`

**AVIA SOLUTIONS GROUP AB**

Independent Auditor's Report,
Separate and Consolidated Financial Statements,
Consolidated Annual Report
For the Year Ended 31 December 2011

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**CONTENTS** **Pages**

*Our report has been prepared in Lithuanian and English languages. In all matters of interpretation of information, views or opinions, the Lithuanian language version of our report takes precedence over the English language version.*

## Independent Auditor's Report

To the shareholders of Avia Solutions Group AB

### Report on the financial statements

We have audited the accompanying stand alone and consolidated financial statements (together 'the Financial statements') of Avia Solutions Group AB ('the Company') and its subsidiaries (collectively 'the Group') set out on pages 5–54 which comprise the stand alone and consolidated balance sheet as of 31 December 2011 and the stand alone and consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and 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 as adopted by the European Union, 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.

*Auditor's responsibility*

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

*PricewaterhouseCoopers UAB, J. Jasinskio 16B, LT-01112 Vilnius, Lithuania*
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*Opinion*

In our opinion, the accompanying Financial statements give a true and fair view of the financial position of the Company and the Group as of 31 December 2011, and of their financial performance and their cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

**Report on other legal and regulatory requirements**

Furthermore, we have read the consolidated Annual Report for the year ended 31 December 2011 set out on pages 55-67 and have not noted any material inconsistencies between the financial information included in it and the audited Financial statements for the year ended 31 December 2011.

On behalf of PricewaterhouseCoopers UAB

Christopher C. Butler
Director

Rimvydas Jogėla
Auditor's Certificate No.000457

Vilnius, Republic of Lithuania
18 April 2012

*(All tabular amounts are in LTL '000 unless otherwise stated)*

## STATEMENTS OF COMPREHENSIVE INCOME

Approved by the Annual General Meeting of Shareholders as at ____________ 2012

| | | Year ended 31 December | | | |
|---|---|---|---|---|---|
| | | GROUP | | COMPANY | |
| | Note | 2011 | 2010 | 2011 | Period since incorporation till 31 December 2010 |
| **Revenue** | 6 | **476 769** | **304 263** | **3 157** | **289** |
| Other income | 7 | 1 730 | 7 339 | 1711 | - |
| Aircraft fuel | | (126 304) | ( 88 452) | - | - |
| Employee related expenses | 8 | (65 825) | ( 39 561) | (2 121) | (184) |
| Aircraft and equipment lease expenses | | (58 302) | ( 54 240) | - | - |
| Spare parts and consumables expenses | | (51 084) | ( 19 544) | - | - |
| Aircraft servicing and handling expenses | | (46 930) | ( 27 841) | - | - |
| Aircraft maintenance expenses | | (20 182) | ( 8 007) | - | - |
| Cost of services resold | | (18 057) | ( 9 694) | - | - |
| Training and related expenses | | (15 830) | ( 7 132) | (10) | - |
| Depreciation and amortization | 9, 15, 16 | (8 073) | ( 4 878) | (86) | (10) |
| Rent and maintenance of premises | | (8 005) | ( 2 777) | (249) | - |
| Impairment of receivables and inventories | 3.1, 18 | (3 753) | ( 1 420) | (12) | - |
| Other operating expenses | 10 | (46 086) | ( 24 224) | (2 296) | (147) |
| Other gain/(loss) - net | 11 | 3 910 | 13 | (922) | - |
| **Operating profit (loss)** | | **13 913** | **23 845** | **(828)** | **(52)** |
| Finance income | | 486 | 814 | 522 | - |
| Finance cost | | (3 535) | ( 3 989) | (40) | (83) |
| **Finance costs – net** | 12 | **(3 049)** | **( 3 175)** | **482** | **(83)** |
| **Profit (loss) before income tax** | | **10 864** | **20 670** | **(346)** | **(135)** |
| Income tax | 13 | ( 2 142) | ( 2 879) | 47 | 2 |
| **Profit (loss) for the year** | | **8 722** | **17 791** | **(299)** | **(133)** |
| Profit (loss) for the year attributable to: | | | | | |
| Equity holders | | 9 719 | 18 013 | (299) | (133) |
| Non-controlling interests | | (997) | (222) | **-** | - |
| | | **8 722** | **17 791** | (299) | **(133)** |
| **Other comprehensive income:** | | | | | |
| Currency translation differences | | 661 | (16) | - | - |
| **Total comprehensive income for the year** | | **9 383** | **17 775** | **(299)** | **133** |
| Total comprehensive income attributable to: | | | | | |
| Equity holders | | 10 359 | 17 997 | (299) | (133) |
| Non-controlling interests | | (976) | (222) | - | - |
| | | **9 383** | **17 775** | **(299)** | **(133)** |
| Basic and diluted earnings (loss) per share (in LTL) | 14 | 1.53 | 4.03 | (0.05) | (0.03) |

The notes on pages 11 to 54 form an integral part of these financial statements. The financial statements on pages 5 to 54 have been approved for issue by the Board of Directors as at 18 April 2012 and signed on their behalf by the Acting General Director:

Acting General Director
Aurimas Sanikovas

*(All tabular amounts are in LTL '000 unless otherwise stated)*

## BALANCE SHEETS

Approved by the Annual General Meeting of Shareholders as at _______________ 2012

| | | Year ended 31 December | | | |
|---|---|---|---|---|---|
| | | **GROUP** | | **COMPANY** | |
| | **Note** | **2011** | **2010** | **2011** | **2010** |
| **ASSETS** | | | | | |
| **Non-current assets** | | | | | |
| Property, plant and equipment | 15 | 52 615 | 29 198 | 653 | 319 |
| Intangible assets | 16 | 10 044 | 2 723 | 11 | 7 |
| Financial assets | 17 | - | - | 11 487 | 8 195 |
| Trade and other receivables | 19 | 15 274 | 1 920 | 25 812 | - |
| Deferred income tax assets | 28 | 7 533 | 1 157 | 49 | 2 |
| | | **85 466** | **34 998** | **38 012** | **8 523** |
| **Current assets** | | | | | |
| Inventories | 18 | 35 619 | 12 319 | 94 | - |
| Trade and other receivables | 19 | 97 222 | 51 366 | 26 311 | 1 066 |
| Amount due from customers for contract work | 20 | 6 512 | 2 937 | - | - |
| Prepaid income tax | | 299 | 240 | - | - |
| Short-term bank deposits | | 268 | 1 926 | - | - |
| Cash and cash equivalents | 21 | 17 781 | 10 713 | 904 | 4 |
| | | **157 701** | **79 501** | **27 309** | **1 070** |
| **Total assets** | | **243 167** | **114 499** | **65 321** | **9 593** |
| **EQUITY** | | | | | |
| **Equity attributable to the Group's equity shareholders** | | | | | |
| Share capital | 1, 22 | 5 893 | 4 420 | 5 893 | 4 420 |
| Share premium | 23 | 58 770 | - | 58 770 | - |
| Legal reserve | 24 | 263 | 44 | - | - |
| Merger reserve | 24 | (2 746) | (3 517) | - | - |
| Cumulative translations differences | | 624 | (16) | - | - |
| Retained earnings | | 33 531 | 24 001 | (432) | (133) |
| | | **96 335** | **24 932** | **64 231** | **4 287** |
| Non-controlling interests | | 18 | 119 | - | - |
| **Total equity** | | **96 353** | **25 051** | **64 231** | **4 287** |
| **LIABILITIES** | | | | | |
| **Non-current liabilities** | | | | | |
| Borrowings | 25 | 28 245 | 10 580 | - | - |
| Security deposits received | 27 | 10 238 | 9 380 | - | - |
| Trade and other payables | 26 | 2 109 | 1 746 | - | - |
| Deferred income tax liabilities | 28 | 289 | 33 | - | - |
| Intra – group financial guarantees | | - | - | 289 | - |
| | | **40 881** | **21 739** | **289** | **-** |
| **Current liabilities** | | | | | |
| Borrowings | 25 | 24 891 | 24 716 | - | 4 698 |
| Trade and other payables | 26 | 60 694 | 37 080 | 684 | 608 |
| Advances received | | 8 162 | 2 908 | - | - |
| Current income tax liabilities | | 4 661 | 2 058 | - | - |
| Intra – group financial guarantees | | - | - | 117 | - |
| Security deposits received | 27 | 7 525 | 947 | - | - |
| | | **105 933** | **67 709** | **801** | **5 306** |
| **Total liabilities** | | **146 814** | **89 448** | **1 090** | **5 306** |
| **Total equity and liabilities** | | **243 167** | **114 499** | **65 321** | **9 593** |

The notes on pages 11 to 54 form an integral part of these financial statements.

Acting General Director
Aurimas Sanikovas

*(All tabular amounts are in LTL '000 unless otherwise stated)*

## STATEMENTS OF CHANGES IN EQUITY

Approved by the Annual General Meeting of Shareholders as at _________________ 2012

| THE GROUP | Equity attributable to equity holders of the Group | | | | | | | Non-controlling interests | Total equity |
|---|---|---|---|---|---|---|---|---|---|
| | Share capital | Share premium | Reserves (Note 24) | Currency translation differences | Retained earnings | Invested capital | Total | | |
| **Balance at 1 January 2010** | **-** | **-** | **-** | **-** | **-** | **7 015** | **7 015** | **-** | **7 015** |
| **Comprehensive income** | | | | | | | | | |
| Currency translation difference | - | - | - | (16) | - | - | **(16)** | **-** | **(16)** |
| Profit for the period | - | - | - | - | 18 013 | - | **18 013** | **(222)** | **17 791** |
| **Total comprehensive income** | **-** | **-** | **-** | **(16)** | **18 013** | **-** | **17 997** | **(222)** | **17 775** |
| **Transactions with owners** | | | | | | | | | |
| Share issue pursuant to share acquisition agreements | 150 | - | - | - | - | - | **150** | - | **150** |
| Issue of additional shares | 4 270 | - | - | - | - | - | **4 270** | - | **4 270** |
| Reallocation of accumulated invested capital pursuant to the Pre-IPO Reorganisation | - | - | 26 | - | 6 308 | (7 015) | **(681)** | 341 | **(340)** |
| Effect of transactions with non-controlling interests | - | - | (3 517) | - | - | - | **(3 517)** | **-** | **(3 517)** |
| Transfer to legal reserve | - | - | 18 | - | (18) | - | **-** | **-** | **-** |
| Acquisition of subsidiaries | - | - | - | - | (302) | - | **(302)** | **-** | **(302)** |
| **Total transactions with owners** | **4 420** | **-** | **(3 473)** | **-** | **5 988** | **-** | **(80)** | **341** | **261** |
| **Balance at 31 December 2010 / at 1 January 2011** | **4 420** | **-** | **(3 473)** | **(16)** | **24 001** | **(7 015)** | **24 932** | **119** | **25 051** |
| **Comprehensive income** | | | | | | | | | |
| Currency translations differences | - | - | - | 640 | - | - | **640** | 21 | **661** |
| Profit (loss) for the year | - | - | - | - | 9 719 | - | **9 719** | (997) | **8 722** |
| **Total comprehensive income** | **-** | **-** | **-** | **640** | **9 719** | **-** | **10 359** | **(976)** | **9 383** |
| **Transactions with owners** | | | | | | | | | |
| Increase in share capital | 1 473 | 66 282 | - | - | - | - | **67 755** | **-** | **67 755** |
| Cost of increase in share capital (Note 23) | - | (7 512) | - | - | - | - | **(7 512)** | **-** | **(7 512)** |
| Transfer to legal reserve | - | - | 219 | - | ( 219) | - | **-** | - | **-** |
| Decrease of merger reserve and non-controlling interests pursuant to the disposal of subsidiary (Note 24, 32) | - | - | 771 | - | - | - | **771** | 140 | **911** |
| Effect on transactions with non-controlling interests | - | - | - | - | 30 | - | **30** | 735 | **765** |
| **Total transactions with owners** | **1 473** | **58 770** | **990** | **-** | **(189)** | **-** | **61 044** | **875** | **61 919** |
| **Balance at 31 December 2011** | **5 893** | **58 770** | **(2 483)** | **624** | **33 531** | **-** | **96 335** | **18** | **96 353** |

*(All tabular amounts are in LTL '000 unless otherwise stated)*

## STATEMENTS OF CHANGES IN EQUITY (CONTINUED)

| THE COMPANY | Note | Share capital | Share premium | Retained earnings | Total equity |
|---|---|---|---|---|---|
| **Balance at 30 August 2010** | | **-** | **-** | **-** | **-** |
| **Transaction with owners** | | | | | |
| Share issue pursuant to share acquisition agreements | 1 | 150 | - | - | **150** |
| Issue of additional shares | 1 | 4 270 | - | - | **4 270** |
| **Total transactions with owners** | | **4 420** | **-** | **-** | **4 420** |
| **Net loss** - total comprehensive income for the period | | **-** | **-** | **(133)** | **(133)** |
| **Balance at 31 December 2010** | | **4 420** | **-** | **(133)** | **4 287** |
| Increase in share capital | 22, 23 | 1 473 | 66 282 | - | **6 7755** |
| Cost of capital increase | 23 | - | (7 512) | - | **(7 512)** |
| **Total transactions with owners** | | 1 473 | 58 770 | **-** | **60 243** |
| **Net loss** - total comprehensive income for the period | | - | - | **(299)** | **(299)** |
| **Balance at 31 December 2011** | | **5 893** | **58 770** | **(432)** | **64 231** |

The notes on pages 11 to 54 form an integral part of these financial statements.

Acting General Director
Aurimas Sanikovas

*(All tabular amounts are in LTL '000 unless otherwise stated)*

**STATEMENTS OF CASH FLOWS**

Approved by the Annual General Meeting of Shareholders as at _________________ 2012

| | | Year ended 31 December | | | |
|---|---|---|---|---|---|
| | | GROUP | | COMPANY | |
| | **Notes** | **2011** | **2010** | **2011** | **Period since incorporation till 31 December 2010** |
| **Operating activities** | | | | | |
| Profit (loss) for the year | | 8 722 | 17 791 | (299) | (133) |
| Income tax | 13 | 2 142 | 2 879 | (47) | (2) |
| *Adjustments for:* | | - | | | |
| Depreciation and amortisation | 9, 15, 16 | 8 073 | 4 878 | 86 | 10 |
| Discounting effect on deposits placed | | 813 | 1 517 | - | - |
| Interest expenses | 12 | 1 411 | 1 435 | 39 | 83 |
| Impairment of accounts receivable, inventories | 3.1, 18 | 3 753 | 1 420 | 12 | - |
| Accruals of c-check costs, hangar lease payments | | 1 135 | 1 419 | - | - |
| Currency translations differences | | 1 179 | 1 081 | (833) | - |
| Interest income | 7 | (410) | (114) | (1 668) | - |
| Gain on the subsidiary disposed | 11 | (2 890) | - | - | - |
| *Changes in working capital:* | | | | | |
| - Inventories | | (23 550) | ( 3 217) | (94) | - |
| - Trade and other receivables | | (41 103) | ( 31 002) | (336) | (991) |
| - Trade and other payables, advances received | | 29 036 | (96) | 76 | 595 |
| - Security deposits received | | 7 494 | 8 730 | - | - |
| **Cash generated from (used in) operations** | | **(4 195)** | **6 721** | **(3 064)** | **(438)** |
| Interest received | | 38 | 14 | 598 | - |
| Interest paid | | (1 271) | (770) | (39) | - |
| Income tax paid | | (2 451) | ( 1 434) | - | - |
| **Net cash generated from (used in) operating activities** | | **(7 879)** | **4 531** | **(2 505)** | **(438)** |
| **Investing activities** | | | | | |
| Purchase of PPE and intangible assets | | (24 197) | (6 948) | (425) | - |
| Proceeds from PPE and intangible assets | | 1 | 82 | - | - |
| Purchase of subsidiary companies (net of cash acquired) | 32 | (4 001) | 43 | (10) | (4 208) |
| Proceeds from sale of subsidiary | 32 | 700 | - | 700 | - |
| Proceeds from sale of interest in subsidiary without loss of control | | 532 | 101 | 532 | - |
| Loans granted | | (15 601) | (5 297) | (72 370) | - |
| Repayments of loans granted | | 2 053 | 5 034 | 19 450 | - |
| Deposits placed | | (12 205) | (2 290) | (9) | - |
| Repayments of deposits placed | | 150 | - | - | - |
| **Net cash used in investing activities** | | **(52 569)** | **(9 275)** | **(52 140)** | **(4 208)** |

*(All tabular amounts are in LTL '000 unless otherwise stated)*

**STATEMENTS OF CASH FLOWS (CONTINUED)**

| | | Year ended 31 December | | | |
|---|---|---|---|---|---|
| | | GROUP | | COMPANY | |
| | **Notes** | **2011** | **2010** | **2011** | **Period since incorporation till 31 December 2010** |
| **Financing activities** | | | | | |
| Increase of share capital | 1, 22 | 1 473 | 4 420 | 1 473 | 4 420 |
| Contribution to share capital in cash | 22, 23 | 66 282 | - | 66 282 | - |
| Cost directly related to issue of share capital | 23 | (7 512) | | (7 512) | |
| Bank borrowings received | | 40 914 | 17 805 | - | - |
| Repayments of bank borrowings | | (16 851) | (9 948) | - | - |
| Borrowings from related parties received | | 1 249 | 13 504 | 76 | 230 |
| Repayments of borrowings from related parties | | (17 471) | (14 908) | (4 774) | - |
| Repayments of lease liabilities | | (2 821) | (539) | - | - |
| **Net cash generated from financing activities** | | **65 263** | **10 334** | **55 545** | **4 650** |
| | | | | | |
| **Increase in cash and cash equivalents** | | **4 815** | **5 590** | **900** | **4** |
| | | | | | |
| At beginning of year | 21 | 10 006 | 4 416 | 4 | - |
| Increase (decrease) in cash and cash equivalents | | **4 815** | 5 590 | 900 | 4 |
| **At end of year** | 21 | **14 821** | **10 006** | **904** | **4** |

The notes on pages 11 to 54 form an integral part of these financial statements.

Acting General Director
Aurimas Sanikovas

*(All tabular amounts are in LTL '000 unless otherwise stated)*

**NOTES TO THE FINANCIAL STATEMENTS**

## 1 General information

Avia Solutions Group AB (referred to as *the Company*) is a public limited liability company incorporated at State Enterprise Centre of Registers of the Republic of Lithuania as at 31 August 2010 (Company code – 302541648). The Company is domiciled in Vilnius, the capital of Lithuania. The address of its registered office is as follows: Smolensko 10, LT-03201, Vilnius.

The Company's shares are traded on the Warsaw stock exchange as from 3 March 2011 (see Notes 22, 23).

The shareholders' structure of the Company as at 31 December was as follows:

| | 2011 | | 2010 | |
|---|---|---|---|---|
| | **Number of shares** | **Percentage owned** | **Number of shares** | **Percentage owned** |
| ZIA Valda Cyprus Ltd. | 1 939 275 | 32.906% | 1 939 275 | 43.875% |
| Indeco: Investment and Development UAB | 1 292 850 | 21.938% | 1 292 850 | 29.250% |
| Harberin Enterprises Limited | 777 375 | 13.191% | 1 077 375 | 24.375% |
| ING Otwarty Fundusz Emerytalny | 390 000 | 6.618% | - | - |
| Hubert Bojdo | 100 000 | 1.697% | - | - |
| Vytautas Kaikaris | 55 250 | 0.938% | 55 250 | 1.250% |
| Jonas Butautis | 44 200 | 0.750% | 44 200 | 1.000% |
| Aurimas Sanikovas | 11 050 | 0.188% | 11 050 | 0.250% |
| Other | 200 000 | 3.39% | - | - |
| Other free float | 1 083 333 | 18.38% | - | - |
| **Total** | **5 893 333** | **100.00%** | **4 420 000** | **100.00%** |

The Company's principal activity is the management of its subsidiaries. Companies of the Group operate in the following activity areas: passenger carriage by charter flights; aircraft maintenance, repair and overhaul; aircraft ground handling and fuelling; pilot and crew training.

The number of full time staff employed by the Group at the end of 2011 amounted to 1027 (2010: 678). The number of full time staff employed by the Company at the end of 2011 amounted to 17 (2010: 8).

The subsidiaries, which are included in the Group's consolidated financial statements are indicated below:

| | | | Share of equity, % | | |
|---|---|---|---|---|---|
| **The Group's companies** | **Country of establish-ment** | **Operating segment** | **2011** | **2010** | **Date of acquiring/establishment and activity** |
| AviationCV.com UAB | Lithuania | Pilot and Crew Training | 91 | - | The subsidiary was established in spring of 2011. Currently it has started preparations for active sales. |
| Baltic Aviation Academy UAB | Lithuania | Pilot and Crew Training | 100 | 100 | The Group company was established on 22 November 2006. The company provides aircraft crew training services. |
| Baltic Ground Services UAB | Lithuania | Aircraft Ground Handling and Fuelling | 100 | 100 | The subsidiary was acquired on 31 October 2008. The company provides aircraft ground handling and fueling services. |
| Baltic Ground Services Sp.z.o.o. | Poland | Aircraft Ground Handling and Fuelling | 100 | 100 | The subsidiary was established in spring of 2010. It is a direct subsidiary of Baltic Ground Services UAB. The company provides aircraft ground handling and fueling services in Poland. |

*(All tabular amounts are in LTL '000 unless otherwise stated)*

## 1 General information (continued)

| The Group's companies | Country of establish-ment | Operating segment | Share of equity, % 2011 | Share of equity, % 2010 | Date of acquiring/establishment and activity |
|---|---|---|---|---|---|
| Baltic Ground Services s.r.l. | Italy | Aircraft Ground Handling and Fuelling | 100 | 100 | The subsidiary was established in winter of 2010. It is a direct subsidiary of Baltic Ground Services UAB. The subsidiary does not conduct active operations. |
| Baltic Ground Services UA TOV | Ukraine | Aircraft Ground Handling and Fuelling | 100 | 100 | The subsidiary was established in summer of 2011. It is a direct subsidiary of Ground Handling CIS UAB. The subsidiary does not conduct active operations. |
| Ground Handling CIS UAB | Lithuania | Aircraft Ground Handling and Fuelling | 100 | - | The subsidiary was established on 4 July 2011. It is a direct subsidiary of Baltic Ground Services UAB. The subsidiary does not conduct active operations |
| FL Technics AB | Lithuania | Aircraft maintenance, repair and overhaul (MRO) | 100 | 100 | The subsidiary was established on 22 December 2005. In summer of 2007 the Company started active sales of aircraft maintenance, repair and overhaul (MRO) services. |
| FL Technics Jets UAB | Lithuania | Aircraft maintenance, repair and overhaul (MRO) | 100 | 100 | The subsidiary was acquired on 1 December 2010. In summer of 2011 the Company started active sales of maintenance services for business aircraft. |
| FL Technics Line OOO | | Aircraft maintenance, repair and overhaul (MRO) | 100 | - | The subsidiary was established on 3 August 2011. It is a direct subsidiary of FL Technics AB. Currently it has started preparations for aircraft line stations activity in Russia and the CIS . |
| FL Technics Ulyanovsk OOO | | Aircraft maintenance, repair and overhaul (MRO) | 99 | - | The subsidiary was established on 22 July 2011. It is a direct subsidiary of FLT Trading House UAB. Currently it has started preparations for aircraft maintenance activity in Ulyanovsk, Russia. |
| FLT Trading House UAB | Lithuania | Aircraft maintenance, repair and overhaul (MRO) | 100 | 100 | The subsidiary was acquired on 19 November 2010. The subsidiary does not conduct active operations. |
| Locatory.com UAB | Lithuania | Aircraft maintenance, repair and overhaul (MRO) | 95 | 100 | The subsidiary was established on 7 December 2010. Starting summer 2011, the Company provides a platform for the aviation industry to search, buy and sell aviation inventory. |
| Small Planet Airlines UAB | Lithuania | Charter operations | 95.5 | 95.5 | The subsidiary was established on 14 March 2007. In autumn of 2008 the Company started active sales of charter flights. |
| Small Planet Airlines AS | Estonia | Charter operations | - | 95.5 | The subsidiary was established on 5 December 2008. On 22 November 2011 the Company was sold (Note 32). |
| Small Planet Airlines Sp.z.o.o. | Poland | Charter operations | 95.5 | 95.5 | The subsidiary was established on 25 November 2009. In spring of 2010 the Company started active sales of charter flights. |
| Small Planet Airlines s.r.l. | Italy | Charter operations | 85.5 | 95.5 | The subsidiary was established on 17 February 2010. In summer of 2011 the Company started active sales of charter flights. |
| Storm Aviation Ltd. | The United Kingdom | Aircraft maintenance, repair and overhaul (MRO) | 100 | - | The subsidiary was acquired on 30 September 2011 (Note 32). It is a direct subsidiary of FL Technics AB. The company provides aircraft line station services. |
| Storm Aviation (Cyprus) Ltd. | Republic of Cyprus | Aircraft maintenance, repair and overhaul (MRO) | 100 | - | The subsidiary was acquired on 30 September 2011. It is a direct subsidiary of Storm Aviation Ltd.. The company provides aircraft line station services in Cyprus. |

*(All tabular amounts are in LTL '000 unless otherwise stated)*

**1 General information (continued)**

The shareholders of the Company have a statutory right to approve these financial statements or not to approve them and to require preparation of another set of financial statements.

***Historical information***

Baltic Aviation Academy UAB, Small Planet Airlines UAB, Small Planet Airlines AS Small Planet Airlines Sp. z.o.o., Small Planet Airlines s.r.l, FL Technics AB (referred to as *Avia Solutions Group Companies or the Group*) comprised jointly managed aviation services business under control of Ridota AB (from 2005 till 30 January 2008) and Avia Solutions Group Holdings AB (from 31 January 2008 till 30 September 2010). Both Ridota AB and Avia Solutions Group Holdings AB are referred to as *The Initial Holding Companies*. Baltic Ground Services UAB was acquired on 31 October 2008 and included into the Group. The Initial Holding Companies also held interest in other entities. These other entities together with the Initial Holding Companies are treated as *Other Initial Group Companies*. Avia Solutions Group Companies and Other Initial Group Companies are treated as *the Initial Group*.

The Initial Group was a wholly owned by three shareholders ŽIA valda AB (45%), Indeco: Investment and Development UAB (30%), and SANITEX BĮ UAB (25%) (hereinafter *the Initial Shareholders*). During 2010 the Initial Shareholders conducted a reorganisation, which was completed on 30 September 2010, whereby the companies comprising the aviation services business of Avia Solutions Group Holdings AB were reorganised under newly set up entity Avia Solutions Group AB (hereinafter *the Company*) (hereinafter *the Pre-IPO Reorganisation*) for the purposes of preparing for the Initial Public Offering. As such, prior to 30 September 2010, the Company did not control the entities it acquired pursuant to the Pre-IPO Reorganisation and did not therefore prepare consolidated financial statements. Accordingly, the comparative consolidated financial statements are based on the combined financial statements of the entities acquired by the Company under the Pre-IPO Reorganisation (hereinafter *the Group*).

The immediate and ultimate parent company of the Group is ŽIA Valda AB, which owned 45 per cent of the holding company of Initial Group and exercised the right to appoint the General Director of the holding company which was the only managing body and, therefore, had the power to govern the financial and operating policies of the Group. After pre-IPO Reorganisation ŽIA Valda AB retained the right to appoint the General Director of the holding company and is the ultimate parent company of the Group. The ultimate controlling party is Mr. Gediminas Žiemelis.

During the period from the date of incorporation of the Company until 30 September 2010, significant legal restructuring was undertaken in preparation for the initial offering ("IPO"). The restructuring has been performed in three steps as described below.

| *The first step – formation of the share capital of Avia Solutions Group AB* | **Share capital of the Company** |
|---|---|
| The share issue pursuant to Avia Solutions Group AB share acquisition agreements (as at 31 August 2010). Shares have been subscribed and paid-up by 6 shareholders indicated in the table above. | 150 |
| Additional emission of shares of Avia Solutions Group AB (as at 7 September, as cash injection). Shares have been subscribed and paid-up by 6 shareholders indicated in the table above. | 4 270 |
| | **4 420** |

| *The second step (during September 2010) – acquisition of newly issued share capital in the Group companies for nominal value. After this step, the Company held 90 per cent of share capital in Baltic Ground Services UAB, FL Technics UAB, Baltic Aviation Academy UAB and 85.5 per cent of share capital in Small Planet Airlines companies.* | **Purchase consideration/ nominal value of share capital issued in Group companies** |
|---|---|
| Avia Solutions Group AB purchase consideration for the newly issued shares of the Group companies (paid-up in cash) | 4 165 |
| Non-controlling interest purchase consideration for the newly issued shares of the Group companies (paid-up in cash) | 101 |
| | **4 266** |

*(All tabular amounts are in LTL '000 unless otherwise stated)*

## 1 General information (continued)

| *The third step (during September 2010) – acquisition of the remaining 10 per cent of share capital of the Group companies* | **Purchase consideration/ nominal value of share capital issued in Group companies** |
|---|---|
| The nominal value of the remaining 10 percent of the share capital of the Group companies | 473 |
| Avia Solutions Group AB purchase consideration for the acquisition of remaining 10 percent of the share capital of the Group companies (payment postponed for 2 years) | (3 990) |
| The difference between the consideration and nominal value of the share capital acquired in the third step of the pre-IPO Reorganisation (Note 24) | **(3 517)** |

## 2 Summary of significant accounting policies

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

### 2.1 Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), as adopted by the EU. The financial statements have been prepared on a going concern basis and under the historical cost convention.

These financial statements include the consolidated financial statements of the Group and stand alone financial statement of the company for the year ended 31 December 2011.

During the period from the date of incorporation until the 30 September 2010 the Group has not in the past constituted a separate legal group, although all combining entities were controlled by one party and managed as one business. The comparative financial information, i.e. nine-month period ended 30 September 2010, is therefore prepared on a basis that combined/carved out the results, of each of the companies constituting the aviation services business of the Initial Holding Companies by applying the principles underlying the consolidation procedures of IAS 27 *Consolidated and Separate Financial Statements*.

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

*a) New and emended standards and interpretations adopted by the Group and the Company*

There are no IFRSs or IFRIC interpretations that are effective for the first time for the financial year beginning on or after 1 January 2011 that would be expected to have a material impact on the Group and the Company.

*(b) Standards, amendments and interpretations to existing standards effective in 2011 but not relevant to the Group and the Company:*

***Amendment to IAS 24, Related Party Disclosures, issued in November 2009*** (effective for annual periods beginning on or after 1 January 2011). The amended standard simplifies the disclosure requirements for government-related entities and clarifies the definition of a related party. This amendment will not have any impact on the Group's and Company's financial statements.

**2.1 Basis of preparation (continued)**

***Classification of Rights Issues – Amendment to IAS 32, issued in October 2009*** (effective for annual periods beginning on or after 1 February 2010). The amendment exempts certain rights issues of shares with proceeds denominated in foreign currencies from classification as financial derivatives. This amendment did not have any impact on the Group's and Company's financial statements.

***IFRIC 19, Extinguishing Financial Liabilities with Equity Instruments*** (effective for annual periods beginning on or after 1 July 2010). This IFRIC clarifies the accounting when an entity renegotiates the terms of its debt with the result that the liability is extinguished through the debtor issuing its own equity instruments to the creditor. A gain or loss is recognised in the profit and loss account based on the fair value of the equity instruments compared to the carrying amount of the debt. This interpretation did not have any impact on the Group's and Company's financial statements.

***Prepayments of a Minimum Funding Requirement – Amendment to IFRIC 14*** (effective for annual periods beginning on or after 1 January 2011). This amendment will have a limited impact as it applies only to companies that are required to make minimum funding contributions to a defined benefit pension plan. It removes an unintended consequence of IFRIC 14 related to voluntary pension prepayments when there is a minimum funding requirement. This amendment did not have any impact on the Group's and Company's financial statements.

***Limited exemption from comparative IFRS 7 disclosures for first-time adopters – Amendment to IFRS 1*** (effective for annual periods beginning on or after 1 July 2010). Existing IFRS preparers were granted relief from presenting comparative information for the new disclosures required by the March 2009 amendments to IFRS 7 'Financial Instruments: Disclosures'. This amendment to IFRS 1 provides first-time adopters with the same transition provisions as included in the amendment to IFRS 7. This amendment will not have any impact on the Group's and Company's financial statements.

***Improvements to International Financial Reporting Standards, issued in May 2010*** (effective dates vary standard by standard, most improvements are effective for annual periods beginning on or after 1 January 2011). The improvements consist of a mixture of substantive changes and clarifications in the following standards and interpretations: IFRS 1, IFRS 3, IFRS 7, IAS 28, IAS 31, IAS 32, IAS 34, IAS 39 and IFRIC 13. This amendment will not have any impact on the Group's and Company's financial statements.

*c) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group and the Company:*

***IFRS 9, Financial Instruments: Classification and Measurement.*** IFRS 9, (issued in November 2009; not yet adopted by the EU), replaces those parts of IAS 39 relating to the classification and measurement of financial assets. IFRS 9 was further amended in October 2010 to address the classification and measurement of financial liabilities and in December 2011 to (i) change its effective date to annual periods beginning on or after 1 January 2015 and (ii) add transition disclosures. The Group and the Company are yet to assess the impact of the standard on its financial statements.

***IFRS 10, Consolidated Financial Statements*** *(effective for annual periods beginning on or after 1 January 2013, not yet adopted by the EU),* replaces all of the guidance on control and consolidation in IAS 27 "Consolidated and separate financial statements" and SIC-12 "Consolidation - special purpose entities". IFRS 10 changes the definition of control so that the same criteria are applied to all entities to determine control. This definition is supported by extensive application guidance. The Group and the Company are currently assessing the impact of the standard on its financial statements.

***IFRS 11, Joint Arrangements,*** *(effective for annual periods beginning on or after 1 January 2013),* replaces IAS 31 "Interests in Joint Ventures" and SIC-13 "Jointly Controlled Entities—Non-Monetary Contributions by Ventures". Changes in the definitions have reduced the number of types of joint arrangements to two: joint operations and joint ventures. The existing policy choice of proportionate consolidation for jointly controlled entities has been eliminated. Equity accounting is mandatory for participants in joint ventures. The Group and the Company are currently assessing the impact of the standard on its financial statements.

**2.1 Basis of preparation (continued)**

***IFRS 12, Disclosure of Interest in Other Entities, (effective for annual periods beginning on or after 1 January 2013),*** applies to entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity. It replaces the disclosure requirements currently found in IAS 28 "Investments in associates". IFRS 12 requires entities to disclose information that helps financial statement readers to evaluate the nature, risks and financial effects associated with the entity's interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities. To meet these objectives, the new standard requires disclosures in a number of areas, including significant judgments and assumptions made in determining whether an entity controls, jointly controls, or significantly influences its interests in other entities, extended disclosures on share of non-controlling interests in group activities and cash flows, summarised financial information of subsidiaries with material non-controlling interests, and detailed disclosures of interests in unconsolidated structured entities. The Group and the Company are currently assessing the impact of the standard on its financial statements.

***IFRS 13, Fair value measurement, (effective for annual periods beginning on or after 1 January 2013),*** aims to improve consistency and reduce complexity by providing a revised definition of fair value, and a single source of fair value measurement and disclosure requirements for use across IFRSs. The Group and the Company are currently assessing the impact of the standard on its financial statements.

***IAS 27, Separate Financial Statements, (revised in May 2011 and effective for annual periods beginning on or after 1 January 2013),*** was changed and its objective is now to prescribe the accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements. The guidance on control and consolidated financial statements was replaced by IFRS 10, Consolidated Financial Statements. The Group and the Company are currently assessing the impact of the standard on its financial statements.

***IAS 28, Investments in Associates and Joint Ventures, (revised in May 2011 and effective for annual periods beginning on or after 1 January 2013).*** The amendment of IAS 28 resulted from the Board's project on joint ventures. When discussing that project, the Board decided to incorporate the accounting for joint ventures using the equity method into IAS 28 because this method is applicable to both joint ventures and associates. With this exception, other guidance remained unchanged. The amendment will not have any impact on the Group's and the Company's financial statements.

***Disclosures—Transfers of Financial Assets – Amendments to IFRS 7*** (effective for annual periods beginning on or after 1 January 2012). The amendment requires additional disclosures in respect of risk exposures arising from transferred financial assets. The amendment includes a requirement to disclose by class of asset the nature, carrying amount and a description of the risks and rewards of financial assets that have been transferred to another party yet remain on the entity's balance sheet. Disclosures are also required to enable a user to understand the amount of any associated liabilities, and the relationship between the financial assets and associated liabilities. Where financial assets have been derecognised but the entity is still exposed to certain risks and rewards associated with the transferred asset, additional disclosure is required to enable the effects of those risks to be understood. The Group and the Company do not expect the amendments to have any material effect on its financial statements.

***Amendments to IAS 1, Presentation of Financial Statements (effective for annual periods beginning on or after 1 July 2012***; not yet adopted by the EU***),*** changes the disclosure of items presented in other comprehensive income. The amendments require entities to separate items presented in other comprehensive income into two groups, based on whether or not they may be reclassified to profit or loss in the future. The suggested title used by IAS 1 has changed to 'statement of profit or loss and other comprehensive income'. The Group and the Company expect the amended standard to change presentation of its financial statements, but have no impact on measurement of transactions and balances.

***Deferred Tax: Recovery of Underlying Assets – Amendment to IAS 12*** (effective for annual periods beginning on or after 1 January 2012; not yet adopted by the EU). The amendment introduced a rebuttable presumption that an investment property carried at fair value is recovered entirely through sale. SIC-21, *Income Taxes – Recovery of Revalued Non-Depreciable Assets*, which addresses similar issues involving non-depreciable assets measured using the revaluation model in IAS 16, *Property, Plant and Equipment*, was incorporated into IAS 12 after excluding from its scope investment properties measured at fair value. The Group and the Company do not expect the amendments to have any material effect on its financial statements.

**2.1 Basis of preparation (continued)**

***Severe hyperinflation and removal of fixed dates for first-time adopters – Amendment to IFRS 1*** (effective for annual periods beginning on or after 1 July 2011; not yet adopted by the EU). The amendment regarding severe hyperinflation creates an additional exemption when an entity that has been subject to severe hyperinflation resumes presenting or presents for the first time, financial statements in accordance with IFRS. The exemption allows an entity to elect to measure certain assets and liabilities at fair value; and to use that fair value as the deemed cost in the opening IFRS statement of financial position. The Group and the Company do not expect the amendments to have any material effect on its financial statements.

***IFRIC 20, Stripping Costs in the Production Phase of a Surface Mine, (effective for annual periods beginning on or after 1 January 2013***; not yet adopted by the EU***).*** The interpretation clarifies that benefits from the stripping activity are accounted for in accordance with the principles of IAS 2, *Inventories*, to the extent that they are realised in the form of inventory produced. To the extent the benefits represent improved access to ore, the entity should recognise these costs as a 'stripping activity asset' within non-current assets, subject to certain criteria being met. The Group and the Company do not expect the amendments to have any material effect on its financial statements.

***Offsetting Financial Assets and Financial Liabilities - Amendments to IAS 32 (effective for annual periods beginning on or after 1 January 2014***; not yet adopted by the EU***).*** The amendment added application guidance to IAS 32 to address inconsistencies identified in applying some of the offsetting criteria. This includes clarifying the meaning of 'currently has a legally enforceable right of set-off' and that some gross settlement systems may be considered equivalent to net settlement. The Group and the Company do not expect the amendments to have any material effect on its financial statements.

***Disclosures—Offsetting Financial Assets and Financial Liabilities - Amendments to IFRS 7 (effective for annual periods beginning on or after 1 January 2013***; not yet adopted by the EU***).*** The amendment requires disclosures that will enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off. The amendment will have an impact on disclosures but will have no effect on measurement and recognition of financial instruments.

**2.2 Consolidation**

*Subsidiaries*

A subsidiary is an entity in which the Group, directly or indirectly, has interest of more than 50% of the shares with voting rights or otherwise has power to govern the operating and financial policies so as to obtain economic benefits. All subsidiaries have been consolidated / combined in the Group's financial statements.

An associate is an entity, in which the Group owns between 20% and 50% of the shares with voting rights and over which the Group has significant influence. As at the balance sheet date, the Group had no associates.

A subsidiary is consolidated / combined from the date on which control is transferred to the Group and is no longer consolidated / combined from the date on which control ceases. The group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

The excess of the consideration transferred the amount of any non-controlling interest in the acquire and the acquisition-date fair value of any previous equity interest in the acquire over the fair value of the group's share of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the statement of comprehensive income. Inter-company transactions, balances and unrealised gains on transactions between entities included within the combined / consolidated financial statements have been eliminated.

**2.2 Consolidation (continued)**

*Business combinations involving entities under common control*

Business combination involving entities under common control is a transaction in which all of the combining entities are controlled by the same party or parties before and after the transaction and that control is not transitory.

As business combinations involving entities under common control are excluded from IFRS 3 scope, management uses merger accounting (otherwise known as 'predecessor accounting'). The principles used by the Group are as follows:

- The Group does not restate assets and liabilities to their fair values. Instead, the Group incorporates the assets and liabilities at the amounts recorded in the books of the combined companies;
- No goodwill arises in predecessor accounting. Differences between the purchase consideration and the nominal value of company's equity acquired are not goodwill, because they are not based on the fair values of both the consideration given and the identifiable assets and liabilities acquired. Instead, the differences are included in equity and presented within the retained earnings (accumulated deficit) in the balance sheet;
- The principles in IAS 27 apply in the application of the predecessor method of accounting and, therefore, results are incorporated from the date the new parent obtains control. The corresponding amounts for the previous year are not restated because the combination did not occur until the current year.

*Non-controlling interest*

Non-controlling interest is that part of the net results and of the net assets of a subsidiary, including the fair value adjustments, which is attributable to interests which are not owned, directly or indirectly, by the Group. Non-controlling interest forms a separate component of the Group's equity.

*Transactions with non-controlling interest*

The Group treats transactions with non-controlling interests as transactions with equity owners of the Group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

**2.3 Foreign currency translation**

*Functional and presentation currency*

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Lithuanian Litas (LTL), which is the functional currency of the Company and the Group.

The litas is pegged to the euro at an exchange rate of LTL 3.4528 = EUR 1

*Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured.

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 statement of comprehensive income. Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the statement of comprehensive income within "finance income or cost". All other foreign exchange gains and losses are presented in the statement of comprehensive income within "other operating expenses".

**2.3 Foreign currency translation (continued)**

*Group companies*

The results and financial position of all the Group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
- Income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at rates prevailing at the dates of the transactions);
- All resulting exchange differences are recognised as a separate component of equity.

**2.4 Segment information**

Operating segments are reported in a manner consistent with the internal reporting provided to the Chief Operating Decision Maker (CODM). The Chief Operating Decision Maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of the Company that makes strategic decisions.

**2.5 Property, plant and equipment**

Property, plant and equipment consist of buildings and structures, vehicles, machinery, other non-current tangible assets. Property, plant and equipment is carried at its historical cost less any accumulated depreciation and any accumulated impairment loss. Historical cost includes expenditures that are directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the profit or loss during the financial period in which they are incurred.

Land is not depreciated. Depreciation is calculated on the straight-line basis to write off the cost of assets to their residual values over their estimated useful life as follows:

| | |
|---|---|
| Buildings and structures | 8 - 15 years |
| Vehicles | 6 – 10 years |
| Machinery | 5 years |
| Other non-current tangible assets | 3 – 6 years |

Major additions, modifications and improvements expenditure relating to the flight equipment for aircraft leased are capitalized and depreciated over the remaining lease period of the aircraft. Major improvements performed for leased aircraft are capitalized leasehold improvements and depreciated over the period till the next improvement or during the useful life of certain asset. Leasehold improvements are classified as other non-current tangible assets.

The assets' residual value and useful lives are reviewed periodically and adjusted if appropriate.

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

When property is retired or otherwise disposed, the cost and related depreciation are removed from the financial statements and any related gains or losses are included in the profit or loss.

## 2.6 Intangible assets

Intangible assets expected to provide economic benefit to the Group and the Company in future periods have finite useful life and are valued at acquisition cost less any accumulated amortisation and any accumulated impairment losses. Amortisation is calculated on the straight-line method to allocate the cost of intangible asset over estimated benefit period as follows:

| | |
|---|---|
| Licenses | 3 - 5 years |
| Software | 3 - 5 years |
| Web-site costs | 5 years |
| Other non-current intangible assets | 1 - 4 years |

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. Costs associated with developing or maintaining computer software programmes are recognised as an expense as incurred. Costs that are directly associated with the development of identifiable and unique software products controlled by the Group, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets.

Directly attributable costs, which are incurred to comply with the requirements of certification authority in order to obtain the Air Operator's Certificate (hereinafter – *AOC)* are capitalised as part of the commercial license. Such expenses include aircraft basic and supplemental rent expenses, aircraft insurance expenses, preparation of aircraft technical documentation expenses, rent and maintenance of premises expenses, employee related expenses and crew training expenses, that have been incurred during the period of the submission of the application for an initial issue of an AOC and the date of receipt of the AOC.

Line maintenance approvals and basic licences for B1/B2 courses are recognised by the Group on the acquisition date of the entity on the basis of the costs, and classified as part of commercial license. The cost related to acquiring a basic licence for is based on an estimate provided by Group's Quality Manager of the cost of reaching the status of B1/B2 engineer, including relevant college courses, exams, preparation of application and cost of submission. The cost related to acquiring line maintenance approvals is based on an estimate of the direct costs, including internal audit, application to the authority, travel, external audit and interviews costs.

The costs incurred at each stage in development and operation of Group's own web-site is recognised as part of intangible assets. Such expenses include expenses on purchasing or creating content for a web-site, expenses to enable use of the content on the web-site and directly attributable employee related expenses, that have been incurred during the stage of the development of the web-site, and additional development of the web-site expenses, that have been incurred during the stage of the operation of the web-site after initial recognition of the intangible assets.

*Goodwill*

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary/associate at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in 'intangible assets'. Goodwill on acquisitions of associates is included in 'investments in associates'.

Separately recognised goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

**2.7 Impairment of non-financial assets**

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

**2.8 Financial assets**

The Group classifies its financial assets into one of four measurement categories: loans and receivables, financial assets at fair value through profit or loss, held to maturity investments and available-for-sale financial assets. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

During the current period the Group did not hold any financial assets at fair value through profit or loss, held to maturity investments and available-for-sale financial assets.

*Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are classified as 'trade and other receivables' in the balance sheet. The Group assesses at each balance sheet date whether there is objective evidence that a financial assets is impaired. Impairment testing of trade receivables is described in Note 3.1.

**2.9 Investments in subsidiaries and associates in the separate financial statements of the Company**

Investments in subsidiaries that are included in the separate financial statements of the Company are accounted at cost less impairment provision. Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments.

**2.10 Inventories**

Inventories are stated at the lower of cost and net realizable value. Cost is determined using the first-in, first-out (FIFO) method. The cost of inventories comprises purchase price, taxes (other than those subsequently recoverable by the Group from the tax authorities), transport, handling and other costs directly attributable to the acquisition of inventories. Net realizable value is the estimate of the selling price in the ordinary course of business, less the applicable selling expenses. Inventories that are no longer appropriate for sale are written off.

**2.11 Trade receivables**

Trade receivables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognized in the profit or loss. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against in the profit or loss.

### 2.12 Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet. Bank overdrafts are subtracted from the cash and cash equivalents in the consolidated statements of cash flows.

### 2.13 Share capital

Ordinary shares are stated at their par value and classified as equity.

Where the Company or its subsidiaries purchase the Company's equity share capital (treasury shares), in the Company's and the Group's financial statements the consideration paid, including any directly attributable incremental costs (net of income taxes), is deducted from equity attributable to the Company's equity holders until the shares are cancelled or reissued. Where such shares are subsequently reissued, any consideration received, net of any directly attributable incremental transaction cost and the related income tax effects, is included in equity attributable to the Company's equity holders. Incremental costs directly attributable to the issue of new ordinary shares are shown in equity as a deduction, net of tax, from the proceeds.

### 2.14 Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in ordinary course of business. Accounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities. Trade payables are recognized initially at fair value and subsequently measured at amortized cost using the effective interest method.

### 2.15 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the profit or loss over the period of the borrowings using the effective interest method. Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Borrowing costs that are directly attributable to the acquisition of a qualifying asset are capitalised as part of the cost of that asset during the period of time that is required to complete and prepare the asset for its intended use. Other borrowing costs are expensed. The capitalising of borrowing costs ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use are complete.

### 2.16 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

### 2.17 Grants relating to expenses and purchase of property, plant and equipment

Grants are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions. Grants relating to the purchase of property, plant and equipment are included in non-current liabilities and are credited to the profit or loss on a straight-line basis over the expected lives of the related assets. Grants relating to the expenses are included in non-current liabilities and are credited to the profit or loss on basis to match the appropriate expenses.

## 2.18 Accounting for leases

*a) Accounting for leases where the Group is the lessee*

*Operating leases*

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

*Finance leases*

Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in long-term payables except for instalments due within 12 months which are included in current liabilities.

The property, plant and equipment acquired under finance leases is depreciated over the shorter of the asset's useful life and the lease term.

*b) Accounting for leases where the Group is the sub - lessor*

Rental income from operating sub – lease is recognized on a straight-line basis over the period of the lease.

*c) Accounting for leases where the Group is the lessor*

*Operating leases*

When assets are leased out under an operating lease, the asset is included in the balance sheet based on the nature of the asset. They are depreciated over their expected useful lives on a basis consistent with similar assets. Lease income is recognised over the term of the lease on a straight-line basis.

## 2.19 Current and deferred income tax

The tax expenses for the period comprise current and deferred tax. Tax is recognised in the profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Profit for 2011 is taxable at a rate of 15% (2010: 15%) in accordance with Lithuanian regulatory legislation on taxation. Profit for 2011 is taxable at a rate of 19% (2010: 19%) in accordance with Polish regulatory legislation on taxation. Profit for 2011 is taxable at a rate of 27.5% (2010: 27.5%) in accordance with Italian regulatory legislation on taxation. Profit for 2011 is taxable at a rate of 20% in accordance with Russian regulatory legislation on taxation. Profit for 2011 is taxable at a rate of 26% in accordance with United Kingdom regulatory legislation on taxation

The current income tax charge is calculated and accrued for in the financial statements on the basis of information available at the moment of the preparation of the financial statements, and estimates of income tax performed by the management in accordance with legislation on taxation in the country where the Group operates.

### 2.19 Current and deferred income tax (continued)

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences and unused tax losses can be utilised.

According to Lithuanian, Polish and the British legislation, tax losses accumulated as of 31 December 2011 are carried forward indefinitely.

Deferred tax assets and liabilities are offset only if the Group has a legally enforceable right to set off current tax assets against current tax liabilities and only if the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority.

### 2.20 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue of the Group is shown net of value-added tax, returns, rebates and discounts, sales taxes. Revenue is recognised when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

*Sales of services*

Revenue of the Group consists of passenger's revenue, aircraft and aircraft components maintenance and overhaul, training of aviation specialists, technical consulting, aircraft ground handling services, into-plane fueling and web-site subscription services.

Passengers' revenue, aircraft ground handling and into-plane fueling revenue is recognized as earned, - upon completion of the air transportation or upon delivery of services to the customer.

Aircraft and aircraft components maintenance, training and technical consulting, web-site subscription services are provided to the customers on time and material basis or as a fixed-price contract, with contract generally ranging from less than one year (single contract) to the long-term contract. Revenue from fixed-price contracts is recognised under the service period. Under this method, revenue is generally recognized in proportion to each service month.

Revenue from fixed-price contracts is recognised under the percentage-of-completion method. Under this method, revenue is generally recognised based on the services performed to date as a percentage of the total services to be performed. Stage of completion is determined with a reference to the proportion that man hours worked to date bear to the estimated total man hours per contract.

*Sales of goods*

Sales of goods are recognised when goods are delivered to the customer, the customer has full discretion over the use of the products, and there is no unfulfilled obligation that could affect the customer's acceptance of the products. Delivery does not occur until the products have been shipped to the specified location, the risks of obsolescence and loss have been transferred to the customer, and either the customer has accepted the products in accordance with the sales contract, the acceptance provisions have lapsed, or the Group have objective evidence that all criteria for acceptance have been satisfied.

*Interest income*

Interest income is recognized on a time-proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at original effective interest rate of the instrument, and continues unwinding the discount as interest income.

**2.20 Revenue recognition (continued)**

Interest income on loans granted are classified as „other income", while interest income on cash and cash equivalents are classified as „finance income" in the consolidated statement of comprehensive income.

**2.21 Employee benefits**

*Social security contributions*

The Group pays social security contributions to the state Social Security Fund (the Fund) on behalf of its employees based on the defined contribution plan in accordance with the local legal requirements. A defined contribution plan is a plan under which the Group pays fixed contributions into the Fund and will have no legal or constructive obligations to pay further contributions if the Fund does not hold sufficient assets to pay all employees benefits relating to employee service in the current and prior period. The social security contributions are recognized as an expense on an accrual basis and are included within employee related expenses.

*Bonus plans*

The Group recognises a liability and an expense for bonuses based on predefined targets. The Group recognises related liability where contractually obliged or where there is a past practice that has created a constructive obligation.

*Supplementary health insurance*

The Group paid supplementary health insurance contributions to the insurance company on behalf of its employees. Supplementary health insurance for employees is the possibility to get health care and health improvement services in a selected health care institution. The supplementary health insurance contributions are recognized as an expense when incurred.

*Termination benefits*

Termination benefits are payable whenever an employee's employment is terminated before the normal retirement date or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either terminate the employment of current employees according to a detailed formal plan without possibility of withdrawal or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after balance sheet date are discounted to present value.

**2.22 Financial guarantee contracts**

Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. Financial guarantee contracts are recognised as financial liabilities at the date the guarantee is issued. Liabilities arising from financial guarantee contracts are initially recognised at fair value and subsequently measured at the higher of the expected liability under the guarantee and the amount initially recognised less any cumulative amortisation.

The Company, issuer of an intra-group financial guarantee, recognizes the guarantee liability at its fair value. Where parent entity guarantees the debt of its subsidiary then that transaction is accounted for as an investment in subsidiary as the guarantee is given for the benefit of the subsidiary. Subsequent amortisation and any change in the carrying amount of the liability are recognised in profit or loss.

The fair value of the financial guarantee is determined the estimated amount that would be payable to a third party for assuming the obligation.

*(All tabular amounts are in LTL '000 unless otherwise stated)*

## 3 Financial risk management

### 3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects of the financial performance of the Group.

Risk management is carried out by Group's top management close cooperation with the Board of the Company. Top management meetings are held to discuss overall risk management and analyze each case, as well as actions to cover specific areas, such as foreign exchange risk, interest rate risk, credit risk and investing excess liquidity.

**Market risk**

*(a) Foreign exchange risk*

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures primarily with respect to US Dollar (USD). Foreign exchange risk arises from future commercial transactions, recognized assets and liabilities.

For calculation of foreign exchange risk's sensitivity trade and other receivables and trade and other payables, denominated at US-dollars are multiplied by reasonably possible change of EUR (to which LTL is pegged) to US dollars. Reasonable possible change is provided in the table below:

| | GROUP | | Company | |
|---|---|---|---|---|
| | **2011** | **2010** | **2011** | **2010** |
| Reasonably possible change of EUR to US dollars | 2 % | 9 % | - | - |

At 31 December 2011 the Group's post-tax profit for the year would have been LTL 890 thousand (2010: LTL 1 631 thousand) higher/lower, mainly as a result of foreign exchange gains/losses on translation of US dollar-denominated trade and other receivables and trade and other payables.

Foreign exchange risk is controlled by monitoring the foreign currency exposure of its purchase contracts and lease commitments. The Group seeks to reduce its foreign rate exchange exposure through a policy of matching possible receipts and payments in each individual currency.

*(b) Price risk*

The Group is not exposed to price risk of financial instruments since it does not possess any material financial instruments that could be sensitive to such risk.

*(c) Cash flow and fair value interest rate risk*

The Group's interest rate risk arises from short-term and long-term bank borrowings and finance lease liabilities at floating interest rates. The Group is not exposed to fair value interest rate risk as loans granted to related parties and interest free deposit placed as a guarantee for lease of aircraft are accounted at amortized cost and are with fixed interest rate.

Borrowings received at variable interest rates and denominated in the LTL, EUR, GBP currencies expose the Group to cash flow interest rate risk. As at 31 December 2011 and 2010 Group's non-current borrowings at variable rate of 6 month EURIBOR plus fixed margin were denominated in EUR, bank overdraft at variable rate of 6 months VILIBOR plus fixed margin was denominated in LTL and finance lease liabilities at variable rate of 6 months EURIBOR plus fixed margin were denominated in EUR.

*(All tabular amounts are in LTL '000 unless otherwise stated)*

**3.1 Financial risk factors (continued)**

For calculation of interest rate risk sensitivity interest expenses on borrowings, received at variable interest rates, are multiplied by possible interest rate change (hereinafter „reasonable shift"), which are prescribed by the Group. Possible interest rate changes are provided in the table below:

| Currency of borrowings | Reasonable shift |
|---|---|
| LTL | 4.00 % |
| EUR | 1.00 % |

The presumable interest rate change creates acceptable impact on Group's annual profit as well as equity and makes LTL 311 thousand in 2011 (2010: LTL 170 thousand) impact on profit or loss.

**Credit risk**

Credit risk arises from cash and cash equivalents and deposits with banks, financial institutions, shareholders and their related parties, lessor as well as credit exposures to customers, including outstanding receivables and committed transactions. Credit risks are controlled by the application of credit terms and monitoring procedures.

The Group's procedures are in force to ensure that services are sold only to customers with an appropriate credit history and do not exceed acceptable credit exposure limit. Cash transactions are limited to high credit quality financial institutions.

*(a) Maximum exposure of credit risk*

The table below summarises all credit risk exposures relating to on-balance sheet items of the Group. Maximum exposure to credit risk before collateral held or other credit enhancements:

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | **2011** | **2010** | **2011** | **2010** |
| Trade receivables (Note 19) | 61 170 | 29 174 | 60 | - |
| Security deposit with lessor (Note 19) | 14 754 | 5 296 | 9 | - |
| Loans provided (Note 19) | 14 706 | - | 13 396 | - |
| Other receivables (Note 19) | 1 561 | 730 | 146 | - |
| Loans provided to related parties (Notes 19, 33) | 750 | 644 | 36 323 | 73 |
| Other receivables from related parties (Note 19) | 21 | 490 | 930 | - |
| Trade receivables from related parties (Notes 19, 33) | 4 | 180 | 1 239 | 347 |
| Cash and cash equivalents (Note 21) | 17 781 | 10 713 | 904 | 4 |
| | **110 747** | **46 737** | **53 007** | **424** |

*(b) Financial assets neither past due nor impaired*

<u>Trade receivables and trade receivables from related parties</u>

The Group's customers do not have external credit ratings, however the management of the Group measures credit quality of trade receivables and trade receivables from related parties based on the period of relationship with certain debtor. Two groups are distinguished: new customers/related parties (period of relationship less than 6 months) and old customers/related parties (more than 6 months).

For analysis of credit quality of neither past due not impaired trade receivables and trade receivables from related parties based see the table below:

*(All tabular amounts are in LTL '000 unless otherwise stated)*

**3.1 Financial risk factors (continued)**

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | **2011** | **2010** | **2011** | **2010** |
| *Group 1: new customers/related parties (less than 6 months)* | 4 303 | 1 083 | 15 | 301 |
| *Group 2: old customers/related parties (more than 6 months)* | 18 935 | 12 981 | 369 | - |
| | **23 238** | **14 064** | **384** | **301** |

Cash and cash equivalents (assessed in accordance with long-term borrowings ratings*)

All cash and cash equivalents held by the Group as of the periods presented are neither past due, nor impaired. The Group chooses the banks and financial institutions with a Fitch rating not lower than B.

See the table below for analysis of the Group's cash and cash equivalents according to the credit quality.

| | | | | |
|---|---|---|---|---|
| AA- | - | 1 182 | - | - |
| A+ | 12 057 | 4 827 | 834 | 4 |
| A | - | 2 645 | - | - |
| A- | 1 195 | 107 | 56 | - |
| BBB+ | 1 526 | - | - | - |
| BBB | 1 540 | - | - | - |
| B+ | - | 758 | - | - |
| B | 165 | 633 | - | - |
| other | 1 298 | 561 | 14 | - |
| | **17 781** | **10 713** | **904** | **4** |

** - external long term credit ratings set by international agencies Standarts & Poors as at August 2011 and FitchRatings as at March 2011/2012*.

Security deposit with lessor, loans to related parties

Security deposit with lessor and loans to related parties held by the Group as of the periods presented are neither past due nor impaired. The Group does not analyse these financial assets according to credit quality.

*(c) Financial assets past due but not impaired*

Trade receivables that are past due up to 6 months and for which no evident impairment indicator is identified by the Group are classified as past due but not impaired. Trade receivables overdue more that 6 months may be considered as not impaired if the Group has evidence that the amounts due will be repaid.

The ageing of past due, but not impaired trade receivables is as follows:

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | **2011** | **2010** | **2011** | **2010** |
| *Overdue up to 3 months* | 27 421 | 12 853 | 749 | 46 |
| *overdue from 4 to 6 months* | 5 638 | 1 390 | 110 | - |
| *overdue over 6 months* | 4 877 | 1 047 | 57 | - |
| | **37 936** | **15 290** | **916** | **46** |

*(All tabular amounts are in LTL '000 unless otherwise stated)*

**3.1 Financial risk factors (continued)**

*(d) Impaired financial assets*

Trade and other receivables for which the Group has identified evident impairment indicator irrespective of the payment delay period are considered as impaired receivables. Evident impairment indicators include significant financial difficulties of the debtor or other events that significantly increase the risk of default on a receivable amount. The impairment of trade and other receivables is performed going individually through the customers list and assessing the expectation of recovery.

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | **2011** | **2010** | **2011** | **2010** |
| *Impaired trade receivables – gross amount* | 3 647 | 1 420 | - | - |
| *Less: provision for impairment of trade receivables (Note 19)* | (3 129) | (1 420) | - | - |
| ***Impaired trade receivables – net amount*** | **518** | **-** | **-** | **-** |
| *Impaired other receivables – gross amount* | 364 | - | - | - |
| *Less: provision for impairment of other receivables (Note 19)* | (364) | - | - | - |
| ***Impaired other receivables – net amount*** | **-** | **-** | **-** | **-** |
| *Impaired loans provided – gross amount* | 10 | - | - | - |
| *Less: provision for impairment of loans provided (Note 19)* | (10) | - | - | - |
| ***Impaired loans provided – net amount*** | **-** | **-** | **-** | **-** |

Movements on the Group's provision for impairment of receivables:

| | | | | |
|---|---|---|---|---|
| *At 1 January* | 1 420 | 2 855 | - | - |
| *Provision for receivables impairment* | 3 503 | 1 420 | - | - |
| *Receivables written off during the year as uncollectible* | (1 420) | ( 2 855) | - | - |
| ***At 31 December (Note 19)*** | **3 503** | **1 420** | **-** | **-** |

**Liquidity risk**

Liquidity risk management implies maintaining sufficient cash and the availability of funding through other group companies. Liquidity risk is managed by the General Managers of entities of the Group in close cooperation with the Company to maintain a minimum required liquidity position.

As at 31 December 2011 current liabilities in seven subsidiaries of the Group exceeded the current assets. Management of the Group believes that this will not have any impact on the ability of subsidiaries of the Group to continue as going concern. In addition the parent company – Avia Solutions Group AB – is able to provide financial support to enable subsidiaries to continue operations for at least twelve months from the date of approval of the financial statements, if needed.

The Group's liquidity management policy involves projecting cash flows and considering the level of liquid assets necessary to meet these. The table below allocates the Group's financial liabilities into relevant maturity groupings based on remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Trade and other payables and deposits received due within/after 12 months equal their carrying balances as the impact of discounting is not significant.

*(All tabular amounts are in LTL '000 unless otherwise stated)*

**3.1 Financial risk factors (continued)**

| GROUP | Less than 1 year | Between 1 - 2 years | Over 2 years |
|---|---|---|---|
| **31 December 2011** | | | |
| Borrowings from related parties | 6 | 289 | - |
| Bank loans | 23 689 | 7 675 | 17 462 |
| Other borrowings | 3 | 364 | - |
| Security deposits received | 7 525 | 1 034 | 9 332 |
| Finance lease liabilities | 2 660 | 3 089 | 2 292 |
| Trade and other payables | 60 694 | 666 | 1 443 |
| | **94 577** | **10 028** | **33 863** |
| **31 December 2010** | | | |
| Borrowings from related parties | 13 609 | 706 | 5 539 |
| Bank loans | 11 769 | 1 599 | 3 194 |
| Security deposits received | 947 | 500 | 9 396 |
| Finance lease liabilities | 702 | 1 360 | - |
| Trade and other payables | 37 081 | 247 | 1 499 |
| | **64 108** | **4 412** | **19 628** |
| **COMPANY** | | | |
| **31 December 2011** | | | |
| Trade and other payables | 684 | - | - |
| | **684** | **-** | **-** |
| **31 December 2010** | | | |
| Borrowings from related parties | 4 911 | - | - |
| Trade and other payables | 608 | - | - |
| | **5 519** | **-** | **-** |

**3.2 Capital risk management**

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

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including 'current and non-current borrowings' as shown in the consolidated balance sheet) less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the consolidated balance sheet plus net debt.

The Group's strategy is to reduce the gearing ratio and to maintain it within 25% to 35%.

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | **2011** | **2010** | **2011** | **2010** |
| Total borrowings (Note 25) | 53 136 | 35 296 | - | 4 698 |
| Less: cash and cash equivalents (Note 21) | (17 781) | ( 10 713) | (904) | (4) |
| Net debt | 35 355 | 24 583 | (904) | 4 694 |
| Total equity | 96 353 | 25 051 | 64 231 | 4 287 |
| **Total capital** | **131 708** | **49 634** | **93 327** | **8 982** |
| Gearing ratio | 27% | 50% | - | 52% |

### 3.2 Capital risk management (continued)

Pursuant to the Lithuanian Law on Companies the authorised share capital of a public limited liability company and private limited liability company must be not less than LTL 150,000 and LTL 10,000, respectively, and the shareholders' equity should not be lower than 50 per cent of the entity's registered share capital. As at 31 December 2011 six Group companies did not comply with these requirements.

According to the Lithuanian Law on Companies, a general meeting of shareholders to rectify the situation must be convened. In the case, if the general meeting of shareholders did not rectify the situation within six months, an application to the court to reduce the authorised capital must be filed.

### 3.3 Fair value estimation

The fair value of financial assets and financial liabilities for the disclosure purposes is estimated by discounting the cash flows from each class of financial assets or financial liabilities.

Fair value of interest free security deposit with the lessor approximates its carrying value which was calculated discounting nominal value of deposit using market interest rate. Loans to related parties were granted at market interest rates, therefore, their carrying value approximate fair value.

The fair value of bank borrowings and finance lease with variable rates approximates their carrying amount.

## 4 Critical Accounting Estimates and Significant Judgements

Estimates and judgments 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.

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgments are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgments, apart from those involving estimations, in the process of applying the accounting policies. Judgments that have the most significant effect on the amounts recognised in the financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities within the next financial year include:

*(a) C-check costs accruals*

During the aircraft lease term and until the lease contract termination date, the Group (lessee) has the obligation, at its expense, to maintain and repair the aircraft in accordance with the maintenance program. C-check expenses are incurred once in 18 – 24 months. Accruals for such expenses is based on an average cost of all C-Check per flight hour and recognised in the profit or loss on straight-line basis.

*(b) Premises lease payments accruals*

Under the terms of two aircraft hangars and training building operating lease agreement, various rentals were payable during the lease term and until the lease contract termination date. Lease payments have been apportioned to ensure that they are charged to the comprehensive income statement on a straight-line basis over the period of the lease.

*(c) Related-party transactions*

In the normal course of business the Group enters into transactions with their related parties. These transactions are priced predominantly at market rates. Judgement is applied in determining if transactions are priced at market or non-market rates, where there is no active market for such transactions. The basis for judgement is pricing for similar types of transactions with unrelated parties.

## 4 Critical Accounting Estimates and Significant Judgements (continued)

*(d) Income taxes*

Tax authorities have a right to examine accounting records of the Group at anytime during the 5 year period after the current tax year and account for additional taxes and fines. In the opinion of the Group's management, currently there are no circumstances that might result in a potential material liability in this respect to the Group.

*(e) Earnings per Share*

While calculating Earnings per Share in these financial statements the Group has assumed that the equity ownership structure which was established after the Pre-IPO Reorganisation as at 30 September 2010 and the share capital issued by the Company during the Pre-IPO Reorganisation process has been in place during the whole period presented in these consolidated financial statements. Such assumptions have been made with the aim to present comparable and consistent historical Earnings per Share ratios for the periods presented.

*(f) Intangible assets*

Costs that are directly attributable to obtain the AOC are recognized as intangible assets (Note 2.6). The AOC expected to provide economic benefits to the Group in future periods are measured at acquisition cost, which includes directly attributable expenses, as described in Note 2.6, less subsequent accumulated amortisation and any accumulated impairment losses. Amortisation is calculated on the straight-line basis over estimated economic benefit period of 5 years.

As at acquisition date of the subsidiary (Note 32) line maintenance approvals and basic licenses with carrying amount LTL 3,528 thousand were recognised as intangible assets (Note 2.6) The licences expected to provide economic benefits to the Group in future periods are measured at acquisition cost, which includes directly attributable expenses, as described in Note 2.6, less subsequent accumulated amortisation and any accumulated impairment losses. Amortisation is calculated on the straight-line basis over estimated economic benefit period of 5 years.

*(g) Property, plant and equipment*

Estimates concerning useful lives of property, plant and equipment may change due to constant technology advancement. Useful lives of property, plant and equipment are disclosed Note 2.5 and depreciation charge for the year is disclosed in Note 15. Increasing an asset's expected useful life or its residual value would result in a reduced depreciation charge. The useful lives of property, plant and equipment are determined by the management at the time the asset is acquired and reviewed on an annual basis for appropriateness. The lives are based on historical experiences with similar assets as well as anticipation of future events, which may impact their life, such as changes in technology. Most of property, plant and equipment of the Group comprise buildings and vehicles.

## 5 Segment information

For management purposes, the Group is organised into business units based on the services provided, and has five reportable operating segments:

*Charter Operations*

The charter operations segment includes carriage of passengers by charter flights.

**5 Segment information (continued)**

*Aircraft Maintenance, Repair and Overhaul (MRO)*

The aircraft maintenance, repair and overhaul (MRO) segment is involved in aircraft and aircraft components' maintenance, repair, overhaul, engineering, spare parts and consumable sale, technical personnel training.

*Pilot and Crew Training*

The pilot and crew training segment is involved in full scope of integrated flight training solutions

*Unallocated Sales*

The Unallocated sales include sales of management services, which cannot be attributed to the other segments.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. The segment performance is analysed on monthly basis based on internal reports provided to the chief operating decision maker of the Group.

The accounting policies of the reportable segments are the same as the Group's accounting policies described in Note 2.

Management analyses the activities of the Group both from geographic and business perspective.

From business perspective the Management used to analyse the Group sales volume and gross profit (loss) based on businesses the Group is involved in (according to the Group companies' activities), referred to as segments. Gross profit (loss) is a measure of segment profit or loss for management analysis purposes.

Operating expenses, which are directly related to the operating segments (including administration employee related expenses, rent and maintenance of administration premises, depreciation and amortization of non-current assets, used for administrative purposes, business travel expenses, related to sales, consultation expenses, office administrative expenses and other), and the amount of impairment losses, recognised in profit or loss during the period, are allocated to the particular segments. Other operating expenses, indirectly related to the operating segments, are not allocated to the operating segments.

Financial activities and income taxes are managed on a Group level and are not allocated to the operating segments as well. Management also regularly reviews capital investments on segment basis therefore additions to non-current assets has been separately disclosed according to each operating segment.

Geographically, Management separately considers operations in Lithuania, Estonia, Italy, Poland and the Great Britain by sales volume depending on where the Group's companies are located.

Transfer prices between business segments are set on an arm's length basis in a manner similar to transactions with third parties. Segment revenue, segment expense and segment result include transfers between business segments. Those transfers are eliminated in consolidation.

*(All tabular amounts are in LTL '000 unless otherwise stated)*

**5 Segment information (continued)**

The following table presents revenues and profit (loss) and assets and liabilities information according to the Group's business segments for the year ended 31 December 2011:

| | Charter operations | Aircraft maintenance, repair and overhaul | Aircraft ground handling and fuelling | Pilot and crew training | Unallo-cated | **Inter-segment elimina-tions** | **Total continuing operations** |
|---|---|---|---|---|---|---|---|
| **Year ended 31 December 2011** | | | | | | | |
| **Revenue** | | | | | | | |
| Sales to external customers | 214 835 | 155 252 | 83 041 | 23 203 | 438 | - | **476 769** |
| Other income | 1 415 | 108 | - | 11 | 196 | - | **1 730** |
| Inter-segment sales | 21 140 | 10 006 | 31 033 | 910 | 4 192 | (67 281) | - |
| **Total revenue** | **237 390** | **165 366** | **114 074** | **24 124** | **4 826** | **(67 281)** | **478 499** |
| Cost of sales | (233 737) | (114 461) | (110 025) | (15 007) | (1 340) | 60 264 | (414 306) |
| **Segment gross profit** | **3 653** | **50 905** | **4 049** | **9 117** | **3 486** | **(7 017)** | **64 193** |
| Impairment of receivables, inventories | (3 574) | (127) | (40) | - | (12) | - | (3 753) |
| **Other operating expenses** (see details in the table below) | | | | | | | (46 527) |
| **Operating profit** | | | | | | | **13 913** |
| Finance costs - net | | | | | | | (3 049) |
| **Profit before income tax** | | | | | | | **10 864** |
| Income tax | | | | | | | (2 142) |
| **Net profit for the period** | | | | | | | **8 722** |
| | | | | | | | |
| **As at 31 December 2011** | | | | | | | |
| Segment assets | 49 480 | 122 314 | 44 666 | 10 700 | 16 007 | | **243 167** |
| Segment liabilities | 42 859 | 72 260 | 22 373 | 8 640 | 682 | | **146 814** |
| Acquisition of non-current assets | 2 708 | 9 796 | 14 415 | 4 570 | 425 | | **31 914** |
| Depreciation and amortization | 456 | 5 265 | 1 804 | 462 | 86 | | **8 073** |

The following table presents revenues and profit (loss) and assets and liabilities information according to the Group's business segments for the year ended 31 December 2010:

| | Charter operations | Aircraft maintenance, repair and overhaul | Aircraft ground handling and fuelling | Pilot and crew training | Unallo-cated | **Inter-segment elimina-tions** | **Total continuing operations** |
|---|---|---|---|---|---|---|---|
| **Year ended 31 December 2010** | | | | | | | |
| **Revenue** | | | | | | | |
| Sales to external customers | 157 360 | 76 788 | 57 621 | 12 494 | - | - | **304 263** |
| Other income | 7 173 | 140 | - | 26 | - | - | **7 339** |
| Inter-segment sales | 4 620 | 8 627 | 17 660 | 404 | 289 | ( 31 600) | - |
| **Total revenue** | **169 153** | **85 555** | **75 281** | **12 924** | **289** | **( 31 600)** | **311 602** |
| Cost of sales | (159 289) | ( 58 322) | ( 67 074) | ( 8 553) | (177) | 29 875 | ( 263 540) |
| **Segment gross profit** | **9 864** | **27 233** | **8 207** | **4 371** | **112** | **(1 725)** | **48 062** |
| Impairment of receivables, inventories | (1 295) | (108) | (17) | - | - | - | (1 420) |
| **Other operating expenses** (see details in the table below) | | | | | | | (22 797) |
| **Operating profit** | | | | | | | **23 845** |
| Finance costs - net | | | | | | | ( 3 175) |
| **Profit before income tax** | | | | | | | **20 670** |
| Income tax | | | | | | | ( 2 879) |
| **Net profit for the period** | | | | | | | **17 791** |

*(All tabular amounts are in LTL '000 unless otherwise stated)*

**5 Segment information (continued)**

| | Charter operations | Aircraft maintenance, repair and overhaul | Aircraft ground handling and fuelling | Pilot and crew training | Unallo-cated | **Inter-segment elimina-tions** | **Total continuing operations** |
|---|---|---|---|---|---|---|---|
| **As at 31 December 2010** | | | | | | | |
| Segment assets | 28 806 | 56 412 | 23 542 | 4 577 | 1 162 | | **114 499** |
| Segment liabilities | ( 31 879) | ( 34 200) | ( 14 158) | ( 4 138) | ( 5 073) | | **( 89 448)** |
| Acquisition of non-current assets | 1 269 | 4 768 | 2 265 | 653 | 336 | | **9 291** |
| Depreciation and amortization | 118 | 3 635 | 891 | 224 | 10 | | **4 878** |

The Group's other operating expenses indirectly related to the operating segments detailed below:

| | **GROUP** | |
|---|---|---|
| | **2011** | **2010** |
| Administration employee related expenses | 20 497 | 10 821 |
| Consultation expenses | 3 379 | 2 720 |
| Rent and maintenance of administration premises | 2 849 | 1 868 |
| Depreciation and amortization of assets related to administration | 5 118 | 567 |
| Other operating expenses indirectly related to the operating segments | 14 684 | 6 821 |
| **Other operating expenses** | **46 527** | **22 797** |

The Group's revenue from external customers by geographical location of subsidiaries on 31 December 2011 and 31 December 2010 detailed below:

| | **GROUP** | |
|---|---|---|
| | **2011** | **2010** |
| Lithuania | 359 738 | 257 977 |
| Poland | 74 655 | 17 177 |
| Italy | 21 284 | - |
| Estonia | 14 213 | 29 109 |
| Great Britain | 6 879 | - |
| | **476 769** | **304 263** |

The segment's sales to external customers are derived from the following single customers (the customers whose sales revenue exceed 10 per cent of total sales revenue of that segment in any of the years):

| | **GROUP** | |
|---|---|---|
| | **2011** | **2010** |
| **The charter operations segment** | | |
| Customer O (new) | 39 197 | - |
| Customer A | 38 068 | 35 192 |
| Customer Q | 36 312 | 16 778 |
| Customer B | 30 780 | 39 015 |
| Customer D | 3 389 | 16 547 |
| Customer C | - | 3 860 |
| Other customers | 67 089 | 45 968 |
| | **214 835** | **157 360** |

*(All tabular amounts are in LTL '000 unless otherwise stated)*

**5 Segment information (continued)**

| | GROUP | |
|---|---|---|
| | **2011** | **2011** |
| **The aircraft ground handling and fuelling segment** | | |
| Customer T (new) | 17 955 | 20 |
| Customer U (new) | 9 766 | 4 133 |
| Customer J | 6 157 | 12 450 |
| Customer K | 3 583 | 3 989 |
| Customer L | 3 526 | 2 159 |
| Other customers | 42 054 | 34 870 |
| | **83 041** | **57 621** |
| **The aircraft maintenance, repair and overhaul (MRO) segment** | | |
| Customer H | 23 476 | 18 411 |
| Customer E | 17 747 | 9 096 |
| Customer F/O | 12 675 | 8 347 |
| Other customers | 101 354 | 40 934 |
| | **155 252** | **76 788** |
| **The pilot and crew training segment** | | |
| Customer R | 7 476 | 3 964 |
| Customer S | - | 1 524 |
| Customer N | 741 | 1 068 |
| Customer M | 611 | 963 |
| Customer O/F | 790 | 339 |
| Other customers | 13 585 | 11 192 |
| | **23 203** | **12 494** |

The Group's sales to external customers in 2011 are not derived from the single customers (in 2010: Sales from customers B and A exceeded 10 per cent of total sales revenue of the Group).

*(All tabular amounts are in LTL '000 unless otherwise stated)*

| | | GROUP | | COMPANY | |
|---|---|---|---|---|---|
| | | 2011 | 2010 | 2011 | Period since incorporation till 31 December 2010 |
| **6** | **Revenue** | | | | |
| | Aircraft fuel revenue | 103 476 | 92 783 | - | - |
| | Passengers' revenue | 107 484 | 70 665 | - | - |
| | Aircraft maintenance Revenue | 88 404 | 51 185 | - | - |
| | Aircraft and aircrew lease | 69 094 | 44 777 | - | - |
| | Spare parts and consumable revenue | 32 197 | 10 664 | - | - |
| | Training and consulting revenue | 28 356 | 14 172 | 173 | 289 |
| | Engine management revenue | 19 622 | - | - | - |
| | Revenue of services resold | 13 843 | 12 412 | - | - |
| | Aircraft ground services | 12 232 | 7 605 | - | - |
| | Sales commissions and fees | 2 061 | - | 2 984 | - |
| | | **476 769** | **304 263** | **3 157** | **289** |
| **7** | **Other income** | | | | |
| | Late payment and other penalties | 1 320 | 7 225 | - | - |
| | Interest income on loans | 410 | 114 | 1 668 | - |
| | Amortisation of financial guarantees | **-** | **-** | 43 | - |
| | | **1730** | **7 339** | **1 711** | **-** |
| **8** | **Employee related expenses** | | | | |
| | Wages and salaries | 52 000 | 29 744 | 1 643 | 141 |
| | Social insurance expenses | 13 825 | 9 817 | 478 | 43 |
| | | **65 825** | **39 561** | **2 121** | **184** |
| | **Number of employees at the end of year** | **1 027** | **678** | **26** | **8** |
| **9** | **Depreciation and amortization** | | | | |
| | Depreciation of tangible assets (note 15) | 7 090 | 4 290 | 81 | 10 |
| | Amortisation of intangible assets (note 16) | 983 | 588 | 5 | - |
| | | **8 073** | **4 878** | **86** | **10** |

*(All tabular amounts are in LTL '000 unless otherwise stated)*

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | **2011** | **2010** | **2011** | **Period since incorporation till 31 December 2010** |

## 10 Other operating expenses

| | | | | |
|---|---|---|---|---|
| Transportation and related Expenses | 8 479 | 3 725 | 315 | 25 |
| Business travel expenses | 8 503 | 4 838 | 192 | 12 |
| Employee lease expenses | 6 734 | 1 631 | - | - |
| Insurance expenses | 4 602 | 3 708 | 5 | - |
| Consultation expenses | 4 241 | 2 311 | 450 | 73 |
| Marketing and sales expenses | 3 773 | 1 341 | 817 | 12 |
| Office administrative expenses | 2 503 | 794 | 118 | 5 |
| Communications expenses | 1 053 | 668 | 140 | 5 |
| IT expenses | 818 | 404 | 12 | - |
| Bank services | 651 | 422 | 11 | 1 |
| Lease and maintenance of training simulators | 581 | 964 | - | - |
| Audit expenses | 414 | 182 | 116 | - |
| Foreign exchange loss on operating activities | 182 | 1 361 | - | 7 |
| Other expenses | 3 552 | 1 875 | 119 | 7 |
| | **46 086** | **24 224** | **2 295** | **147** |

## 11 Other gain – net

| | | | | |
|---|---|---|---|---|
| Gain (loss) on subsidiary disposed | 2 890 | - | (922) | - |
| Sales of inventory and assets | 1 297 | 90 | 6 | - |
| Costs of inventory and assets sold | (277) | (72) | (6) | - |
| Net fair value of acquiree's net assets over cost | - | (5) | - | - |
| | **3 910** | **13** | **(922)** | **-** |

## 12 Finance income and costs

| | | | | |
|---|---|---|---|---|
| Unwinding of discounted deposits | 190 | 179 | - | - |
| Interest income on cash and cash equivalents | 158 | 78 | 61 | - |
| Discounting of security deposit received | - | 557 | - | - |
| Foreign exchange gainon financing activities | - | - | 461 | - |
| Other finance income | 138 | - | - | - |
| **Finance income** | **486** | **814** | **522** | **-** |
| | | | | |
| Interest expenses on borrowings | 1 411 | 1 435 | 39 | 83 |
| Unwinding of discounted security deposits received | 852 | - | - | - |
| Foreign exchange loss on financing activities | 635 | 6 | - | - |
| Late payment interest - costs | 262 | 291 | 1 | - |
| Discounting of security deposit placed | - | 100 | - | - |
| Unwinding of discounted borrowings | - | 2 153 | | - |
| Other finance costs | 375 | 4 | - | - |
| **Finance costs** | **3 535** | **3 989** | **40** | **83** |
| **Finance costs – net** | **(3 049)** | **( 3 175)** | **482** | **(83)** |

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | **2011** | **2010** | **2011** | **Period since incorporation till 31 December 2010** |

## 13 Income tax

| | | | | |
|---|---|---|---|---|
| Current income tax | 5 421 | 2 963 | - | - |
| Deferred income tax (Note 28) | ( 3 279) | (84) | (47) | (2) |
| **Total income tax expenses** | **2 142** | **2 879** | **(47)** | **(2)** |

Domestic income tax is calculated at 15 per cent (2010: 15 per cent) of the annual profit for the year, in Poland income tax – 19 per cent (2010: 19 per cent), in Italy – 27.5 per cent (2010: 27.5 per cent). The annual profit earned by companies located in Estonia is not taxed. The tax on the Group's profit (loss) before tax differs from the theoretical amount that would arise using the basic tax rate as follows:

| | | | | |
|---|---|---|---|---|
| Profit (loss) before tax | **10 864** | **20 669** | **(346)** | **(135)** |
| Less: annual profit (loss) before tax earned by the entity located in Estonia | 1 085 | 1 061 | - | - |
| Profit (loss) before tax | **11 949** | **21 730** | **(346)** | **(135)** |
| Tax calculated at a tax rate of 15% | 3 960 | 3 697 | (52) | (20) |
| Tax calculated at a tax rate of 19% | (1 998) | (463) | - | - |
| Tax calculated at a tax rate of 27.5% | (846) | (111) | - | - |
| Tax calculated at a tax rate of 26% in Great Britain | (185) | - | - | - |
| Tax calculated at a tax rate of 27.5% in Russia | (30) | - | - | - |
| *Tax effects of:* | | | | |
| - Expenses not deductible for tax purposes | 1 296 | 421 | 11 | 18 |
| - Non-taxable incomes | (245) | (498) | (6) | - |
| - Deferred tax assets not recognised on tax losses | 125 | (167) | - | - |
| - Adjustment in respect of prior year | 65 | - | - | - |
| **Total income tax expenses** | **2 142** | **2 879** | **(47)** | **(2)** |

## 14 Earnings per share

The following reflects the income and adjusted share data used in EPS computations. The assumptions used in calculation of weighted average number of ordinary shares and profit (loss) attributable to equity holders were explained in Notes 1, 2.13 and 4.

| | | | | |
|---|---|---|---|---|
| **Profit (loss) for the year** | **8 722** | **17 791** | **(299)** | **(133)** |
| Less: profit (loss) attributable to non-controlling interests calculated in accordance with the structure as at 31 December 2011 | - | 25 | - | - |
| **Profit (loss) attributable to equity ownership holders of the Company calculated in accordance with shareholders structure as at 31 December 2011** | **8 722** | **17 816** | **(299)** | **(133)** |
| Weighted average number of ordinary shares (thousand) | 5 700 | 4 420 | 5 700 | 4 420 |
| **EPS – basic and diluted (in LTL)** | **1.53** | **4.03** | **(0.05)** | **(0.03)** |

*(All tabular amounts are in LTL '000 unless otherwise stated)*

## 15 Property, plant and equipment

| THE GROUP | Buildings and structures | Machi-nery | Vehicles | Other tangible fixed assets | Lease-hold improve-ments | Aircraft | Prepay-ments to tangible assets | **Total** |
|---|---|---|---|---|---|---|---|---|
| **Opening net book amount as at 1 January 2010** | **14 394** | **3 204** | **5 552** | **2 190** | **-** | **-** | **-** | **25 340** |
| Additions | - | 3 498 | 1 686 | 2 034 | - | - | 997 | **8 215** |
| Disposals | - | (19) | - | (48) | - | - | - | **(67)** |
| Write-offs | - | (106) | 62 | 44 | - | - | - | **-** |
| Depreciation charge | (1 116) | (1 448) | (541) | ( 1 185) | - | - | - | **(4 290)** |
| **Closing net book amount as at 31 December 2010** | **13 278** | **5 129** | **6 759** | **3 035** | **-** | **-** | **997** | **29 198** |
| **At 31 December 2010** | | | | | | | | |
| Cost | 16 720 | 10 675 | 10 305 | 6 952 | - | - | 997 | **45 649** |
| Accumulated amortisation | (3 442) | (5 546) | (3 546) | (3 917) | - | - | - | **(16 451)** |
| **Net book amount** | **13 278** | **5 129** | **6 759** | **3 035** | **-** | **-** | **997** | **29 198** |
| **Opening net book amount as at 1 January 2011** | **13 278** | **5 129** | **6 759** | **3 035** | **-** | **-** | **997** | **29 198** |
| Acquisitions / Disposals of subsidiaries | - | 565 | 610 | 118 | - | - | - | **1 293** |
| Additions | 366 | 16 960 | 7 440 | 3 813 | 837 | 85 | 284 | **29 785** |
| Disposals | - | (20) | - | (73) | - | - | - | **(93)** |
| Reclassifications | - | 5 959 | (5 302) | (192) | - | - | (465) | **-** |
| Write-offs | - | - | - | (3) | - | - | - | **(3)** |
| Cumulative currency differences | - | (130) | (258) | (15) | - | - | (72) | **(475)** |
| Depreciation charge | (1 122) | (3 757) | (619) | (1 588) | - | (4) | - | **(7 090)** |
| **Closing net book amount as at 31 December 2011** | **12 522** | **24 706** | **8 630** | **5 095** | **837** | **81** | **744** | **52 615** |
| **At 31 December 2011** | | | | | | | | |
| Cost | 17 086 | 36 020 | 9 719 | 9 118 | 837 | 85 | 744 | **73 609** |
| Accumulated amortisation | (4 564) | (11 314) | (1 089) | (4 023) | - | ( 4) | - | **(20 994)** |
| **Net book amount** | **12 522** | **24 706** | **8 630** | **5 095** | **837** | **81** | **744** | **52 615** |

As at 31 December 2011 buildings of the Group with the carrying amounts of LTL 12 522 thousand (as at 31 December 2010: LTL 13 278 thousand) were pledged to the bank as collateral for borrowings (Note 25).

| THE COMPANY | Machinery | Other tangible fixed assets | **Total** |
|---|---|---|---|
| **Opening net book amount as at 31 August 2010** | - | **-** | **-** |
| Additions | 64 | 265 | **329** |
| Depreciation charge | (2) | (8) | **(10)** |
| **Closing net book amount as at 31 December 2010** | **62** | **257** | **319** |
| **At 31 December 2010** | | | |
| Cost | **-** | **-** | **-** |
| Accumulated amortisation | 64 | 265 | **329** |
| **Net book amount** | (2) | (8) | **(10)** |
| | **62** | **257** | **319** |

*(All tabular amounts are in LTL '000 unless otherwise stated)*

### 15 Property, plant and equipment (continued)

| | Machinery | Other tangible fixed assets | **Total** |
|---|---|---|---|
| **Opening net book amount as at 1 January 2011** | **62** | **257** | **319** |
| Additions | 270 | 145 | **415** |
| Depreciation charge | (20) | (61) | **(81)** |
| **Closing net book amount as at 31 December 2011** | **312** | **341** | **653** |
| | | | |
| **At 31 December 2011** | | | |
| Cost | 334 | 409 | **743** |
| Accumulated amortisation | (21) | (69) | **(90)** |
| **Net book amount** | **313** | **340** | **653** |

Leased assets, where the Group is a lessee under finance lease contracts comprised as follows as at 31 December:

| | **GROUP** | | **COMPANY** | |
|---|---|---|---|---|
| | **2011** | **2010** | **2011** | **2010** |
| **Cost – capitalised finance lease** | | | | |
| Vehicles | 2 652 | 2 155 | - | - |
| Machinery | 5 194 | 939 | - | - |
| | **7 846** | **3 094** | **-** | **-** |
| **Accumulated depreciation** | | | | |
| Vehicles | (642) | (526) | - | - |
| Machinery | (359) | (298) | - | - |
| | **(1 001)** | **(824)** | **-** | **-** |
| | | | | |
| **Net book value** | **6 845** | **2 270** | **-** | **-** |

### 16 Intangible assets

| **THE GROUP** | Licences | Software | Website | Goodwill | Other intangible assets | Prepayments relating to intangible assets | **Total** |
|---|---|---|---|---|---|---|---|
| **Opening net book amount as at 1 January 2010** | **288** | **1 947** | **-** | **-** | **-** | **-** | **2 235** |
| Additions | 1 011 | 65 | - | - | - | - | **1 076** |
| Depreciation charge | (164) | (424) | - | - | - | - | **(588)** |
| **Closing net book amount as at 31 December 2010** | **1 135** | **1 588** | **-** | **-** | **-** | **-** | **2 723** |
| | | | | | | | |
| **At 31 December 2010** | | | | | | | |
| Cost | 1 364 | 2 311 | - | - | - | - | **3 675** |
| Accumulated amortisation | (229) | (723) | - | - | - | - | **(952)** |
| **Net book amount** | **1 135** | **1 588** | **-** | **-** | **-** | **-** | **2 723** |
| | | | | | | | |
| **Opening net book amount as at 1 January 2011** | **1 135** | **1 588** | **-** | **-** | **-** | **-** | **2 723** |
| Acquisitions through business combination (Note 32) | 3 528 | - | - | 2 763 | - | - | **6 291** |
| Additions | 1 933 | 92 | 5 | - | 99 | - | **2 129** |
| Cumulative currency differences | (116) | - | - | - | - | - | **(116)** |
| Depreciation charge | (514) | (463) | (1) | - | (5) | - | **(983)** |
| **Closing net book amount as at 31 December 2011** | **5 966** | **1 217** | **4** | **2 763** | **94** | **-** | **10 044** |

*(All tabular amounts are in LTL '000 unless otherwise stated)*

**16 Intangible assets (continued)**

| | Licences | Software | Website | Goodwill | Other intangible assets | Prepayments relating to intangible assets | **Total** |
|---|---|---|---|---|---|---|---|
| **At 31 December 2011** | | | | | | | |
| Cost | 6 681 | 2 394 | 5 | 2 763 | 99 | - | **11 942** |
| Accumulated amortisation | (715) | (1 177) | (1) | - | (5) | - | **(1 898)** |
| **Net book amount** | **5 966** | **1 217** | **4** | **-** | **94** | **-** | **10 044** |

| **THE COMPANY** | Licences | Software | **Total** |
|---|---|---|---|
| **Opening net book amount as at 31 August 2010** | - | **-** | **-** |
| Additions | - | 7 | **7** |
| Depreciation charge | - | - | **-** |
| **Closing net book amount as at 31 December 2010** | **-** | **7** | **7** |
| | | | |
| **At 31 December 2010** | | | |
| Cost | - | 7 | 7 |
| Accumulated amortisation | - | - | - |
| **Net book amount** | **-** | **7** | **7** |
| | | | |
| **Opening net book amount as 1 January 2011** | **-** | **7** | **7** |
| Additions | 10 | | **10** |
| Depreciation charge | (3) | (2) | **(5)** |
| **Closing net book amount as at 31 December 2011** | **7** | **5** | **12** |
| | | | |
| **At 31 December 2011** | | | |
| Cost | 10 | 7 | 17 |
| Accumulated amortisation | (3) | (2) | (5) |
| **Net book amount** | **7** | **5** | **12** |

**17 Financial assets**

| | **GROUP** | | **COMPANY** | |
|---|---|---|---|---|
| | **2011** | **2010** | **2011** | **2010** |
| **At the beginning of the period** | **-** | **-** | **8 195** | **-** |
| Increase of share capital in subsidiaries | - | - | 4 982 | - |
| Fair value of intra-group financial guarantees | - | - | 449 | - |
| Subsidiary established (Note 1) | - | - | 10 | 10 |
| Disposal of subsidiary | - | - | (1 622) | - |
| Disposal of interest in subsidiary without loss of control | - | - | (527) | - |
| Purchase consideration of the newly issued shares of the Subsidiaries | - | - | - | 4 165 |
| Purchase consideration of the acquisition of remaining 10 percent of the share capital of the Subsidiaries | - | - | - | 3 990 |
| Acquisition of subsidiaries | - | - | - | 30 |
| **At the end of the period** | **-** | **-** | **11 487** | **8 195** |

On 5 April 2011, the Company established the subsidiary *AviationCV.com UAB.* The investment in the subsidiary was LTL 10 thousand.

*(All tabular amounts are in LTL '000 unless otherwise stated)*

**17 Financial assets (continued)**

On 4 May 2011, the Company increased the share capital in subsidiary *Small Planet Airlines s.r.l. (Italy)* in amount of LTL 4,707 thousand. On 28 July 2011, the Company increased the share capital in subsidiary *Locatory.com AB* in amount of LTL 275 thousand.

On 24 May 2011, the Company disposed of a 10% interest out of the 95.5% interest held in *Small Planet Airlines s.r.l.* at a consideration of LTL 527 thousand. The carrying amount of the investment in *Small Planet Airlines s.r.l.* on the date of disposal was the same - LTL 527 thousand.

On 22 November 2011, the Company disposed of a 95.5% interest out of the 95.5% interest held in *Small Planet Airlines AS (Estonia)* at a consideration of LTL 700 thousand. The carrying amount of the investment in *Small Planet Airlines AS* on the date of disposal was LTL 1,622 thousand.

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | **2011** | **2010** | **2011** | **2010** |
| **18 Inventories** | | | | |
| Spare parts and materials | 20 397 | 8 213 | - | - |
| Less: reduction to net realisable value of spare parts | (250) | - | - | - |
| **Spare parts and materials - net** | **20 147** | **8 213** | **-** | **-** |
| Aircraft fuel | 5 091 | 1 764 | - | - |
| Goods for sale | 9 459 | 1 637 | - | - |
| Goods in transit | 390 | 550 | 1 | - |
| Other inventories | 532 | 155 | 93 | - |
| | **35 619** | **12 319** | **94** | **-** |

**19 Trade and other receivables**

| | GROUP 2011 | GROUP 2010 | COMPANY 2011 | COMPANY 2010 |
|---|---|---|---|---|
| Trade receivables | 60 113 | 30 480 | 60 | - |
| Less: provision for impairment of trade receivables | ( 3 129) | ( 1 306) | - | - |
| **Trade receivables – net** | **56 984** | **29 174** | **60** | - |
| Receivables from related parties | 4 190 | 197 | 1 239 | 347 |
| Less: provision for impairment of trade receivables from related parties | - | (17) | - | - |
| **Receivables from related parties - net (Note 33)** | **4 190** | **180** | **1 239** | **347** |
| Security deposit with lessor | 15 232 | 5 406 | 9 | - |
| Discounting of security deposit | ( 478) | (110) | - | - |
| **Security deposit – net** | **14 754** | **5 296** | **9** | - |
| Other receivables | 1 925 | 826 | 148 | - |
| Less: provision for impairment of other receivables | ( 364) | (96) | (2) | - |
| **Other receivables - net** | **1 561** | **730** | **146** | - |
| Loans granted | 14 716 | - | 13 396 | - |
| Less: provision for impairment of loans granted | (10) | - | (10) | - |
| **Loans granted - net** | **14 706** | **-** | **13 396** | **-** |
| Prepayments | 5 510 | 8 182 | 4 | 4 |
| Deferred charges | 8 859 | 7 103 | 16 | 576 |
| VAT receivables | 5 161 | 1 449 | - | 65 |
| Loans to related parties (Note 33) | 750 | 644 | 36 323 | 73 |
| Other receivables from related parties (Note 33) | 21 | 490 | 930 | - |
| Deferred charges to related parties (Note 33) | - | 24 | - | - |
| Prepayments from related parties (Note 33) | - | 14 | - | - |
| | **112 496** | **53 286** | **52 123** | **1 066** |
| Less non-current portion : | (15 274) | (1 920) | (25 812) | - |
| **Current portion :** | **97 222** | **51 366** | **26 311** | **1 066** |

*(All tabular amounts are in LTL '000 unless otherwise stated)*

**19 Trade and other receivables (continued)**

All non-current receivables are due in 2013.

The carrying amounts of the Group's trade receivables are denominated in the following currencies:

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | **2011** | **2010** | **2011** | **2010** |
| EUR | 30 713 | 19 049 | 49 | 40 |
| US dollars | 20 246 | 6 604 | - | - |
| LTL | 3 068 | 2 659 | 1 250 | 307 |
| PLN | 1 782 | 783 | - | - |
| Other | 5 365 | 259 | - | - |
| | **61 174** | **29 354** | **1 299** | **347** |

**20 Contracts in progress**

| | | | | |
|---|---|---|---|---|
| Contract costs incurred and recognised profits (less losses) to date | 7 763 | 3 171 | - | - |
| Advances received on contracts in progress | (1 251) | (234) | - | - |
| **Amounts due from customers on contracts in progress** | **6 512** | **2 937** | **-** | **-** |

**21 Cash and cash equivalents**

| | | | | |
|---|---|---|---|---|
| Cash and cash equivalents | 17 781 | 10 713 | 904 | 4 |
| Bank overdraft (Note 25) | (2 960) | (707) | - | - |
| | **14 821** | **10 006** | **904** | **4** |

**22 Share capital**

On 31 December 2011 the share capital of the Company amounts to 5,893,333 litas and consists of 5,893,333 ordinary registered shares with a nominal value of one litas each (on 31 December 2011 – 4,420,000 ordinary registered shares). It was increased from 4,420,000 litas to 5,893,333 litas by issue additional 1,473,333 ordinary shares with a par value LTL 1 each (Note 23). All shares are fully paid up.

**23 Share premium**

On 18 February 2011 the Company issued additional 1,473,333 ordinary shares with a par value LTL 1 each for issue price of PLN 52 (25.0 % of the total ordinary share capital issued). Following the increase of the capital, share premium amounts to 66,281,951 litas. On 3 March 2011 shares of the Company were introduced to trading at Warsaw Stock Exchange.

| | |
|---|---|
| **The balance of share premium as at 31 December 2010** | **-** |
| Contribution to share premium in cash (LTL 44.99 per share) | 66 282 |
| Cost directly related to issue of share capital | (7 512) |
| **The balance of share premium as at 31 December 2011** | **58 770** |

*(All tabular amounts are in LTL '000 unless otherwise stated)*

## 24 Reserves

The merger reserve consists of the difference between the *Avia Solutions Group AB* purchase consideration for the acquisition of remaining 10 percent of the share capital of the Group companies and nominal value of the share capital acquired (in the third step of the pre-IPO Reorganisation, Note 1).

The legal reserve is a compulsory reserve under Lithuanian legislation. Annual transfer of 5% of net profit, calculated in accordance with Lithuanian regulatory legislation on accounting, is compulsory until the reserve including share premium reaches 10% of the share capital. The legal reserve can be used to cover the accumulated losses. The amount of the legal reserve surplus which exceeds the size of legal reserve required by the legislation can be added to retaining earnings for the profit distributing purpose.

| | Merger reserve | Legal reserve |
|---|---|---|
| **The balance of reserves as at 31 December 2009** | - | **16** |
| Transfer to legal reserve | - | 28 |
| The merger reserve (Note 1) | (3 517) | - |
| **The balance of reserves as at 31 December 2010** | **(3 517)** | **44** |
| Transfer to legal reserve | - | 219 |
| Decrease of merger reserve and non-controlling interests pursuant to the disposal of subsidiary | 771 | - |
| **The balance of reserves as at 31 December 2011** | **(2 746)** | **263** |

## 25 Borrowings

| | | | | |
|---|---|---|---|---|
| **Non-current** | | | | |
| Bank borrowings | 23 309 | 4 284 | - | - |
| Finance lease liabilities | 4 340 | 1 214 | - | - |
| Borrowings from related parties | 266 | 5 082 | - | - |
| Other non-current borrowings | 330 | - | - | - |
| | **28 245** | **10 580** | **-** | **-** |
| **Current** | | | | |
| Bank borrowings | 19 418 | 10 555 | - | - |
| Bank overdraft | 2 960 | 707 | - | - |
| Finance lease liabilities | 2 505 | 661 | - | - |
| Borrowings from related parties | 6 | 12 793 | - | 4 698 |
| Other current borrowings | 2 | - | - | - |
| | **24 891** | **24 716** | **-** | **4 698** |
| **Total borrowings** | **53 136** | **35 296** | **-** | **4 698** |

The carrying amounts of the Group's borrowings are denominated in the following currencies:

| | | | | |
|---|---|---|---|---|
| EUR | 44 472 | 8 291 | - | - |
| LTL | 5 755 | 10 585 | - | 4 698 |
| GBP | 2 909 | - | - | - |
| US dollars | - | 16 420 | - | - |
| | **53 136** | **35 296** | **-** | **4 698** |

The table below analyses the Group's borrowings (excluding finance lease) into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date:

*(All tabular amounts are in LTL '000 unless otherwise stated)*

**25 Borrowings (continued)**

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | **2011** | **2010** | **2011** | **2010** |
| Less than 1 year | 24 891 | 24 653 | - | 4 698 |
| Between 1 and 5 years | 15 180 | 6 938 | - | - |
| Over 5 years | 13 065 | 3 705 | - | - |
| | **53 136** | **35 296** | **-** | **4 698** |

The weighted average interest rates (%) at the balance sheet date (excluding finance lease) were as follows:

| | | | | |
|---|---|---|---|---|
| Bank overdraft | 6.30% | 7.00% | - | - |
| Finance lease liabilities | 6.22% | 5.84% | - | - |
| Borrowings from related parties | 4.96% | 7.50% | - | 8% |
| Bank borrowings | 3.72% | 3.51% | - | - |

Finance lease liabilities – minimum lease payments:

| | | | | |
|---|---|---|---|---|
| Not later than 1 year | 2 660 | 702 | - | - |
| After 1 year but not later than 5 years | 5 380 | 1 360 | - | - |
| After 5 years | - | - | - | - |
| Less: future finance lease charges | (1 195) | (187) | - | - |
| **Present value of finance lease liabilities** | **6 845** | **1 875** | **-** | **-** |
| **Present value of finance lease liabilities:** | | | | |
| Not later than 1 year | 2 505 | 598 | - | - |
| After 1 year but not later than 5 years | 4 340 | 1 277 | - | - |
| After 5 years | - | - | - | - |
| | **6 845** | **1 875** | - | **-** |

**26 Trade and other payables**

| | | | | |
|---|---|---|---|---|
| Trade payables | 38 251 | 19 462 | 101 | 243 |
| Accruals for c-check, hangar lease payments and other accrued expenses | 13 789 | 8 474 | 368 | 121 |
| Amounts payable to related parties (Note 33) | 1 514 | 3 860 | 15 | 176 |
| Salaries and social security payable | 5 456 | 2 904 | 169 | 59 |
| Deferred revenue | 2 389 | 1 805 | - | - |
| Provision for maintenance costs | 122 | 2 151 | - | - |
| Other payables | 1 282 | 170 | - | 9 |
| | **62 803** | **38 826** | **31** | **608** |
| Less: non-current portion | (2 109) | (1 746) | - | - |
| **Current portion** | **60 694** | **37 080** | **684** | **608** |

The carrying amounts of the Group's trade and other payables are denominated in the following currencies:

| | | | | |
|---|---|---|---|---|
| US dollars | 24 249 | 11 514 | 1 | - |
| LTL | 20 460 | 17 989 | 674 | 454 |
| PLN | 5 708 | 1 183 | - | - |
| EUR | 7 117 | 4 771 | 7 | 154 |
| GBP | 2 871 | | | |
| EEK | 2 225 | 1 411 | - | - |
| Other currencies | 173 | 1 958 | 2 | - |
| | **62 803** | **38 826** | **684** | **418** |

*(All tabular amounts are in LTL '000 unless otherwise stated)*

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | **2011** | **2010** | **2011** | **2010** |
| **27 Security deposits received** | | | | |
| Security deposits repayable after one year at nominal value | 10 563 | 9 896 | - | - |
| Less: discounting effect | (325) | (516) | - | - |
| Security deposits repayable after one year | **10 238** | 9 380 | - | - |
| Security deposits repayable within one year | 7 525 | 947 | - | - |
| | **17 763** | **10 327** | **-** | **-** |

## 28 Deferred income taxes

The gross movement in deferred income tax assets and deferred income tax liabilities accounts is as follows:

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | **2011** | **2010** | **2011** | **Period since incorporation till 31 December 2010** |
| **Deferred tax assets** | | | | |
| At beginning of the period | 1 157 | 1 040 | 2 | - |
| Acquisition through business combination | 2 861 | - | - | - |
| Currency translation differences | (20) | - | - | - |
| Income statement credit (charge) (Note 13) | 3 535 | 117 | 47 | 2 |
| **At end of year** | **7 533** | **1 157** | **49** | **2** |
| | | | | |
| **Deferred tax liabilities** | | | | |
| At beginning of the period | (33 ) | - | - | - |
| Income statement credit (charge) (Note 13) | (256 ) | (33) | - | - |
| **At end of year** | **(289)** | **(33)** | **-** | **-** |

The analysis of deferred tax assets and deferred tax liabilities is as the follows:

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | **2011** | **2010** | **2011** | **2010** |
| **Deferred tax assets** | | | | |
| Deferred income tax to be recovered within 1 year | 3 355 | 1 053 | 49 | 2 |
| Deferred income tax to be recovered after 1 year | 4 178 | 104 | - | - |
| | **7 533** | **1 157** | **49** | **2** |
| | | | | |
| **Deferred tax liabilities** | | | | |
| Deferred income tax to be recovered within 1 year | (289) | (33) | - | - |
| Deferred income tax to be recovered after 1 year | - | - | - | - |
| | **(289)** | **(33)** | **-** | **-** |

Deferred income tax asset for the year is recognised to the extent that the realization of the related tax benefit through the future taxable profit is probable.

The movement in deferred tax assets and deferred tax liabilities of the Group (prior to offsetting of balances) during the three years is as follows:

*(All tabular amounts are in LTL '000 unless otherwise stated)*

**28 Deferred income taxes (continued)**

| GROUP - deferred tax assets | Accumu-lated taxable losses | Impair-ment of receiva-bles | Discoun-ting effect | Accruals for unused vacation | Other accrued expenses | Total |
|---|---|---|---|---|---|---|
| **At 31 December 2009** | **-** | **82** | **199** | **132** | **628** | **1 040** |
| (Charged) credited to the profit or loss | 508 | 71 | (259) | 26 | (229) | **117** |
| **At 31 December 2010** | **508** | **153** | **(60)** | **158** | **398** | **1 157** |
| Acquisition through business combination | 2 861 | - | - | - | - | **2 861** |
| Currency translation differences | (20) | - | - | - | - | **(20)** |
| (Charged) credited to the profit or loss | 3 000 | (13) | 78 | 75 | 395 | **3 535** |
| **At 31 December 2011** | **6 349** | **140** | **18** | **233** | **793** | **7 533** |

| GROUP - deferred tax liabilities | Other accrued expenses | Total |
|---|---|---|
| **At 31 December 2009** | - | - |
| Charged to the profit or loss | 33 | 33 |
| **At 31 December 2010** | **33** | **33** |
| Charged to the profit or loss | 256 | 256 |
| **At 31 December 2011** | **289** | **289** |

The movement in deferred tax assets of the Company (prior to offsetting of balances) is as follows:

| COMPANY - deferred tax assets | Accruals for unused vacation | Accumulated taxable losses | Total |
|---|---|---|---|
| **At 31 August 2010** | - | **-** | **-** |
| Credited to the profit or loss | - | 2 | **2** |
| **At 31 December 2010** | - | **2** | **2** |
| Credited to the profit or loss | 7 | 40 | **47** |
| **At 31 December 2011** | **7** | **42** | **49** |

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when deferred income taxes relate to the same fiscal authority.

Deferred income tax asset and liability related to the entities operating in Lithuania are calculated at 15% rate (2010: 15% rate), in Poland - at 19% rate (2010: 19% rate), in Italy - at 27.5% rate. Due to the nature of the taxation system, the companies registered in Estonia don't have any differences between the tax bases of assets and their carrying amounts, no deferred income tax assets and liabilities arise.

*(All tabular amounts are in LTL '000 unless otherwise stated)*

## 29 Financial instruments by category

| | GROUP 2011 | GROUP 2010 | COMPANY 2011 | COMPANY 2010 |
|---|---|---|---|---|
| *Category – Loans and receivables* | | | | |
| Trade receivables (Note 19) | 56 984 | 29 174 | 60 | - |
| Security deposit with lessor (Note 19) | 14 754 | 5 296 | 9 | - |
| Loans provided (Note 19) | 14 706 | - | - | - |
| Other receivables (Note 19) | 1 561 | 730 | 146 | - |
| Loans provided to related parties (Notes 19, 33) | 750 | 644 | 36 323 | 73 |
| Other receivables from related parties (Note 19) | 21 | 490 | 930 | - |
| Trade receivables from related parties (Notes 19, 33) | 4 190 | 180 | 1 239 | 347 |
| Cash and cash equivalents (Note 21) | 17 781 | 10 713 | 904 | 4 |
| | **110 747** | **47 227** | **39 611** | **424** |
| *Category – financial liabilities measured at amortised cost* | | | | |
| Bank loans (Note 25) | 42 727 | 14 839 | - | - |
| Trade payables (Note 26) | 38 251 | 19 462 | 101 | 243 |
| Trade payables to related parties (Notes 26, 33) | 1 514 | 3 860 | 169 | 176 |
| Finance lease liabilities (Note 25) | 6 845 | 1 875 | - | - |
| Bank overdraft (Notes 21, 25) | 2 960 | 707 | - | - |
| Other borrowings | 332 | - | - | - |
| Other payables (Note 26) | 1 282 | 170 | 31 | 9 |
| Borrowings from related parties (Note 25) | 272 | 17 875 | - | 4 698 |
| | **94 183** | **58 788** | **301** | **5 126** |

## 30 Operating lease

The Group leases aircraft, two aircraft hangars, training building, flight simulator, premises, commercial vehicles and warehouse under operating lease agreements. The lease terms are between one and ten years, and the majority of lease agreements are renewable at the end of this lease period at market value. The operating lease expenditure charged to the income statement during the year are as follows:

| | GROUP 2011 | GROUP 2010 | COMPANY 2011 | COMPANY Period since incorporation till 31 December 2010 |
|---|---|---|---|---|
| Aircraft | 55 267 | 41 267 | - | - |
| Aircraft hangars | 3 927 | 3 147 | - | - |
| Premises | 632 | 1 376 | 60 | - |
| Flight simulator | 504 | 796 | - | - |
| Commercial vehicles | 188 | 62 | - | - |
| Warehouse | 39 | 32 | - | - |
| | **60 557** | **46 680** | **60** | **-** |

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

| | GROUP 2011 | GROUP 2010 | COMPANY 2011 | COMPANY 2010 |
|---|---|---|---|---|
| Not later than 1 year | 27 704 | 28 300 | 66 | 55 |
| Later than 1 year but not later than 5 years | 53 083 | 82 525 | 33 | 82 |
| Later than 5 years | 15 737 | 20 461 | - | - |
| | **96 524** | **131 286** | **99** | **137** |

*(All tabular amounts are in LTL '000 unless otherwise stated)*

## 31 Management compensation

Following the pre-IPO reorganisation in September 2010 some members of the management of the Group have acquired shares in the Group companies at their nominal value. According to the Shareholders agreement, restrictions on selling of these shares during the two year time are imposed. The difference between the estimated fair value of the shares acquired by the members of management and their nominal value would be recognized as management compensation in profit or loss during the two year period. According to the management estimate, total effect on profit or loss during the whole period would be LTL 1.8 million.

Following the acquisition of *Storm Aviation Ltd.* in September 2011 some members of the management of the subsidiary have disposed their shares at discounted value. According to the acquisition agreement, the difference between the fair value of the shares disposed by the members of the subsidiary's management and their discounted value at the acquisition date would be recognized as post-combination employee services in profit or loss during the three years period, if the Management of subsidiary achieve appointed EBIDTA targets. According to the Group's management estimate, the least effect on profit or loss during the whole period would be LTL 0.9 million.

## 32 Business combination and disposal

On 30 September 2011, the Group acquired 100% of the share capital of *Storm Aviation Ltd.* and 100% of the share capital of its subsidiary *Storm Aviation Cyprus Ltd.* from third parties. As a result of the acquisition, the Group is expected to increase its presence in the MRO segment, in the line maintenance sub-segment. The identified intangible assets of LTL 3 528 thousand are attributable to acquired line maintenance approvals and basic licence base (see Notes 2.6, 4). Goodwill represents intangible assets that do not qualify for separate recognition.

Details of purchase consideration and assets and liabilities arising from the acquisitions are as follows:

| | **Storm Aviation Ltd. - acquiree's fair value** |
|---|---|
| Cash and cash equivalents | 1 204 |
| Property, plant and equipment | 1 313 |
| Intangible assets | 3 528 |
| Deferred income tax assets | 2 861 |
| Receivables | 5 203 |
| Payables | (4 639) |
| Borrowings | (7 028) |
| **Total identifiable net assets acquired** | **2 442** |
| **Goodwill** | **2 763** |
| **Total purchase consideration - paid in cash** | **5 205** |
| | |
| Total purchase consideration - paid in cash | ( 5 205) |
| Cash and cash equivalents in subsidiary acquired | 1 204 |
| **Cash outflow on acquisition** | **( 4 001)** |

The revenue included in the consolidated statement of comprehensive income since 1 October 2011 contributed by *Storm Aviation Ltd.* and its subsidiary *Storm Aviation Cyprus Ltd.* was LTL 7,771 thousand. Acquired subsidiaries contributed loss of LTL 523 thousand over the same period.

*(All tabular amounts are in LTL '000 unless otherwise stated)*

**32 Business combination and disposal (continued)**

On 22 November 2011, the Group sold 95.5% of the share capital of *Small Planet Airlines AS (Estonia)* to third parties. Details of sale price and assets and liabilities arising from the disposal are as follows:

| | **Small Planet Airlines AS - disposal's carrying amount** |
|---|---|
| Cash and cash equivalents | **46** |
| Property, plant and equipment | 21 |
| Receivables | 910 |
| Payables | (3 379) |
| Borrowings | (699) |
| **Net assets disposed** | **(3 101)** |
| **Total sale price - received in cash** | **700** |
| **Gain on disposal** | **3 801** |
| | |
| **Gain on disposal:** | |
| Recognised in profit (loss) (Note 11) | 2 890 |
| Recognised directly in equity | 911 |
| | **3 801** |

**33 Related party transactions**

Related parties of the Company and the Group include entities having significant influence over the Company, key management personnel of the Group and other related parties. Entities having significant influence over the Company and the Group are ZIA Valda Cyprus Ltd and ZIA Valda AB (the sole shareholder of ZIA Valda Cyprus Ltd). Transactions with these companies are presented separately. Related parties also include subsidiaries of ZIA Valda AB group. They are presented as other related parties. Related parties of the Company also include subsidiaries of the Group.

The following transactions were carried out with related parties:

| | **GROUP** | | **COMPANY** | |
|---|---|---|---|---|
| | **2011** | **2010** | **2011** | **Period since incorporation till 31 December 2010** |
| **Sales of assets:** | | | | |
| Subsidiaries of the Group | - | - | 27 | - |
| Other related parties | - | 193 | - | - |
| | **-** | **193** | **27** | **-** |
| **Sales of services to:** | | | | |
| Entities having significant influence | - | - | - | - |
| Subsidiaries of the Group | - | - | 2 718 | 289 |
| Other related parties | 4 184 | 1 133 | 273 | - |
| | **4 184** | **1 133** | **2 991** | **289** |
| **Total sales of assets and services** | **4 184** | **1 326** | **3 018** | **289** |

In year 2011 amount of sales of consulting and management services from the Company to its subsidiaries was LTL 2 991 thousand (2009: LTL 289 thousand).

*(All tabular amounts are in LTL '000 unless otherwise stated)*

**33 Related party transactions (continued)**

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| **Purchases of assets from:** | **2011** | **2010** | **2011** | **Period since incorporation till 31 December 2010** |
| Entities having significant influence | 59 | - | 59 | - |
| Subsidiaries of the Group | - | - | 2 | - |
| Other related parties | - | 446 | - | 336 |
| | 59 | **446** | **209** | **336** |
| **Purchases of services from:** | | | | |
| Entities having significant influence | - | 112 | - | 16 |
| Subsidiaries of the Group | - | - | 48 | - |
| Other related parties | 20 420 | 28 578 | - | 98 |
| | **20 420** | **28 690** | **48** | **114** |
| **Total purchases of assets and services** | **20 479** | **29 136** | **257** | **450** |

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| **Trade receivables from related parties** | **2011** | **2010** | **2011** | **2010** |
| Trade receivables from entities having significant influence (Note 19) | 1 | - | - | - |
| Trade receivables from subsidiaries of the Group | - | - | 1 239 | - |
| Trade receivables from other related parties (Note 19) | 4 189 | 197 | - | 347 |
| Less: provision for impairment of receivables from other related parties | - | (17) | - | - |
| **Other related parties – net** | **4 189** | **180** | **1 239** | **234** |
| Other trade receivables from subsidiaries of the Group | - | - | 915 | - |
| Other trade receivables from related parties (Note 19) | 21 | 490 | 15 | - |
| Prepayments from entities having significant influence | - | 3 | - | - |
| Prepayments from other related parties | - | 11 | - | - |
| | **4 211** | **684** | **2 169** | **347** |
| **Payables and advances received from related parties** | | | | |
| Amounts payable to entities having significant influence (Note 26) | 13 | 37 | 12 | 37 |
| Amounts payable to subsidiaries of the Group | - | - | 3 | - |
| Amounts payable to other related parties (Note 26) | 1 501 | 3 823 | - | 140 |
| | **1 514** | **3 860** | **15** | **177** |

*(All tabular amounts are in LTL '000 unless otherwise stated)*

**33 Related party transactions (continued)**

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| **Loans received from related parties** | **2011** | **2010** | **2011** | **Period since incorporation till 31 December 2010** |
| **Beginning of the period** | **18 317** | **12 736** | **4 698** | **-** |
| Acquisition | - | 395 | - | - |
| Loans received from subsidiaries of the Group | - | - | 76 | - |
| Loans received from other related parties | 458 | 18 087 | - | 4 697 |
| Loan repayments to entities having significant influences | - | - | (4 468) | - |
| Loan repayments to subsidiaries of the Group | - | - | (306) | - |
| Loans repayments to other related parties / set-offs | (18 375) | (13 470) | | |
| Interest on loans charged (2011 - at 5%, 2010 – at 7.23%) | 111 | 2 946 | 39 | 83 |
| Interest on loans repaid / set-offs | (239) | (2 347) | (39) | - |
| **End of the period** | **272** | **18 317** | **-** | **4 780** |
| Less: non-current portion | (266) | (5 082) | - | - |
| **Current portion (including accrued interest expense):** | **6** | **13 235** | **-** | **4 780** |

| **Loans to related parties** | | | | |
|---|---|---|---|---|
| **Beginning of the period** | **654** | **1 774** | **-** | **-** |
| Loans advanced to other related parties | 729 | 5 404 | - | 73 |
| Loan repayments received/set-offs from other related parties | (616) | (6 324) | - | - |
| Interest charged (2011 - at 5.36%, 2010 – at 5.75%) | 28 | 35 | - | - |
| Interest received / set-off | (11) | (235) | - | - |
| **End of the period** | **784** | **654** | **-** | **73** |
| Less non-current portion: | (605) | - | - | - |
| **Current portion (including accrued interest income):** | **179** | **654** | **-** | **73** |

**Intra – group financial guarantees provided on behalf of a Subsidiary of the Company**

In 2011 the Company issued an intra-group financial guarantee on behalf of its subsidiary for bank loans amounting to LTL 33.8 million as at 31 December 2011, related towards working capital financing and to the refinancing of existing financial obligations. The liabilities secured by these guarantees were also secured by pledge of buildings and inventory owned by a subsidiary.

| Date of issue | Issued to | On behalf of | Valid till | Amounts as of 2011.12.31, LTL |
|---|---|---|---|---|
| 2011.09.30 | Pohjola Bank | The Subsidiary | 2017.08.31 | 33 806 610 |

*(All tabular amounts are in LTL '000 unless otherwise stated)*

## 34 Remuneration of the Group's and the Company's key management

Key management includes General Directors of the Group companies, Chief Financial Officers of the Group companies, Directors of main units and departments. Transactions with Group's key management are as follows:

| | GROUP | | COMPANY | |
|---|---|---|---|---|
| | **2011** | **2010** | **2011** | **2010** |
| Salaries | 6 125 | 2 604 | 525 | 120 |
| Social insurance expenses | 1 724 | 888 | 163 | 37 |
| Bonuses | 195 | 264 | - | - |
| | **8 044** | **3 756** | **688** | **157** |
| The number of key management at the end of year | 60 | 26 | 3 | 3 |

## 35 Events after the balance sheet date

On 12 January 2012 the Company issued guarantee to a bank on behalf of a subsidiary in the amount EUR 3.5 million to secure a bank's loan for working capital. The liabilities secured under this guarantee were also secured by pledging inventory of a subsidiary.

In March the Company granted short-term loans to third party in total amount of LTL 5 000 thousand and to a subsidiary in total amount of LTL 6 000 thousand.

On 4 April 2012 the Company sold 6100 shares of *Small Planet Airlines S.r.l.* to *S.G.S.T. S.r.l.*, representing 50% of the share capital of the company. *S.G.S.T. S.r.l.* is the main client of *Small Planet Airlines S.r.l.* Sales proceeds from the disposal of a 50% shareholding in *Small Planet Airlines S.r.l.* amounted to EUR 763.5 thousand. Following the sale, the Company became the minority shareholder of *Small Planet Airlines S.r.l.* with 35.5% shareholding.

Acting General Director
Aurimas Sanikovas