grants amounting to nil *(March 2012: USD 488).*

[3] Staff costs are stated net of government grants amounting to nil *(March 2012: USD 488).*

[4] Lease return costs relate to expenses incurred in connection with bringing aircraft on operating lease, to conditions specified for return to lessor in the lease agreement.

* for period from 1 April 2012 to 31 December 2012

Notes to the financial statements

9. Other income

in thousands of USD	**2012 December ***	2012 March
Government grants [1]	**8,727**	13,108
Liquidated damages [2]	**-**	5,262
Other operating income	**739**	1,923
	9,466	20,293

[1] During the period, the Company received reimbursements from Government of Seychelles, pursuant to the investment agreement with Etihad Airways and fulfillment of conditions by the Company, towards liabilities accounted prior to the date of the investment agreement amounting to USD 1,269 thousand. In addition to this, the GOS also assumed the Company's borrowings amounting to USD 20,862 thousand, which is adjusted against the Company's receivable from the GOS towards subscription receivable (refer notes 18, 22 and 23). The excess of the borrowings assumed over the receivable has been accounted as a grant income during the period.

[2] During the previous year, the Company recovered USD 5,262 thousand towards a litigated amount from Airline Ground Services Limited, pursuant to a settlement deed entered in respect of an incident at the Charles De Gaulles Airport involving the Company's leased aircraft in December 2007.

10. Administrative and marketing expenses

in thousands of USD	**2012 December ***	2012 March
Staff costs	**4,490**	9,317
Rent and utilities	**656**	1,941
Communications	**1,400**	1,565
Transport and vehicle	**180**	349
General repairs and maintenance	**246**	1,521
Legal and professional	**770**	964
Advertisement and promotion	**228**	476
Depreciation and amortisation	**743**	1,832
Bad and doubtful debts	**595**	2,070
Other administrative and marketing expenses [1, 2]	**(247)**	5,968
	9,061	26,003

* for period from 1 April 2012 to 31 December 2012

[1] Included within other administrative and marketing expenses is profit on sale of assets of USD242 thousand *(March 2012 : loss of USD 299 thousand)* .

[2] In March 2012, USD 1,843 thousand was accounted in respect of a claim against the Company by Société Air France ("the claimant"), for commercial damages in respect of unexpected early termination by the Company, in a codeshare agreement between the Company and the claimant. Further to the Company's decision to cease operations in France, the agreement was early terminated effective 8 January 2012, while it was valid till 23 March 2012. The claim represents potential financial loss to the claimant during the period 8 January to 23 March as a result of unexpected early termination. While management is currently in discussions with the claimant, lawyers of the Company believe that an outflow of economic benefits in the amount claimed is probable. Accordingly, a provision was recorded for the liability as at 31 March 2012.

Notes to the financial statements

11. Staff related costs

in thousands of USD	**2012 December ***	2012 March
Salaries and allowances	**5,187**	14,289
Other staff related costs	**3,986**	4,076
Government grants	**-**	(780)
	9,173	17,585

12. Finance income and finance costs

in thousands of USD	**2012 December ***	2012 March
Interest expense	**1,313**	1,900
Government grants	**-**	(665)
Net foreign exchange loss	**-**	2,722
Finance costs	**1,313**	3,957
Dividend income	**28**	57
Interest income	**4**	6
Net foreign exchange gain	**754**	-
Finance income	**786**	**63**

13. Property, plant and equipment

Details of property, plant and equipment are set out in Schedule I on page 35.

* for period from 1 April 2012 to 31 December 2012

Notes to the financial statements

14. Intangible assets - Software

in thousands of USD	**2012 December ***	2012 March
Cost		
At beginning of the period/year	**46**	39
Additions	**50**	62
Disposals / write-offs	**-**	(35)
Adjustments	**-**	(20)
At 31 December/31 March	**96**	46
Accumulated amortisation		
At beginning of the period/year	**21**	20
Charge for the period/year	**12**	15
Disposals / write-offs	**-**	(12)
Adjustments	**-**	(2)
At 31 December/31 March	**33**	21
Carrying amount	**63**	25

15. Deposits

in thousands of USD	**2012 December ***	2012 March
Security deposits	**799**	689
Less: allowance for irrecoverability on aircraft deposit	**(462)**	(462)
	337	227

16. Inventories

in thousands of USD	**2012 December ***	2012 March
Aircraft consumables	**7,043**	7,447
In-flight	**867**	1,222
Others	**289**	421
Less: allowance for slow-moving / obsolete inventories	**(3,623)**	(4,433)
	4,576	4,657

Notes to the financial statements

17. Trade and other receivables

in thousands of USD	**2012 December**	2012 March
Trade receivables [1]	**3,883**	2,944
Deposits and advances	**842**	1,431
Other receivables	**1,735**	1,564
	6,460	5,939

[1] Trade receivables are stated net of allowance for impairment amounting to USD 1,350 thousand *(31 March 2012: USD 2,097 thousand).*

18. Related parties

Identity of related parties

The Company, in the ordinary course of business, enters into transactions, with other business enterprises or individuals that fall within the definition of related parties contained in International Accounting Standard 24. The Company has a related party relationship with the Government of Seychelles, Etihad Airways PJSC, directors and executive officers (including business entities over which they can exercise significant influence or which can exercise significant influence over the Company).

Transactions with government-owned entities

IAS 24,"Related Parties" (revised) requires Government owned entities to disclose transactions with other state / government owned entities. Most infrastructure related entities are owned by the Government of Seychelles and the Company necessarily enters into transaction with those entities in the normal course of business on an arm's length basis. The Company also transacts with these entities in respect of aviation fuel, landing and parking, overflying and lease of properties (refer Note 8). During the year, the Company procured the following services from government owned-entities based on list prices that are comparable to prices charged to non-government entities or market terms:

in thousands of USD	**2012 December**	2012 March
Aviation fuel	**7,630**	21,104
Landing and parking	**308**	457
Overflying	**243**	394
Operating lease of land and buildings	**179**	217

Other related party transactions

in thousands of USD	**2012 December**	2012 March
Transfer of FFP liability - Etihad Airways PJSC	**1,154**	-
Government Grant (reimbursements)	**4,436**	-
Secondment fees	**1,649**	
Transfer of bank loans	**4,291**	-

Apart from the above, all other transactions are individually or collectively immaterial.

Notes to the financial statements

18. Related parties *(continued)*

Related party balances

Amounts due from related parties as at the reporting date were as follows:

in thousands of USD	**2012 December**	2012 March
Subscriptions receivable from a shareholders (notes 9, 22 and 23)	**-**	15,910
Other amounts due from shareholders	**265**	162
Amounts due from other corporations	**31**	36
	296	16,108

Amounts due to related parties as at the reporting date were as follows:

in thousands of USD	**2012 December**	2012 March
Shareholders	**11,271**	54
Other corporations	**247**	653
	11,518	707

Transactions with key management personnel

in thousands of USD	**2012 December**	2012 March
Short term employee benefits	**239**	717
Post-retirement benefits	**41**	55
	280	772

Directors' emoluments

in thousands of USD	**2012 December**	2012 March
M Loustau - Lalanne	**-**	1.5
A St Ange	**-**	0.8
D Thesee	**-**	0.9
V Laporte	**-**	0.9
D Alis-Payet	**-**	1.9
P Morin	**-**	1.7
A Afif	**-**	1.7
A Saeed	**-**	2.8
G Lafortune	**-**	2.5
J Weeling-Lee	**-**	2.7
	-	17.4

Notes to the financial statements

19. Available-for-sale financial asset

in thousands of USD	**2012 December ***	2012 March
At beginning of the period/year	**607**	862
Unrealised (losses) / gains during the period* / year (refer note 24)	**(171)**	(255)
At 31 December/31 March	**436**	607

20. Cash in hand and at banks

in thousands of USD	**2012 December ***	2012 March
Cash at bank		
- in call accounts	**135**	135
- in current accounts	**15,007**	13,321
- in current accounts (book overdraft)	**(222)**	(49)
Cash in hand	**69**	65
Cash in hand and at banks	**14,989**	13,472

21. Trade and other payables

in thousands of USD	**2012 December ***	2012 March
Current		
Trade payables	**1,386**	1,962
Accruals and other payables [1]	**17,834**	14,649
Accruals for staff annual leave	**187**	603
Deferred revenue [2]	**-**	2,448
Passenger taxes payable	**-**	1,348
	19,407	21,010
Non-current		
Provision for staff terminal benefits	**1,715**	2,182
	21,122	23,192

[1] Includes provision for commercial damages claimed by Société Air France, amounting to USD 1,843 thousand. Please refer note 10 for details.

[2] In December 2012, the Company entered into an agreement with Etihad Airways PJSC for integration of the Seychelles Plus loyalty program with Etihad Guest loyalty program and accordingly, the Seychelles Plus Guests were awarded Etihad Guest Miles at a ratio of 1 Seychelles Plus Point to 8 Etihad Guest Miles based on a relative valuation of the miles and commercial discounts based on the benefits of Etihad Guest Program. Accordingly, the Company and Etihad agreed for Etihad to take ownership of the risks and rewards associated with the Seychelles Plus programme, in exchange for a settlement of USD 1.1 million. As a result the Company released the provision for the miles accrued as of that date (USD 2.4 million), resulting in a net credit in profit or loss of USD 1.3 million.

Movement in staff terminal benefits during the year was as follows:

in thousands of USD	**2012 December ***	2012 March
At beginning of the period/year	**2,182**	2,630
Charge for the period*/ year	**240**	1,417
Payments during the period* / year	**(707)**	(1,865)
At 31 December/31 March	**1,715**	2,182

Notes to the financial statements

22. Loans and borrowings

in thousands of USD	**2012 December ***	2012 March
Bank borrowings (note 9)	**-**	16,484
Loan from supplier	**244**	326
Loan from Government of Seychelles (note 9)	**-**	2,021
Non-current portion of loans and borrowings	**244**	18,831
Bank borrowings (note 9)	**-**	2,333
Loan from supplier	**52**	52
Loan from Government of Seychelles (note 9)	**-**	130
Current portion of loans and borrowings	**52**	2,515
	296	21,346

The profile of loans and borrowings as at the reporting date was as follows:

1. **Loan from Government of Seychelles**

Counterparty: Government of Seychelles
Facility amount: SCR 30,000 thousand
Date of drawdown: 1 August 2010
Final maturity date: 1 August 2017
Interest: 365-day T-bills rate + 25 basis points
Repayment: Quarterly
Balance at reporting date: nil *(March 2012 USD 2,088 thousand)*
Security: None

2. **Loan from supplier**

Counterparty: Viking Air Limited
Facility amount: CAD 412 thousand
Date of drawdown: 1 March 2011
Final maturity date: 1 December 2017
Interest: CIBC prime rate for CAD
Repayment: Semi-annual
Balance at reporting date: USD 295 thousand *(March 2012 USD 367 thousand)*
Security: None

3. **Bank borrowing - 1**

Counterparty: Nouvobanq
Facility amount: USD 1,750 thousand
Date of drawdown: 1 May 2009
Final maturity date: 30 April 2011
Interest: 3-month USD LIBOR + 300 basis points
Repayment: Monthly
Balance at reporting date: nil *(March 2012 USD 66 thousand)*
Security: Second ranking charge over the purchased aircraft, first line charge over pre-loan domestic aircraft and insurance cover for aircraft over the loan period.

4. **Bank borrowing - 2**

Counterparty: Nouvobanq
Facility amount: USD 6,000 thousand
Date of drawdown: 1 January 2011
Final maturity date: 31 December 2014
Interest: 3 month USD LIBOR + 500 basis points
Repayment: Monthly
Balance at reporting date: nil *(March 2012 USD 4,231 thousand)*
Security: Second line fixed charge over leasehold HQ land and buildings, second line charge over domestic aircraft and insurance cover for assets over the loan period.

5. **Bank borrowing - 3**

Counterparty: Nouvobanq
Facility amount: SCR 150,000 thousand
Date of drawdown: 31 December 2011
Final maturity date: 31 December 2016
Interest: 365-day T-bills rate + 100 basis points
Repayment: Monthly
Balance at reporting date: nil *(March 2012 USD 10,434 thousand)*
Security: Government of Seychelles guarantee and Ministry of Finance undertaking that all dividend payments by Nouvobanq in excess of SCR 50,000 thousand shall be used towards loan repayment.

6. **Bank borrowing - 4**

Counterparty: Nouvobanq
Facility amount: SCR 75,000 thousand
Date of drawdown: 31 December 2010
Final maturity date: 30 August 2012
Interest: 365-day T-bills rate + 100 basis points
Repayment: Monthly
Balance at reporting date: nil *(March 2012 USD 3,523 thousand)*
Security: Government of Seychelles guarantee and Ministry of Finance undertaking that all dividend payments by Nouvobanq in excess of SCR 50,000 thousand shall be used towards loan repayment.

Notes to the financial statements

23. Share capital

		2012 December	2012 March	
(a) **Authorised:**		**SCR'000**	SCR'000	
650,000 shares of SCR 1,000 each		**650,000**	650,000	
(b) **Ownership:**	**Ratio**	**No. of shares**	**SCR'000**	**USD'000**
Government of Seychelles	60%	390,000	390,000	52,001
Etihad Airways PJSC	40%	260,000	260,000	20,616
		650,000	**650,000**	**72,617**

24. Reserves

in thousands of USD	**Fair value reserve**	**Total**
Balance as at 1 April 2011	862	**862**
Changes in fair value of available-sale-financial asset	(255)	**(255)**
Balance as at 31 March 2012	**607**	**607**
Balance as at 1 April 2012	607	**607**
Changes in fair value of available-for-sale financial asset	(171)	**(171)**
At 31 December 2012	**436**	**436**

25. Commitments

in thousands of USD	**2012 December**	2012 March
Capital commitments		
Not later than one year	**2,943**	618
Operating lease commitments		
Leases as lessee		
Not later than one year	**11,073**	484
Later than one year but not later than five years	**4,611**	552
Later than five years	**327**	1,671
	16,011	2,707
Operating lease commitments as lessee represent:		
Aircraft leases	**15,410**	158
Other leases	**601**	2,549
	16,011	2,707

26. Contingent liabilities

in thousands of USD	**2012 December**	2012 March
Letters of guarantee	**56**	99

Notes to the financial statements

27. Financial instruments

(a) Credit risk

Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was as follows:

in thousands of USD	***Note***	**2012 December**	2012 March
Deposits (non-current)	***15***	**337**	227
Trade receivables	***17***	**3,883**	2,944
Amounts due from related parties	***18***	**296**	16,108
Other receivables and deposits	***17***	**2,209**	2,073
Cash in hand and at banks	***20***	**14,920**	13,407
		21,645	34,759

The sale of passenger transportation mostly takes place through International Air Transport Association ("IATA") approved sales agents. These sale points are mostly connected to Billing Settlement Plans ("BSP") administered by IATA. The credit worthiness of the agents are reviewed by the clearing systems responsible. Due to the broad diversification, credit risk for the agencies is relatively low worldwide.

Receivables and liabilities between airlines are offset through bilateral agreements or through the IATA clearing house, insofar as the contracts underlying the services do not explicitly specify otherwise. Systematic settlement of bi-monthly receivables and liability balances significantly reduce the default risk.

Cargo sales are mostly administrated via General Sales Agents ("GSAs") contracts with cargo agents worldwide. Relationships with GSAs are closely monitored by the Accounts Receivables department. In certain cases the Company also obtains guarantees from GSAs before transacting any business with them.

The ageing of trade receivables at the reporting date was:

in thousands of USD	**31 December 2012**		31 March 2012	
	Gross	**Impairment**	Gross	Impairment
Not past due	**2,915**	**-**	2,353	(9)
Past due 1-30 days	**832**	**-**	649	(50)
Past due 31-60 days	**479**	**(348)**	77	(76)
Past due 61-90 days	**196**	**(191)**	267	(267)
Over 90 days	**811**	**(811)**	1,694	(1,694)
	5,233	**(1,350)**	5,040	(2,096)

Notes to the financial statements

27. Financial instruments *(continued)*

(a) Credit risk *(continued)*

Impairment losses (continued)

The movement in the allowance for impairment in respect of trade receivables during the period/year was as follows:

in thousands of USD	**2012 December ***	2012 March
At beginning of the period/year	**2,096**	180
Impairment loss during the period/year	**595**	1,916
Write-offs during the period/year	**(1,341)**	-
At 31 December/31 March	**1,350**	2,096

(b) Interest rate risk

Cash flow sensitivity analysis for variable rate instruments

At the reporting date, the Company's loans and borrowings fall within the category of variable rate instruments. A change of 100 basis points in interest rates at the reporting date would have increased / (decreased) profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign exchange currency rates, remain constant.

31 December 2012	**Profit / (loss)**	
in thousands of USD	100 bp increase	100 bp decrease
Loans and borrowings	(3)	3
Cash flow sensitivity net	**(3)**	**3**

31 March 2012	**Profit / (loss)**	
in thousands of USD	100 bp increase	100 bp decrease
Loans and borrowings	(243)	243
Cash flow sensitivity net	**(243)**	**243**

(c) Liquidity risk

Following are the contractual maturities of financial liabilities, excluding estimated interest payments.

31 December 2012 in thousands of USD	Carrying amount	Contractual cash flows	1 year or less	2 - 5 years	More than 5 years
Loans and borrowings	**296**	**(296)**	**(52)**	**(244)**	**-**
Trade and other payables	**19,407**	**(19,407)**	**(19,407)**	**-**	**-**
Amounts due to related parties	**11,518**	**(11,518)**	**(11,518)**	**-**	**-**
	31,221	**(31,221)**	**(30,977)**	**(244)**	**-**

Notes to the financial statements

27. Financial instruments *(continued)*

(c) Liquidity risk *(continued)*

31 March 2012 in thousands of USD	Carrying amount	Contractual cash flows	1 year or less	2 - 5 years	More than 5 years
Loans and borrowings	21,346	(21,346)	(2,515)	(18,556)	(275)
Trade and other payables	21,010	(21,010)	(21,010)	-	-
Amounts due to related parties	707	(707)	(707)	-	-
	43,063	(43,063)	(24,232)	(18,556)	(275)

(d) Currency risk

Exposure to currency risk

The Company's exposure to currency risk for major items denominated in SCR and ZAR at the reporting date was as follows:

	31 December 2012			31 March 2012		
in thousands of currency units	**SCR**	**ZAR**	**EUR**	SCR	ZAR	EUR
Trade receivables	**16,988**	**2,310**	**1,815**	7,776	5,870	1,674
Cash in hand and at banks	**4,640**	**3,921**	**3,985**	1,216	3,709	243
Trade payables	**(5,412)**	**(781)**	**(59)**	(6,187)	(2,860)	(143)
Loans and borrowings	**-**	**-**	**-**	(230,546)	-	-
Gross statement of financial position exposure	**16,216**	**5,450**	**5,741**	(227,741)	6,719	1,774
In USD	**1,237**	**643**	**7,578**	(17,374)	793	2,342

The following significant exchange rates applied during the year:

USD	Average rates		Reporting date spot rates	
	Dec-12	Mar-12	**Dec-12**	Mar-12
SCR 1	**0.065**	0.056	**0.076**	0.054
EUR 1	**1.317**	1.376	**1.298**	1.335
ZAR 1	**0.108**	0.101	**0.118**	0.098

Sensitivity analysis

A strengthening (weakening) of USD against SCR and ZAR at 31 December would have increased / (decreased) profit or loss by the amounts shown below. This analysis is based on foreign currency exchange rate variances that the Company considered to be reasonably possible at the reporting date and considers the gross statement of financial position exposure shown above. The analysis assumes that all other variables, in particular interest rates, remain constant and ignores any impact of forecasted sales and purchases. The analysis is performed on the same basis for March 2012.

Notes to the financial statements

27. Financial instruments *(continued)*

(d) Currency risk *(continued)*

Sensitivity analysis (continued)

Effect on profit or loss in thousands of USD	Strengthening	Weakening
31 December 2012		
SCR (1% movement)	**12**	**(12)**
EUR (1% movement)	**75**	**(75)**
ZAR (1% movement)	**6**	**(6)**
31 March 2012		
SCR (1% movement)	(122)	122
EUR (1% movement)	24	(24)
ZAR (1% movement)	7	(7)

(e) Fair values

The fair values of financial assets and liabilities are not materially different from the carrying amounts shown in the statement of financial position.

Fair value hierarchy

The table below analyses financial instruments carried at fair value, by valuation method. The different levels of valuation for financial instruments carried at fair value have been defined as follows:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e. derived from prices); and

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

in thousands of USD	Level 1	Level 2	Level 3	Total
31 December 2012				
Available for sale financial assets	**436**	**-**	**-**	**436**
31 March 2012				
Available for sale financial assets	607	-	-	607

There were no transfers between the levels during the period.

28. Taxation

In accordance with Schedule II, article 26, of the Seychelles Business Tax Act of 30 December 2009, the Company is exempt from corporate tax on its income. Tax expense for the year represents tax on the Company's previous operations in Singapore, which is based on 5% of gross earnings for the year.

Notes to the financial statements

in thousands of USD

Schedule I - Property, plant and equipment

	Land and buildings	Aircraft, engines and accessories	Technical spares	Aircraft and engine overhaul	Operating equipment	Furniture and fittings	Computers and office equipment	Motor vehicles	Capital work in progress	Total
Cost										
At 1 April 2011	6,413	9,982	6,625	1,570	7,730	2,990	3,634	2,084	44	**41,072**
Additions	36	287	1,508	-	846	119	291	-	39	**3,126**
Disposals / write-offs	-	(295)	(1,126)	-	(2,257)	(1,126)	(1,836)	(214)	(80)	**(6,934)**
Adjustments	-	-	-	-	(17)	(375)	(185)	(8)	-	**(585)**
At 31 March 2012	**6,449**	**9,974**	**7,007**	**1,570**	**6,302**	**1,608**	**1,904**	**1,862**	**3**	**36,679**
At 1 April 2012	6,449	9,974	7,007	1,570	6,302	1,608	1,904	1,862	3	**36,679**
Additions	141	105	126	503	491	14	4	-	-	**1,384**
Disposals / write-offs	-	-	(947)	-	-	-	-	(38)	-	**(985)**
At 31 December 2012	**6,590**	**10,079**	**6,186**	**2,073**	**6,793**	**1,622**	**1,908**	**1,824**	**3**	**37,078**
Accumulated depreciation										
At 1 April 2011	2,436	3,347	2,575	669	5,657	2,164	2,933	1,695	-	**21,476**
Charge for the year	570	1,069	669	355	520	399	505	168	-	**4,255**
Disposals / write-offs	-	(292)	(31)	-	(2,161)	(1,104)	(1,778)	(206)	-	**(5,572)**
Adjustments	-	-	-	-	(4)	(251)	(137)	(7)	-	**(399)**
At 31 March 2012	**3,006**	**4,124**	**3,213**	**1,024**	**4,012**	**1,208**	**1,523**	**1,650**	**-**	**19,760**
At 1 April 2012	3,006	4,124	3,213	1,024	4,012	1,208	1,523	1,650	-	**19,760**
Charge for the period	428	819	394	235	338	124	92	83	-	**2,513**
Disposals / write-offs	-	-	(589)	-	-	-	-	(38)	-	**(627)**
At 31 December 2012	**3,434**	**4,943**	**3,018**	**1,259**	**4,350**	**1,332**	**1,615**	**1,695**	**-**	**21,646**
Accumulated impairment losses										
At 1 April 2011	-	-	1,046	-	-	-	-	-	-	**1,046**
Charge for the year*	23	-	1,045	-	119	-	-	-	-	**1,187**
At 31 March 2012	23	**-**	**2,091**	**-**	**119**	**-**	**-**	**-**	**-**	**2,233**
At 1 April 2012	23	-	2,091	-	119	-	-	-	-	**2,233**
Reversed during the period		-	(370)	-	-	-	-	-	-	**(370)**
At 31 December 2012	23	**-**	**1,721**	**-**	**119**	**-**	**-**	**-**	**-**	**1,863**
Carrying amounts										
At 31 March 2012	**3,420**	**5,850**	**1,703**	**546**	**2,171**	**400**	**381**	**212**	**3**	**14,686**
At 31 December 2012	**3,133**	**5,136**	**1,447**	**814**	**2,324**	**290**	**293**	**129**	**3**	**13,569**

* During the year ended 31 March 2012, the Company recorded impairment losses on engineering spares and consumables relating to B767-300 series aircraft following a significant decline in the recoverable value of these assets and Board decision to return the B767-300 aircraft operating on operating lease.