

PRECISION AIR SERVICES PLC

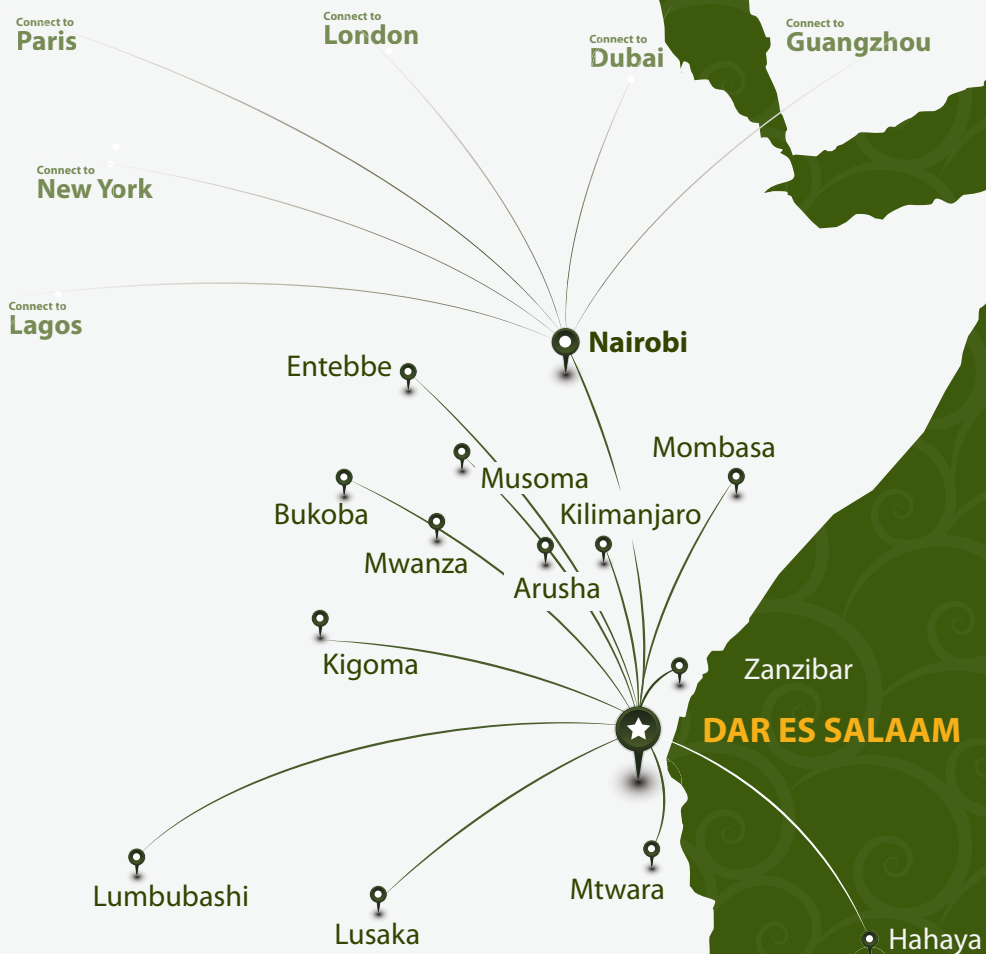
(FORMERLY PRECISION AIR SERVICES LIMITED)

DIRECTORS REPORT AND FINANCIAL STATEMENTS 31 MARCH 2012



We're going places

Fly with us and let's discover the world together





From left to right:

Mr. Ron Schipfer, Director, Dutch, Mr. Vincent M. Shirima, Director, Tanzanian, Mr. Titus T. Naikuni, Director, Kenya,
Mr. Michael N. Shirima, Chairman, Tanzanian, Ms. Fabia Bausch, Director, Swiss, Mr. Alfonso M. Kioko, Managing Director & CEO, Kenya,
Mr. Elias Mwashiya, Group Secretary, Tanzanian.



PRECISION AIR SERVICES PLC
(FORMERLY PRECISION AIR SERVICES LIMITED)
DIRECTORS' REPORT AND
FINANCIAL STATEMENTS

31 MARCH 2012

PRECISION AIR SERVICES PLC

DIRECTORS' REPORT AND FINANCIAL STATEMENTS 31 MARCH 2012

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PRECISION AIR SERVICES PLC

GROUP INFORMATION

31 MARCH 2012

PRINCIPAL PLACE OF BUSINESS:

QUALITY PLAZA
NYERERE ROAD
P. O. BOX 70770
DAR ES SALAAM

REGISTERED OFFICE:

NEW SAFARI HOTEL
BOMA ROAD
P. O. BOX 1636
ARUSHA

BANKERS:

CRDB BANK LIMITED
P. O. BOX 3150
ARUSHA

STANBIC BANK
P. O. BOX 3062
ARUSHA

KENYA COMMERCIAL BANK (T) LIMITED
P. O. BOX 804
DAR ES SALAAM

NBC BANK LIMITED
P. O. BOX 157
ZANZIBAR

STANDARD CHARTERED BANK
P. O. BOX 30003
NAIROBI, KENYA

I&M Bank
P. O. Box 30238
Nairobi Kenya

CITI BANK TANZANIA LIMITED
P. O. BOX 71625
DAR ES SALAAM

GROUP SECRETARY:

ELIAS MWASHIUYA
P. O. BOX 70770
DAR ES SALAAM

GROUP AUDITORS:

ERNST & YOUNG
CERTIFIED PUBLIC ACCOUNTANTS
UTALII HOUSE
P. O. BOX 2475
DAR ES SALAAM

PRECISION AIR SERVICES PLC

HIGHLIGHTS OF THE YEAR 31 MARCH 2012

FINANCIAL HIGHLIGHTS

	Company	Company
	<u>31-Mar-12</u>	<u>31-Mar-11</u>
	TZS '000	TZS '000
Revenue		
Passenger	129,389,774	94,168,182
Freight & Mail	3,557,624	2,787,754
Fuel Surcharge	30,114,054	16,649,972
Total	163,061,452	113,605,908
Direct expenditure	117,059,260	70,121,988
Gross profit	46,002,192	43,483,920
Gross profit margin %	28%	38%
Other income	3,308,578	405,440
Overheads	(36,159,070)	(32,381,257)
Impairment of receivables	(385,272)	(30,881)
Financial charge	(7,598,033)	(7,186,771)
Foreign exchange loss	(2,936,518)	(2,131,257)
Profit before tax	2,231,877	2,159,194
Taxation	(1,025,756)	(874,079)
Profit for the year	1,206,121	1,285,115

OPERATING STATISTICS

	<u>31-Mar-12</u>	<u>31-Mar-11</u>
Passengers	825,159	666,537
Revenue Passenger per Kilometre (RPK's) ('000)	423,828	318,665
Available Seats per Kilometre (ASK's) ('000)	728,845	496,683
Passenger Load factor	58%	64%
Yield per RPK - USc	19.38	19.83
Employees	704	657
ASK's per employee - '000	1,035	756
Turnover per employee - US\$'000	155	116
Operating profit per employee - US\$'000	9	11
Block hours	22,523	19,351
Aircrafts in service at year end		
ATR 72 - 500	5	5
ATR 42 - 500	2	2
ATR 42 - 320	2	2
B733 - 300	2	1
Total numbers of aircraft	11	10

DIRECTORS REPORT FOR THE YEAR ENDED 31 MARCH 2012

1. INTRODUCTION

The Directors present their report and the audited consolidated financial statements for the financial year ended 31 March 2012 which disclose the state of affairs of Precision Air Services Plc ("the Company") and its subsidiary, Precision Handling Limited (together, "the Group").

The financial statements for the year ended 31 March 2012 were authorised for issue by directors as indicated on the Consolidated Statement of Financial Position.

2. INCORPORATION AND REGISTRATION

The Company is incorporated in Tanzania and the registration number is 18960. The Subsidiary was incorporated in financial year 2011 and is accorded registration number 70991.

3. GROUP'S VISION

"To be the airline of choice"

4. GROUP'S MISSION

"To develop and provide superior air transport services that exceeds customer expectations".

5. PRINCIPAL ACTIVITIES

The principal activities of the Company are regional and domestic carriage of passengers and cargo by air.

The Company flies to fourteen (14) destinations within Tanzania and East Africa. The Company established new routes during the year being 5 flights in a week to Johannesburg South Africa and three times in a week to Hahaya Comoros. At year-end, the Company had eleven (11) aircraft in operation, nine (9) owned and two (2) leased (2011: ten (10) aircraft in operation, nine (9) owned and one (1) leased).

The Subsidiary carries out ground handling services in Dar es Salaam, Kilimanjaro, Mwanza, Shinyanga and Arusha presently serving only the Company.

6. PERFORMANCE FOR THE YEAR

Capacity Offered to Market

Total seats flown in the network during the financial year amounted to 1,200,568 compared to a prior year level of 894,391 thus a growth of 34% compared to prior year. The Available Seats per Kilometre (ASK) released to the market amounted to 729 Million against a prior year level of 496 Million thus a growth of 47% compared to prior year.

6. PERFORMANCE FOR THE YEAR (Continued)

Capacity Utilised

Total passengers carried in the network during the financial year amounted to 825,159 compared to a prior year level of 666,537 thus a growth of 24% compared to prior.

The Revenue Passenger per Kilometre (RPK) achieved from the market amounted to 424 Million against prior year level of 318 Million; thus a growth of 33% compared to prior year.

Yields

Yield achieved on passenger revenue during the financial year was Yield per RPK 19.38 US Cents (USc) compared to a prior year level of USc 19.83.

Profitability

Detailed financial highlights are on page 2 and the results of the Group and Company for the year are set out on page 15.

7. FUTURE DEVELOPMENTS AND PLANS

The Group will continue to improve its profitability and grow market share through the consolidation of current operations, improve efficiency and introduction of new routes to meet customer needs. The Group will continue focusing on improving productivity and customer service so as to retain and grow its market share. However the impact of increased competition through the entry of new players in the market, accelerating fuel prices, and depreciation of Tanzania Shillings over major currencies will be amongst the main challenges the Company will face during 2012.

8. STOCK EXCHANGE INFORMATION

During the year, the Company issued new shares through Initial Public Offering (IPO) at the Dar es Salaam Stock Exchange (DSE). The Company had aimed to raise about TZS 28 billion from the IPO but managed to raise TZS 12,092 Million only. The additional capital raised was used mainly for enhancing capital base, investment and operational improvements.

Whereas the Company's initial offer price was TZS 475 per share, the year end quoted price at the Dar es Salaam Stock exchange remained at TZS 475 per share.

9. DIVIDENDS

The Directors do not recommend payment of dividend (2011: Nil).

10. SUBSEQUENT EVENTS

There are no subsequent events that have occurred which are either to be disclosed or to be adjusted in the financial statements that could materially affect the financial statements.

11. SOLVENCY EVALUATION

The Group's state of affairs is set out on page 17 of the financial statements. The Directors have reviewed the current financial position of the Company and its Subsidiary, the existing short-term borrowings. On the basis of this review together with the current business plan, the Directors are satisfied that the Company is a solvent going concern within the meaning ascribed by the Companies Act, 2002.

The group current liabilities exceed current assets by TZS 31,043 million, this being mainly as a result of the existence of the interest bearing loans and borrowings which were necessary to support the recently concluded fleet modernisation program that was 97.5% financed by Citibank International Plc (Senior lender) and Finnish Fund for Industrial Development (Junior lender).

The current portion of the Interest bearing loans and interests falling due in the next financial year equate to approximately 10% of projected company revenues which the airline would be able to settle as they mature. The remaining current liabilities comprised of trade payables and taxes would equate to the current assets.

12. RELATED PARTY TRANSACTIONS

Details of transactions with related parties are disclosed in note 25 to the financial statements.

13. CAPITAL STRUCTURE

The Company capital structure for the year under review is shown below:

Authorised Share Capital

242,000,000 ordinary shares of TZS 20 each (2011: 242,000,000 ordinary shares of TZS 20 each).

Called up and fully paid share capital

160,469,800 ordinary shares of TZS 20 each (2011: 135,015,000 ordinary shares of TZS 20 each).

Share premium

The Company realised from the IPO, a share premium of TZS 11,583,226,000 from the IPO. Transaction costs amounting to TZS 1,064,239,000 were incurred and have been offset against the share premium account.

Long Term Loans

The Company is financed by long-term loans amounting to TZS 171 billion as at year end (2011: TZS 176 billion). For more details, refer to Note 23 to the financial statements.

14. SHAREHOLDING

Following changes in shareholding through the Initial Public Offer (IPO), the number of issued ordinary shares increased from 135,015,000 to 160,469,800. The shareholding of the Company as at year end is as stated below:

14 SHAREHOLDING (Continued)

Name	2012		2011	
	No. Of shares	% Shareholding	No. Of shares	% Shareholding
Michael N. Shirima	68,857,650	42.91	68,857,650	51.00
Kenya Airways Limited	66,157,350	41.23	<u>66,157,350</u>	<u>49.00</u>
Public	<u>25,454,800</u>	<u>15.86</u>	<u> </u>	<u>-</u>
			-	
	<u>160,469,800</u>	<u>100.00</u>	<u>135,015,000</u>	<u>100.00</u>

The top ten shareholders as at 31 March 2012 were as follows:

<u>Name of shareholder</u>	<u>No. of shares</u>	<u>% Shares</u>	<u>Type</u>	<u>Nationality</u>
Michael N. Shirima	68,857,650	42.91 %	Individual	Tanzanian
Kenya Airways Ltd	66,157,350	41.23 %	Corporate	Kenyan
Precision Air Employee Share Option Scheme	1,765,300	1.10 %	Corporate	Tanzanian
Damas Dismas Kamani	475,700	0.30 %	Individual	Tanzanian
Fahad Saleh Nahdi	421,000	0.26 %	Individual	Tanzanian
Shinyanga Emporium (1978) Ltd	400,000	0.25 %	Corporate	Tanzanian
Tanzania Standard (News Papers) Ltd	300,000	0.19 %	Corporate	Tanzanian
Quality Group Ltd	210,500	0.13 %	Corporate	Tanzanian
Raj Chintan Kakkad	200,000	0.12 %	Minor	Tanzanian
Shilpa Pratish Kakkad	200,000	0.12 %	Individual	Tanzanian
Chintan Maganlal Kakkad	200,000	0.12 %	Individual	Tanzanian
Dhiraj Chintan Kakkad	200,000	0.12 %	Individual	Tanzanian
Pratish Maganlal Kakkad	200,000	0.12 %	Individual	Tanzanian
Than Investments Ltd	200,000	0.12 %	Corporate	Tanzanian
NICOL (T) Ltd	200,000	0.12 %	Corporate	Tanzanian
Others	20,482,300	12.79 %		
	<u>160,469,800</u>	<u>100.00 %</u>		

15. COMPOSITION OF THE BOARD OF DIRECTORS

The directors who served during the year and to the date of this report were:-

Mr. Michael N. Shirima	-	Chairman	68 years	Tanzanian
Mr. Alfonse M. Kioko	-	Managing Director & CEO	52 years	Kenyan
Mr. Hatibu K. Senkoro	-	Director	71 years	Tanzanian
Mr. Titus T. Naikuni	-	Director	58 years	Kenyan
Mr. Vincent M. Shirima	-	Director	36 years	Tanzanian
Gen. Mirisho Sarakikya	-	Director	77 years	Tanzanian
Mr. Ron Schippher	-	Director	66 years	Dutch
Ms. Fabia Bausch	-	Director	38 years	Swiss

With the exception of Mr. A Kioko, the Group Managing Director & CEO, all other Directors were non-executive. .

The Group Secretary during the year was Mr. Elias Mwashuuya; Tanzanian 35 years.

Whereas the Director Ms. Fabia Bausch was appointed in July 2011, Mr. Hatibu K. Senkoro and Gen. Mirisho Sarakikya retired in the same period.

16. DIRECTORS' INTEREST IN THE SHARES OF THE COMPANY

As shown in Note 15 above, Mr. Michael N. Shirima holds 42.91% of the Company's issued ordinary share capital.

17. DIRECTORS' EMOLUMENTS

The remuneration for services rendered by the directors for the Group during the financial year was TZS 321 Million (2011: TZS 312 million).

18. ORGANISATION STRUCTURE

The Management of the Group is under the Group Managing Director & CEO and is organised in the following functions:

- Managing Directors Office
- Finance
- Commercial Strategy and Network planning
- Human Resources and Administration
- Operations
- Information Systems
- Technical and Engineering
- Ground Handling

19. KEY MANAGEMENT PERSONNEL OF THE GROUP

The key management personnel who served the Company during the year ended 31 March 2012 were:

Mr Alfonse Kioko	- Group Managing Director & CEO
Mr Charles Ogolla	- Finance Director
Mr Patrick Ndekana	- Commercial Director
Ms Bertha Minja	- Director Human Resources
Mr Kalero Mkandawire	- Director Operations
Mr Gardy Mbala	- Director Information Systems
Mr Gennaro Sicureza	- Technical Director
Mr Elias Moshi	- Director Ground Handling
Mr Allen Shara	- Director Quality and Safety

With the exception Mr. Alphonse Kioko, none of the above mentioned directors are members of the Company's Board of Directors.

20. ACCOUNTING POLICIES

The annual financial statements are prepared on the underlying assumption of a going concern.

The Company's accounting policies, which are laid out on pages 21 to 34 are subject to an annual review to ensure continuing compliance with International Financial Reporting Standards.

21. INVESTMENTS

The wholly owned subsidiary, Precision Handling Limited was incorporated in Tanzania during 2010 and 100 % of its share capital is held by the Company. The subsidiary provides ground handling services to PRECISION AIR SERVICES PLC and is yet to obtain a licence to also serve other airlines.

22. ACQUISITIONS AND DISPOSALS

There was no material disposal or acquisition of business during year 2012 (2011: Nil).

23. POLITICAL AND CHARITABLE DONATIONS

The Group contributed TZS 6,175,800 (2011: TZS 43,769,500) to the charitable community projects and charitable various organizations. No political donations were made by the company during the year.

24. EMPLOYEES' WELFARE

Management and Employees' Relationship

A healthy relationship continues to exist between management and employees. There were no unresolved complaints received by Management from the employees during the year.

The Group is an equal opportunity employer. It gives equal access to employment opportunities and ensures that the best available person is appointed to any given position, free from discrimination of any kind and without regard to factors like gender, marital status, tribe, religion or disability.

Training Facilities

The Group sponsors its employees for both short and long term courses within and outside the country in various disciplines depending on the corporate needs and financial resources available.

Medical Assistance

The Group provides medical care to all employees under its medical scheme. Benevolence expenses are also covered in the employee welfare program. The Company has taken an insurance policy for workman's compensation for all staff on permanent and contract terms.

Financial Assistance to Staff

Financial assistance is available to all employees depending on the assessment of and the discretion of management as to the need and circumstances. Financial assistance and salary advances are provided on case-by-case basis.

Retirement Benefits

All of the Group employees are members of the National Social Security Fund ("NSSF"), which is a defined contribution plan. The Group and employees both contribute 10% of the employees' gross salaries to the NSSF. The contribution is charged to the income statement when incurred.

The Group's employment terms are regularly reviewed to ensure they continue to meet statutory compliance and market conditions. The Group communicates with its employees through regular management and staff meetings and through circulars. The Group has continued to maintain a conducive working environment in terms of providing suitable work place, offices, washrooms and canteen facilities.

The number of employees in the Group at the end of year totalled 704 as compared to 657 at the end of year 2011.

25. GENDER PARITY

The Group is equal opportunity employer. It gives equal access to employment opportunities and ensures that the best available person is appointed to any given position free from discrimination of any kind and without regard to factors like gender, marital status, tribes, religion and disability which does not impair ability to discharge duties. As at 31 March 2012, the Group had 450 (64%) male and 254 (36%) female employees (2012: 422 (65%) male and 235 (35%) female employees).

26. DISABLED PERSONS

It remains the Group's policy to accept disabled persons for employment for those vacancies that they are able to fill. Opportunities for advancement are provided to each disabled person when a suitable vacancy arises with the organization and all necessary assistance is given with initial training. Where an employee becomes disabled during the course of his or her employment, the Group will seek suitable alternate employment and necessary training thereof. The Group's policy is not discriminatory against people with regards to race, gender, religion or disability.

27. STATEMENT OF CORPORATE GOVERNANCE

"Corporate governance is the process by which companies are directed, controlled and held to account"

Precision Air Services Board is responsible for the governance of the Group and is accountable to the Shareholders for ensuring that the Group complies with the law and the highest standards of corporate governance and business ethics. The Directors attach great importance to the need to conduct the business and operations of the Group with integrity and in accordance with generally accepted corporate governance practice and endorse the internationally developed principles of good corporate governance.

Board of Directors

The full Board meets at least four times a year. The Directors are given appropriate and timely information so that they can maintain full and effective control over strategic, financial, operational and compliance issues. Except for direction and guidance on general policy, the Board has delegated authority for conduct of day-to-day business to the Managing Director who is also the Chief Executive Officer (CEO). The Board nonetheless retains responsibility for establishing and maintaining the airline's overall internal control of financial, operational and compliance issues.

Six out of the seven members of the Board are non-executive including the chairman of the Board.

Committees of the Board

The Board has one standing committee, namely Audit Committee of the Board, which meets regularly under the terms of reference set by the Board. The committee meets four times a year or as necessary. Its members comprise Mr. Vincent M. Shirima, and Ms Fabia Bausch. Its responsibilities include review of the financial statements, compliance with Accounting Standards, liaison with the external auditors, remuneration of the external auditors, and maintaining oversight on internal control systems. The Chief internal auditor, The Director Finance, the Managing Director / Chief Executive Officer attend all meetings of the committee. The external auditors attend the meetings on invitation.

Internal controls

The Group has defined procedures and financial controls to ensure the reporting of complete and accurate accounting information. These cover systems for obtaining authority for major transactions and for ensuring compliance with laws and regulations that have significant

financial implications. Procedures are also in place to ensure that assets are subject to proper physical controls and that the Group remains structured to ensure appropriate segregation of duties.

Internal controls (Continued)

In reviewing the effectiveness of the systems of internal control, the Board takes into account the results of all the work carried out to audit and review the activities of the Group. A comprehensive management accounting system is in place providing financial and operational performance measurement indicators. Weekly and monthly meetings are held by the management to monitor performance and to agree on measures for improvement.

Code of ethics

The Group is committed to the highest standards of integrity, behaviour and ethics in dealing with all its stakeholders. All employees of the Group are expected to avoid activities and financial interests that could clash with their responsibilities to the airline.

Directors' emoluments and loans

The aggregate amount of emoluments paid to Directors for services rendered during the financial year 2012 are disclosed in note 25 of the financial statements. Neither at the end of the financial year nor at any time during the year was there any arrangement to which the Group is a party, whereby Directors might acquire benefits by means of the acquisition of the Company's shares. There were no Directors' loans at any time during the year.

28. CORPORATE SOCIAL RESPONSIBILITY

The Group has identified three key community areas of support in which it participates under the corporate social responsibility program. These are education, assisting orphans and environmental conservation. During the year the Group supported the Cornel Ngaleku Children's Centre - an orphanage located in the Kilimanjaro region and Mtwara municipal primary schools.

29. CHANGE OF NAME OF THE COMPANY

Following the successful listing of the Company during the year, the name of the Company changed to Precision Air Services Plc.

30. AUDITORS

Ernst & Young were the Group auditors for the year 2012. They have expressed their willingness to continue in office and are eligible for reappointment.

Approved by the board of directors on 16TH August.2012 and signed on its behalf by:

Name: Michael N. Shirima **Title :** Chairman of the Board

Signature



Name: Alfonse M. Kioko **Title :** Group MD & CEO

Signature



STATEMENT OF DIRECTORS RESPONSIBILITIES FOR THE YEAR ENDED 31 MARCH 2012

The Tanzania Companies Act, 2002 requires the directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Group and of the Company as at the end of the financial year and of the Group's operating results for that year. It also requires the directors to ensure that the Group and the Company keep proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group and the Company. They are also responsible for safeguarding the assets of the Group.

The directors are responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, Tanzania Financial Reporting Standard on Directors' Report and in the manner required by the Tanzania Companies Act, 2002. This responsibility includes: designing, implementing and maintaining internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

The directors accept responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with International Financial Reporting Standards and in the manner required by the Tanzania Companies Act, 2002. The directors are of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the Group and of the Company and of the Group's operating results. The directors further accept responsibility for the maintenance of accounting records which may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial control.

Nothing has come to the attention of the directors to indicate that the Company and its Subsidiary will not remain going concerns for at least the next twelve months from the date of this statement.

By Order of the Board

Name: Michael N. Shirima

Title : Chairman of the Board

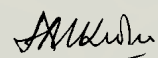
Signature



Name: Alfonse M. Kioko

Title : Group MD & CEO

Signature



Date: 16/08 2012

INDEPENDENT AUDITORS' REPORT

To the Shareholders of

PRECISION AIR SERVICES PLC

We have audited the accompanying consolidated financial statements of **Precision Air Services PLC (the Company)** and its subsidiary, **Precision Handling Limited (together, the Group)**, as set out on pages 15 to 53 which comprise the consolidated statement of financial position as at 31 March 2012 and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' responsibilities for the consolidated financial statements

The Directors are responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards and in compliance with the Tanzanian Companies Act, 2002, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with the International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated 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 Group'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 consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group and Company as of 31 March 2012, and of Group's financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and the Tanzanian Companies Act, 2002.

Emphasis of matter

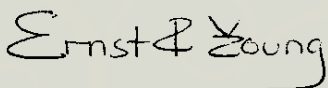
Without qualifying our opinion, we draw attention to Note 2.1 to the financial statements which indicates that the Group's current liabilities as at 31 March 2012 exceeded its current assets by TZS 31.04 billion (31 March 2011 - TZS 35.22 billion). This condition, along with other matters as set forth in Note 2.1; indicate the existence of a material uncertainty that may cast significant doubt about the Group's ability to continue as a going concern without sufficient cash flows being generated to fund its operations.

Report on other legal and regulatory requirements

This report, including the opinion, has been prepared for, and only for, the Group's members as a body in accordance with the Tanzanian Companies Act, 2002 and for no other purposes.

As required by the Tanzanian Companies Act, 2002, we report to you, based on our audit, that:

- i. We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purpose of our audit;
- ii. In our opinion, proper books of account have been kept by the Company, so far as appears from our examination of those books;
- iii. The Directors Report is consistent with the financial statements,
- iv. Information specified by law regarding directors remuneration and transactions with the Company is disclosed; and
- v. The Company's statement of financial position, income statement and statement of comprehensive income are in agreement with the books of account.



Ernst & Young
Certified Public Accountants
Dar es Salaam

Signed by: Neema Kiure - Mssusa

21st August 2012

PRECISION AIR SERVICES PLC

**CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 MARCH 2012**

		Group	Group	Company	Company
		<u>31-Mar-12</u>	<u>31-Mar-11</u>	<u>31-Mar-12</u>	<u>31-Mar-11</u>
	<u>Notes</u>	TZS '000	TZS '000	TZS '000	TZS '000
Revenue	8	163,061,452	113,605,908	163,061,452	113,605,908
Cost of sales	9	(117,059,260)	(70,121,988)	(117,059,260)	(70,121,988)
Gross Profit		46,002,192	43,483,920	46,002,192	43,483,920
Other income	10	3,308,578	405,440	3,308,578	405,440
Marketing expenses	11	(1,300,912)	(1,164,090)	(1,300,912)	(1,164,090)
Impairment of receivables	19	(385,272)	(30,881)	(385,272)	(30,881)
Administrative expenses	12	(35,060,382)	(31,573,233)	(34,858,158)	(31,217,167)
		(33,437,988)	(32,362,764)	(33,235,764)	(32,006,698)
Operating Profit		12,564,204	11,121,156	12,766,428	11,477,222
Finance costs	13	(7,652,711)	(7,318,524)	(7,598,033)	(7,186,771)
Profit before loss on foreign currency and tax		4,911,493	3,802,632	5,168,395	4,290,451
Loss on foreign currency exchange	14	(3,070,840)	(2,247,108)	(2,936,518)	(2,131,257)
Profit before tax		1,840,653	1,555,524	2,231,877	2,159,194
Income tax expense	21(b)	(1,206,856)	(692,978)	(1,025,756)	(874,079)
Profit for the year attributable to the owners of the Parent		633,797	862,546	1,206,121	1,285,115
Earning per share - Basic and Diluted (TZS)	30	3.95	5.38	8.93	9.52

PRECISION AIR SERVICES PLC

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 MARCH 2012

		Group	Group	Company	Company
		<u>31-Mar-12</u>	<u>31-Mar-11</u>	<u>31-Mar-12</u>	<u>31-Mar-11</u>
	<u>Notes</u>	TZS '000	TZS '000	TZS '000	TZS '000
Profit for the year		633,797	862,546	1,206,121	1,285,115
Other comprehensive income					
Revaluation of aircrafts	15	-	5,370,250	-	5,560,746
Income tax effect		-	(1,611,075)	-	(1,668,224)
		-	3,759,175	-	3,892,522
Net movement on cash flow					
hedges	32	(10,095,867)	(14,543,635)	(10,095,867)	(14,543,635)
Income tax effect	21	2,523,967	4,363,091	2,523,967	4,363,091
		(7,571,900)	(10,180,544)	(7,571,900)	(10,180,544)
Other comprehensive income					
for the year, net of tax		(7,571,900)	(6,421,369)	(7,571,900)	(6,288,022)
Total comprehensive (loss)/					
income for the year, net of tax		(6,938,103)	(5,558,823)	(6,365,779)	(5,002,907)

PRECISION AIR SERVICES PLC

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 MARCH 2012		Group	Group	Company	Company
		<u>31-Mar-12</u>	<u>31-Mar-11</u>	<u>31-Mar-12</u>	<u>31-Mar-11</u>
	Notes	TZS '000	TZS '000	TZS '000	TZS '000
ASSETS					
Non-current assets					
Property and equipment	15	200,668,615	208,534,265	199,099,426	206,762,850
Intangible assets	16	262,003	260,205	262,003	260,205
Other financial assets	18	5,255	-	5,255	-
		<u>200,935,873</u>	<u>208,794,470</u>	<u>199,366,684</u>	<u>207,023,055</u>
Current assets					
Inventories	17	8,186,377	6,974,249	8,186,377	6,974,249
Trade and other receivables	19	14,685,762	14,834,089	17,044,943	15,991,423
Prepayments		559,151	865,557	559,151	865,557
Other financial assets	18	10,433,786	5,255	10,433,786	5,255
Cash and short-term deposits	20	6,618,856	8,857,140	6,618,856	8,857,140
		<u>40,483,932</u>	<u>31,536,290</u>	<u>42,843,113</u>	<u>32,693,624</u>
TOTAL ASSETS		<u>241,419,805</u>	<u>240,330,760</u>	<u>242,209,797</u>	<u>239,716,679</u>
EQUITY AND LIABILITIES					
Equity					
Issued capital	22	3,209,396	2,700,300	3,209,396	2,700,300
Share premium	22	10,490,987	-	10,490,987	-
Revaluation reserves	22	8,438,348	8,438,348	8,438,348	8,438,348
Cashflow hedging reserve	33	(17,752,445)	(10,180,545)	(17,752,445)	(10,180,545)
Retained earnings		14,695,694	14,061,897	15,690,587	14,484,466
		<u>19,081,980</u>	<u>15,020,000</u>	<u>20,076,873</u>	<u>15,442,569</u>
Non-current liabilities					
Interest bearing loans and borrowings	23	148,707,735	155,136,749	148,707,735	155,136,748
Deferred tax liability	21	2,102,695	3,419,806	2,102,695	3,600,906
		<u>150,810,430</u>	<u>158,556,555</u>	<u>150,810,430</u>	<u>158,737,654</u>

Current liabilities

Interest bearing loans and borrowings	23	32,805,940	30,557,963	32,601,039	29,340,213
Trade and other payables	24	38,667,806	36,077,593	38,667,806	36,077,594
Tax payable	21(a)	53,649	118,649	53,649	118,649
		71,527,395	66,754,205	71,322,494	65,536,456

TOTAL EQUITY AND LIABILITIES	241,419,805	240,330,760	242,209,797	239,716,679
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These financial statements were authorised by the board of directors for issue on

.....^{16/08}.....2012

and were signed on its
behalf by:

Name: Michael N. Shirima

Title: Chairman of the Board

Signature:



Name: Alfonse M. Kioko

Title : Group MD & CEO

Signature:



PRECISION AIR SERVICES PLC

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 MARCH 2012**

	<u>Note 22</u> <u>Issued</u> <u>capital</u>	<u>Note 22</u> <u>Share</u> <u>premium</u>	<u>Note 22</u> <u>Revaluation</u> <u>reserve</u>	<u>Note 33</u> <u>Cash flow</u> <u>hedging reserve</u>	<u>Retained</u> <u>earnings</u>	<u>Total</u> <u>equity</u>
	TZS '000	TZS '000	TZS '000	TZS '000	TZS '000	TZS '000
Group						
At 1 April 2011	2,700,300	-	8,438,348	(10,180,545)	14,061,897	15,020,000
Initial Public Offer	509,096	10,490,987	-	-	-	11,000,083
Profit for the year	-	-	-	-	633,797	633,797
Other comprehensive income	-	-	-	(7,571,900)	-	(7,571,900)
Total comprehensive income	-	-	-	(7,571,900)	633,797	(6,938,103)
At 31 March 2012	3,209,396	10,490,987	8,438,348	(17,752,445)	14,695,694	19,081,980
Group						
At 1 April 2010	2,700,300	-	4,679,173	-	13,199,351	20,578,824
Profit for the year	-	-	-	-	862,546	862,546
Other comprehensive income	-	-	3,759,175	(10,180,545)	-	(6,421,370)
Total comprehensive income	-	-	3,759,175	(10,180,545)	862,546	(5,558,824)
At 31 March 2011	2,700,300	-	8,438,348	(10,180,545)	14,061,897	15,020,000

PRECISION AIR SERVICES LIMITED

STATEMENT OF CHANGES IN EQUITY (Continued) FOR THE YEAR ENDED 31 MARCH 2012

Company	<u>Note 22</u> <u>Issued</u> <u>capital</u>	<u>Note 22</u> <u>Share</u> <u>premium</u>	<u>Note 22</u> <u>Revaluation</u> <u>reserve</u>	<u>Note 33</u> <u>Cash flow</u> <u>hedging</u> <u>reserve</u>	<u>Retained</u> <u>earnings</u>	<u>Total</u> <u>equity</u>
At 1 April 2011	2,700,300	-	8,438,348	(10,180,545)	14,484,466	15,442,569
Initial Public Offer	509,096	10,490,987	-	-	-	11,000,083
Profit for the year	-	-	-	-	1,206,121	1,206,121
Other comprehensive income	-	-	-	(7,571,900)	-	(7,571,900)
Total comprehensive income	-	-	-	(7,571,900)	1,206,121	(6,365,779)
At 31 March 2012	3,209,396	10,490,987	8,438,348	(17,752,445)	15,690,587	20,076,873
Company						
At 1 April 2010	2,700,300	-	4,679,173	-	13,199,351	20,578,824
Profit for the year	-	-	-	-	1,285,115	1,285,115
Other comprehensive income	-	-	3,759,175	(10,180,545)	-	(6,421,370)
Total comprehensive income	-	-	3,759,175	(10,180,545)	1,285,115	(5,136,255)
At 31 March 2011	2,700,300	-	8,438,348	(10,180,545)	14,484,466	15,442,569

PRECISION AIR SERVICES PLC

**CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 MARCH 2012**

		Group	Group	Company	Company
		31-Mar-12	31-Mar-11	31-Mar-11	31-Mar-11
	Note	TZS '000	TZS '000	TZS '000	TZS '000
Operating activities					
Profit before tax		1,840,653	1,555,524	2,231,877	2,159,194
Non-cash adjustment to reconcile profit before tax to net cash flows					
Depreciation of property and equipment	15	16,794,573	14,771,461	16,592,346	14,569,237
Profit on disposal of property and equipment		(70,791)	-	(70,791)	-
Amortisation of intangible assets	16	36,563	168,439	36,563	168,439
Unrealised losses on foreign currency exchange		-	-	-	-
Interest on debts and borrowings	13	7,652,711	7,318,524	7,598,033	7,186,771
Working capital adjustments:					
Decrease/ (increase) in inventories		(1,212,128)	571,180	(1,212,128)	571,180
Decrease/ (increase) in trade and other receivables		148,327	8,097,396	(1,053,519)	6,940,062
Decrease in prepayments		306,406	169,429	306,406	169,429
Increase in trade and other payables		2,590,213	697,199	2,590,212	697,197
		28,086,527	33,349,152	27,018,999	32,461,509
Income tax paid	21	(65,000)	-	(65,000)	-
Net cash flows from operating activities		28,021,527	33,349,152	26,953,999	32,461,509

Investing activities

Acquisition of computer software	16	(38,361)	(293,517)	(38,361)	(293,517)
Aircraft security deposit paid	18	(10,433,786)	-	(10,433,786)	-
Aircraft security deposit refunded	18	-	1,526,938	-	1,526,938
Proceeds from sale of unquoted investment		-	3,000	-	3,000
Proceeds from sale of property and equipment		71,249	-	71,249	-
Purchase of property and equipment	15	(8,929,380)	(88,395,201)	(8,929,380)	(86,421,561)
Net cash flows used in investing activities		(19,330,278)	(87,158,780)	(19,330,278)	(85,185,140)

Financing activities

Proceeds from borrowings	23	7,454,941	86,983,330	7,454,941	84,855,849
Repayment of borrowings	23	(23,179,103)	(24,496,403)	(22,166,253)	(23,586,672)
Proceeds from Initial Public Offer	22	11,000,083	-	11,000,083	-
Interest paid		(7,600,447)	(7,318,524)	(7,545,769)	(7,186,771)
Net cash flows from/(used in) financing activities		(12,324,526)	55,168,403	(11,256,998)	54,082,406

Net increase/(decrease) in cash and cash equivalents
 Net realised foreign currency exchange difference
 Cash and cash equivalents at beginning of the year

		(3,633,277)	1,358,775	(3,633,277)	1,358,775
		(52,264)	-	(52,264)	-
	20	138,636	(1,220,139)	138,636	(1,220,139)

Cash and cash equivalents at 31 March

	20	(3,546,905)	138,636	(3,546,905)	138,636
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NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 MARCH 2012

1 CORPORATE INFORMATION

The consolidated financial statements of the Group for the year ended 31 March 2012 were authorised for issue as shown in the Consolidated Statement of Financial Position. The Company is incorporated in Tanzania under the Companies Act, 2002 as a limited liability Company and it is domiciled in Tanzania. The Company's shares are publicly traded at the Dar es Salaam Stock exchange. The wholly owned subsidiary, Precision Handling Limited was incorporated in Tanzania during the year 2010 and 100 % of its share capital is held by the Company.

The registered office is New Safari Hotel, Boma Road, P. O. Box 1636, Arusha Tanzania. Principal place of business is Quality Plaza, Nyerere Road, P. O. Box 70770, Dar es Salaam Tanzania.

Incorporation

The Company and its Subsidiary are incorporated in Tanzania under the Tanzanian Companies Act, 2002.

Principal activities

The principal activities of the Company are regional and domestic carriage of passengers and cargo by air while that of the Subsidiary is provisioning of ground handling services.

2 BASIS OF PREPARATION

The consolidated financial statements have been prepared on a historical cost basis except for financial instruments and certain items of property, plant and equipment that have been measured at fair value or revaluation.

The financial statements are presented in Tanzanian Shillings (TZS) and all values are rounded to the nearest thousand (TZS '000') except when otherwise indicated.

Whereas the comparative amounts in the financial statements of the Company relates to the state of affairs for the period of twelve (12) months to 31 March 2011, those of the subsidiary forming part of the "Group" consolidated financial statements relate to only seven (7) months of operations since the Subsidiary commenced operations in September 2010.

2.1 Going concern basis of preparation

The accompanying financial statements have been prepared on the basis of accounting principles applicable to a "going concern", which assume that the Group will continue in operation for at least one year from the date of the audit report and will be able to realize its assets and discharge its liabilities in the normal course of operations.

Several conditions and events cast doubt about the Group's ability to continue as a "going concern." The Group's current liabilities as at 31 March 2012 exceeded its current assets by TZS 31.04 billion (31 March 2011 - TZS 35.22 billion). This is due to the existence of the interest bearing loans and borrowings which were necessary to support the recently concluded fleet modernisation program that was 97.5% financed by Citibank (Senior lender) and Finnish Fund for Industrial Development (Junior lender).

The current portion of the Interest bearing loans and interests falling due in the next financial year equate to approximately 10% of projected company revenues which the airline would be able to settle as they mature.

2 BASIS OF PREPARATION (Continued)

2.1 Going concern basis of preparation (Continued)

The remaining current liabilities comprised of trade payables and taxes would equate to the current assets. The Groups operating cash flows during the year amounted to TZS 29.61 billion (March 2011: TZS 35.6 billion).

These financial statements do not reflect adjustments that would be necessary if the Group were unable to continue as a "going concern". While management and directors believe that the actions already taken or planned, will mitigate the adverse conditions and events which raise doubt about the validity of the "going concern" assumption used in preparing these financial statements, there can be no assurance that these actions will be successful.

If the Group was unable to continue as a "going concern," then adjustments would be necessary to the carrying values of assets and liabilities.

2.2 Statement of compliance

The consolidated financial statements of PRECISION AIR SERVICES PLC have been prepared in accordance with International Financial Reporting Standards (IFRS) and IFRIC interpretations as issued by International Accounting Standards Board (IASB) and comply with the Tanzanian Companies Act, 2002.

3 BASIS OF CONSOLIDATION

The consolidated financial statements comprise the financial statements of PRECISION AIR SERVICES PLC (the Company) and Precision Handling Limited (the Subsidiary) as at 31 March 2012.

Subsidiaries are fully consolidated from the date of incorporation or acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date when such control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as that of the parent Company, using consistent accounting policies.

All intra-group balances, transactions, unrealised gains and losses resulting from intra-group transactions and dividends are eliminated in full. Losses within a subsidiary are attributed to the non-controlling interest even if that results in a deficit balance.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the parent company loses control over a subsidiary, it:

- Derecognises the assets (including goodwill) and liabilities of the subsidiary;
- Derecognises the carrying amount of any non-controlling interest;
- Derecognises the cumulative translation differences, recorded in equity;
- Recognises the fair value of the consideration received;
- Recognises the fair value of any investment retained;
- Recognises any surplus or deficit in profit or loss; and
- Reclassifies the parent's share of components previously recognised in other comprehensive income to profit or loss or retained earnings, as appropriate.

4 SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS (Continued)

In the process of applying the Group's accounting policies, management has made estimates and assumptions that affect the reported amounts of assets and liabilities within current and future financial years. Estimates and judgments are continually evaluated and are based on historic experience and other factors, including expectation of future events that are believed to be reasonable under the circumstances. The critical areas of accounting estimates and judgments in relation to the preparation of these financial statements are set out below:

Impairment of aircraft

Aircrafts were revalued in 2011 by a professional valuer. Revaluation of aircraft is done every three years or in a lesser period when evidence indicates that the values have significantly changed.

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

- a) Significant decline in the market value beyond that which would be expected from the passage of time and normal use.
- b) Significant changes in technology and regulatory environment.
- c) Evidence from internal reporting which indicates that the performance of the asset is, or will be, worse than expected.

In management's judgment, the carrying value of aircraft is not impaired as of the date of these financial statements.

Unused ticket revenue

Unused tickets are recognised as revenue using estimates regarding the timing of recognition based on terms and conditions of the ticket and historical trends. Other revenue is recognised at the time the service is provided.

Impairment of trade receivables

The Company assesses recoverability of trade receivables from time to time and where there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Company will not be able to collect all of the amounts due under the original terms of trade. The carrying amount of trade receivable is reduced to reflect recoverable amount.

Property and equipment

Critical estimates are made by the directors in determining the useful lives and residual values of property and equipment based on the intended use of the asset and the economic lives of those assets. Subsequent changes in circumstances such as technological advances or prospective utilization of the assets concerned could result in the actual useful lives or residual values differing from initial estimates.

5 CHANGES IN ACCOUNTING POLICIES

New and amended standards and interpretations

The accounting policies adopted are consistent with those of the previous financial year, except for the following new and amended IFRS and IFRIC interpretations effective as of 1 April 2011:

- IAS 24 Related Party Disclosures (amendment) effective 1 January 2011
- IAS 32 Financial Instruments: Presentation (amendment) effective 1 February 2010
- IFRIC 14 Prepayments of a Minimum Funding Requirement (amendment) effective 1 January 2011;
- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments effective 1 July 2010; and
- Improvements to IFRSs (May 2010)

The adoption of the standards or interpretations is described below:

IAS 24 Related Party Transactions (Amendment) The IASB issued an amendment to IAS 24 that clarifies the definitions of a related party. The new definitions emphasise a symmetrical view of related party relationships and clarifies the circumstances in which persons and key management personnel affect related party relationships of an entity. In addition, the amendment introduces an exemption from the general related party disclosure requirements for transactions with government and entities that are controlled, jointly controlled or significantly influenced by the same government as the reporting entity. The adoption of the amendment did not have any impact on the financial position or performance of the Group as the definitions were already applied according to these amendments and the Group is not government related.

IAS 32 Financial Instruments: Classification of Rights Issues (Amendment)

The IASB issued an amendment that alters the definition of a financial liability in IAS 32 to enable entities to classify rights issues and certain options or warrants as equity instruments. The amendment is applicable if the rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency. The amendment has had no effect on the financial position or performance of the Group because the Group does not have these types of instruments.

IFRIC 14 Prepayments of a Minimum Funding Requirement (Amendment)

The amendment removes an unintended consequence when an entity is subject to minimum funding requirements and makes an early payment of contributions to cover such requirements. The amendment permits a prepayment of future service cost by the entity to be recognised as a pension asset. The Group does not have any defined benefit plans and as such were not impacted by this Amendment.

5 CHANGES IN ACCOUNTING POLICIES (Continued)

IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments

When an equity instrument is issued to a creditor to extinguish a financial liability, it is regarded as consideration paid in accordance with IAS 39.41. The equity instruments issued are measured at their fair value, unless this cannot be reliably measured, in which case, they are measured at the fair value of the liability extinguished. Any gain or loss is recognised immediately in profit or loss. This interpretation had no impact on the Group, as the Group didn't issue any equity instruments as payment for financial liabilities.

Improvements to IFRSs

In May 2010, the IASB issued its third omnibus of amendments to its standards, primarily with a view to removing inconsistencies and clarifying wording. There are separate transitional provisions for each standard. The adoption of the following amendments resulted in changes to accounting policies, but no impact on the financial position or performance of the Group.

- **IFRS 7 Financial Instruments — Disclosures:** The amendment was intended to simplify the disclosures provided by reducing the volume of disclosures around collateral held and improving disclosures by requiring qualitative information to put the quantitative information in context.
- **IAS 1 Presentation of Financial Statements:** The amendment clarifies that an entity may present an analysis of each component of other comprehensive income maybe either in the statement of changes in equity or in the notes to the financial statements. The Group provides this in the statement of changes in equity.

Other amendments were issued in May 2010 resulting from Improvements to some IFRSs which did not have any impact on the accounting policies, financial position or performance of the Group:

- IFRS 1 First-time Adoption of International Financial Reporting Standards (Accounting policy changes in the year of adoption)
- IFRS 1 First-time Adoption of International Financial Reporting Standards (Revaluation Basis as Deemed Cost)
- IFRS 1 First-time Adoption of International Financial Reporting Standards (Use of "Deemed Cost" for operations subject to Rate Regulation)
- IFRS 3 Business Combinations (Contingent consideration arising from business combination prior to adoption of IFRS 3 (as revised in 2008))
- IFRS 3 Business Combinations (Un-replaced and voluntarily replaced share-based payment awards)
- IAS 27 Consolidated and Separate Financial Statements
- IAS 34 Interim Financial Statements IFRIC 16 Hedge of a Net Investment in a Foreign Operation.

The following interpretation and amendments to interpretations did not have any impact on the accounting policies, financial position or performance of the Group:

- IFRIC 13 Customer Loyalty Programmes (determining the fair value of award credits)
- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments

6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies adopted, which are consistent with those of previous years, are shown below.

Revenue

Passenger ticket and cargo airway bills, net of discounts, are recorded as current liabilities in 'sales in advance of carriage' account. When the transportation service is provided, the corresponding amounts are transferred to revenue from 'sales in advance of carriage' account.

Commission costs are recognized at the same time as the revenue to which they relate and are charged to cost of sales.

Unutilized expired tickets are recognized as revenue when the holder of the ticket is no longer entitled to the refund.

All other revenues are recognised at the time the service is provided.

Dividend income from the investments is recognized when the Group's rights to receive payment as a shareholder have been established.

Inventories

Inventories are valued at the lower of cost and net realizable value. Cost is determined on a First in First Out (FIFO) basis and includes transport and handling charges. Provision is made for obsolete, slow moving and defective stocks. Net realizable value is the estimated selling price in the ordinary course of business less the estimated cost of completion and the estimated costs necessary to make the sale.

Property and equipment

Motor vehicles, furniture and equipment are stated at cost, excluding the costs of day-to-day servicing, less accumulated depreciation and accumulated impairment in value. Other items of property and equipment are stated at revalued amount.

Depreciation is calculated on a straight-line basis, at annual rates estimated to write off carrying values of the assets over their expected useful lives. The annual depreciation rates in use are:

	%
Aircraft	5.00 – 6.75
Aircraft components	on hourly usage basis up to
next	overhaul
Aircraft improvements	20.00 – 25.00
Motor vehicles	20.00 – 25.00
Computers	25.00 – 33.33
Furniture, equipment and structures	12.50 – 15.00

6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Aircrafts were revalued in 2011 by a professional valuer. Revaluation of aircraft is done every three years or in a lesser period when evidence indicates that the values have significantly changed.

Any revaluation surplus is recognised in other comprehensive income and accumulated in the revaluation reserve as a separate component of equity, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in profit or loss, in which case the increase is recognised in profit or loss. A revaluation deficit is recognised in profit or loss, except to the extent that a deficit directly offsets a previous surplus on the same asset, in which case it is recognised in other comprehensive income as an offset against the surplus in the asset revaluation reserve.

A transfer from the asset revaluation reserve to retained earnings is made when the asset is disposed of. Additionally, accumulated depreciation as at the revaluation date is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Upon disposal, any revaluation reserve relating to the particular asset being sold is transferred to retained earnings.

Major repairs of aircraft components – airframe, engines and landing gears are initially capitalized and depreciated on an hourly usage basis up to the next overhaul.

Routine maintenance costs including annual airframe checks are written off to the income statement in the accounting period in which they are incurred.

Work in progress is stated at cost, and transferred to respective category of property and equipment when it is available for use. Work in progress is not depreciated.

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset is included in the income statement in the year the asset is derecognised.

The assets' residual values, useful lives and methods are reviewed and adjusted prospectively if appropriate at each financial year end.

Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific assets and the arrangement conveys a right to use the asset.

Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term.

6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Intangible assets

Intangible assets are measured on initial recognition at cost. Generally, costs associated with developing computer software programmes are recognized as an expense when incurred. Intangible assets acquired are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses. Internally generated intangible assets are not capitalised and expenditure is charged against profits in the year in which the expenditure is incurred.

The useful lives of intangible assets are assessed to be finite. Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The annual rate of amortisation which has been consistently applied is 20%.

The amortisation period and the amortisation method for an intangible asset are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortisation period or method, as appropriate, and treated as changes in accounting estimates. The amortisation expense on intangible assets is recognised in the income statement. Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss when the asset is derecognised.

Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses of continuing operations are recognised in the income statement in those expense categories consistent with the function of the impaired asset.

6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of non-financial assets (Continued)

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the income statement. After such a reversal the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Foreign currency translation

Functional and presentation currency

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

Transactions and balances

Foreign currency transactions are initially recorded in the Group's functional currency, Tanzanian Shillings, by applying the spot exchange rates ruling at the dates of the transactions. Monetary foreign currency balances are translated into Tanzanian Shillings at the rate ruling at the reporting date. All other gains or losses arising on translation are dealt with through the income statement except where hedge accounting is applied.

Cash flow hedges

Certain loan repayment instalments denominated in US dollars are designated as cash flow hedges of highly probable future foreign currency revenues. The effective portion of exchange differences arising from the translation of these loan repayment instalments is recognised directly as other comprehensive income and accumulated in the cash flow hedge reserve in equity in accordance with IAS 39 requirements and subsequently reflected in the income statement when either the future revenue impacts income or its occurrence is no longer expected to occur. Any ineffective portion is recognised immediately in the income statement in other operating expenses.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, this being assets that necessarily take a substantial period of time to get ready for their intended use, are capitalised to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending the disbursement of the proceeds towards expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

Other borrowing costs are recognized in the income statement in the period in which they are incurred.

6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in profit or loss net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

Cash and cash equivalents

Cash and cash equivalents comprise cash at banks and on hand and short term deposits with an original maturity of three months or less.

For the purpose of statement of cash flows, cash and cash equivalent consist of cash and cash equivalent as defined above, net of outstanding bank overdrafts.

Employee benefits

Wages, salaries, bonuses, social security contributions, paid annual leave and sick leave are accrued in the period in which the associated services are rendered by employees of the Group.

Pensions and other post-retirement benefits

All of the Group employees are members of the National Social Security Fund ("NSSF"), which is a defined contribution plan. The Group and employees both contribute 10% of the employees' gross salaries to the NSSF. The contribution is charged to the income statement when incurred.

Financial assets

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

The Group determines the classification of its financial assets on initial recognition and, where allowed and appropriate, re-evaluates this designation at each financial year end.

All regular way purchases and sales of financial assets are recognised on the trade date, which is the date that the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace.

6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

After initial measurement loans and receivables are carried at amortised cost using the effective interest method less any allowance for impairment. Gains and losses are recognised in profit or loss when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Amortised cost

Held-to-maturity investments and loans and receivables are measured at amortised cost. This is computed using the effective interest method less any allowance for impairment. The calculation takes into account any premium or discount on acquisition and includes transaction costs and fees that are an integral part of the effective interest rate.

Impairment of financial assets

The Group assesses at each reporting date whether a financial asset or group of financial assets is impaired.

Assets carried at amortised cost

In relation to trade receivables, a provision for impairment is made when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Group will not be able to collect all of the amounts due under the original terms of the invoice.

If there is objective evidence that an impairment loss on assets carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced through use of an allowance account. The amount of the loss shall be recognised in profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss against the allowance account is recognized in profit or loss.

Financial liabilities

Financial liabilities include trade and other payables, accruals, finance debts (loans and borrowings) and derivative financial instruments.

The Group does not have any financial liabilities at fair value through profit or loss or other instruments classified as held for trading which are carried on the statement of financial position at fair value with gains or losses recognized in the income statement.

6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Interest bearing loans and borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, interest bearing loans are subsequently measured at amortised cost using the effective interest rate method. Gains and losses are recognised through the income statement when the liabilities are de-recognised as well as through the amortisation process.

Derecognition of financial assets and liabilities

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where:

- the rights to receive cash flows from the asset have expired
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group's continuing involvement in the asset.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the income statement.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position, if and only if:

- there is a currently enforceable legal right to offset the recognised amounts
- and
- there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Dividend distribution

Dividend distribution to the shareholders is charged to equity and recognized as a liability in the Group's financial statements in the period in which they are declared, and after being approved by the shareholders at the Annual General Meeting.

Taxation

Current tax

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted by the reporting date. The current rate of corporation tax is 25% (2011: 30%).

Deferred tax

Deferred tax is provided on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are recognised for all taxable temporary differences, except:

- where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries and associates, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised except:

- where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries and associates, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

6 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation (Continued)

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Current tax and deferred tax relating to items recognised directly in other comprehensive income or equity are also recognised in other comprehensive income or equity and not in the income statement.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Value added tax

Revenues, expenses and assets are recognised at amounts net of value added tax except where the value added tax is incurred on a purchase of assets or services is not recoverable from the taxation authority in which case the value added tax is recognised as part of the cost of acquisition of the asset or part of the expense item as applicable.

Receivables and payables are stated with the amount of Value added Tax (VAT) included. The net amount of value added tax recoverable from, or payable to, the taxation authority is included as part of the receivables or payables in the statement of financial position.

7 STANDARDS ISSUED BUT NOT YET EFFECTIVE

Standards issued but not yet effective up to the date of issuance of the Group's financial statements are listed below. This listing is of standards and interpretations issued, which the Group reasonably expects to be applicable at a future date. The Group intends to adopt those standards when they become effective.

IAS 1 Financial Statement Presentation – Presentation of Items of Other Comprehensive Income

The amendments to IAS 1 change the grouping of items presented in OCI. Items that could be reclassified (or 'recycled') to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified. The amendment affects presentation only and has no impact on the Group's financial position or performance. The amendment becomes effective for annual periods beginning on or after 1 July 2012.

IAS 12 Income Taxes – Recovery of Underlying Assets

The amendment clarified the determination of deferred tax on investment property measured at fair value. The amendment introduces a rebuttable presumption that deferred tax on investment property measured using the fair value model in IAS 40 should be determined on the basis that its carrying amount will be recovered through sale. Furthermore, it introduces the requirement that deferred tax on non-depreciable assets that are measured using the revaluation model in IAS 16 always be measured on a sale basis of the asset. The amendment becomes effective for annual periods beginning on or after 1 January 2012.

7 STANDARDS ISSUED BUT NOT YET EFFECTIVE (Continued)

IAS 1 Financial Statement Presentation – Presentation of Items of Other Comprehensive Income

The amendments to IAS 1 change the grouping of items presented in OCI. Items that could be reclassified (or 'recycled') to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified. The amendment does not change the nature of items that are currently recognised in OCI, nor does it impact the determination of whether items of OCI are reclassified through profit or loss in future periods. The amendment becomes effective for annual periods beginning on or after 1 July 2012.

IAS 12 Income Taxes – Recovery of Underlying Assets

The amendment clarified the determination of deferred tax on investment property measured at fair value. The amendment introduces a rebuttable presumption that deferred tax on investment property measured using the fair value model in IAS 40 should be determined on the basis that its carrying amount will be recovered through sale. Furthermore, it introduces the requirement that deferred tax on non-depreciable assets that are measured using the revaluation model in IAS 16 always be measured on a sale basis of the asset. The amendment becomes effective for annual periods beginning on or after 1 January 2012 and will have no impact as the Group does not hold investment property, or non-depreciable assets measure using the revaluation model.

IAS 19 Employee Benefits (Amendment)

The IASB has issued numerous amendments to IAS 19. These range from fundamental changes such as removing the corridor mechanism and the concept of expected returns on plan assets to simple clarifications and re-wording. The more significant changes include the following:

- For defined benefit plans, the ability to defer recognition of actuarial gains and losses (i.e., the corridor approach) has been removed. As revised, actuarial gains and losses are recognised in OCI when they occur. Amounts recorded in profit or loss are limited to current and past service costs, gains or losses on settlements, and net interest income (expense). All other changes in the net defined benefit asset (liability) are recognised in OCI with no subsequent recycling to profit or loss.
- Objectives for disclosures of defined benefit plans are explicitly stated in the revised standard, along with new or revised disclosure requirements. These new disclosures include quantitative information of the sensitivity of the defined benefit obligation to a reasonably possible change in each significant actuarial assumption.
- Termination benefits will be recognised at the earlier of when the offer of termination cannot be withdrawn, or when the related restructuring costs are recognised under IAS 37 Liabilities.
- The distinction between short-term and other long-term employee benefits will be based on expected timing of settlement rather than the employee's entitlement to the benefits.

The Group does not have any defined benefit plans and will therefore not be impacted by a number of these amendments. The Group is currently assessing the full impact of the remaining amendments (termination benefits and definitions of short-term and long-term employee benefits). The amendment becomes effective for annual periods beginning on or after 1 January 2013.

7 STANDARDS ISSUED BUT NOT YET EFFECTIVE (Continued)

IAS 27 Separate Financial Statements (as revised in 2011)

As a consequence of the new IFRS 10 and IFRS 12, what remains of IAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. The amendment becomes effective for annual periods beginning on or after 1 January 2013 and does not impact the accounting in separate financial statements.

IAS 28 Investments in Associates and Joint Ventures (as revised in 2011)

As a consequence of the new IFRS 11 and IFRS 12, IAS 28 has been renamed IAS 28 Investments in Associates and Joint Ventures, and describes the application of the equity method to investments in joint ventures in addition to associates. The amendment becomes effective for annual periods beginning on or after 1 January 2013 and will have no impact on the Group as the revised standard does not change the rules in applying equity accounting and the Group does not have any interests in joint arrangements.

IFRS 7 Financial Instruments: Disclosures – Enhanced Derecognition Disclosure Requirements

The amendment requires additional disclosure about financial assets that have been transferred but not derecognised to enable the user of the Group's financial statements to understand the relationship with those assets that have not been derecognised and their associated liabilities. In addition, the amendment requires disclosures about continuing involvement in derecognised assets to enable the user to evaluate the nature of, and risks associated with, the entity's continuing involvement in those derecognised assets. The amendment becomes effective for annual periods beginning on or after 1 July 2011. The amendment affects disclosure only and has no impact on the Group's financial position or performance.

IFRS 7 Financial Instruments: Disclosures (Amendment) – Disclosures – Offsetting Financial Assets and Financial Liabilities

The amendment amends the required disclosures to include information 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 associated with the entity's recognised financial assets and recognised financial liabilities, on the entity's financial position. The amendment is effective for annual periods beginning on or after 1 January 2013 and the Group is still in the process of determining how it will impact the note disclosures upon adoption.

IFRS 9 Financial Instruments: Classification and Measurement

IFRS 9 as issued reflects the first phase of the IASB's work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. The standard is effective for annual periods beginning on or after 1 January 2015. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. The completion of this project is expected over the course of 2012 or the first half of 2013. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but will potentially have no impact on classification and measurements of financial liabilities. The Group will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.

7 STANDARDS ISSUED BUT NOT YET EFFECTIVE (Continued)

IFRS 10 Consolidated Financial Statements; IFRS 11 Joint Arrangements; IFRS 12 Disclosure of Interest in Other Entities.

IFRS 10 replaces the portion of IAS 27 Consolidated and Separate Financial Statements that addresses the accounting for consolidated financial statements. It also includes the issues raised in SIC-12 Consolidation — Special Purpose Entities.

IFRS 10 establishes a single control model that applies to all entities including special purpose entities. The changes introduced by IFRS 10 will require management to exercise significant judgement to determine which entities are controlled, and therefore, are required to be consolidated by a parent, compared with the requirements that were in IAS 27.

This standard becomes effective for annual periods beginning on or after 1 January 2013.

IFRS 11 Joint Arrangements

IFRS 11 replaces IAS 31 Interests in Joint Ventures and SIC-13 Jointly-controlled Entities — Non-monetary Contributions by Venturers.

IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture must be accounted for using the equity method. The application of this new standard will not impact the financial position of the Group as it is not in joint ventures. This standard becomes effective for annual periods beginning on or after 1 January 2013 and will have no impact on the Group as it is not party to any joint arrangements.

IFRS 12 Disclosure of Involvement with Other Entities

IFRS 12 includes all of the disclosures that were previously in IAS 27 related to consolidated financial statements, as well as all of the disclosures that were previously included in IAS 31 and IAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. This standard becomes effective for annual periods beginning on or after 1 January 2013 and the impact of adopting this new standard is still being assessed..

IFRS 13 Fair Value Measurement

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS when fair value is required or permitted as well as providing clarification on certain areas. The Group is currently assessing the impact that this standard will have on the financial position and performance. This standard becomes effective for annual periods beginning on or after 1 January 2013.

PRECISION AIR SERVICES PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED 31 MARCH 2012

	Group	Group	Company	Company
	31-Mar-12	31-Mar-11	31-Mar-12	31-Mar-11
	TZS '000	TZS '000	TZS '000	TZS '000
8 REVENUE				
Passenger revenue	129,389,774	94,168,182	129,389,774	94,168,182
Freight and mail	3,557,624	2,787,754	3,557,624	2,787,754
Fuel Surcharge	30,114,054	16,649,972	30,114,054	16,649,972
	163,061,452	113,605,908	163,061,452	113,605,908
9 COST OF SALES				
Fuel and oil	48,111,950	20,677,591	48,111,950	20,677,591
Lease of aircraft and engines	4,208,350	3,218,912	4,208,350	3,218,912
Aircraft landing, handling and navigation	9,151,857	5,605,797	9,151,857	5,605,797
Aircraft maintenance	11,930,268	7,627,435	11,930,268	7,627,435
Depreciation of aircraft components	2,548,353	3,143,507	2,548,353	3,143,507
Passenger services	6,809,088	5,047,280	6,809,088	5,047,280
Commission on sales	5,711,066	3,692,264	5,711,066	3,692,264
Aircraft, passengers and cargo insurance	284,540	134,483	284,540	134,483
Depreciation of aircraft and engines	13,944,639	11,130,915	13,944,639	11,130,915
Crew route expenses	1,506,195	1,096,651	1,506,195	1,096,651
Centralised reservation systems	12,378,251	8,359,523	12,378,251	8,359,523
Aircraft cleaning and certification	474,703	387,630	474,703	387,630
	117,059,260	70,121,988	117,059,260	70,121,988
10 OTHER INCOME				
Cancellation income	337,313	260,862	337,313	260,862
Gain on disposal of property and equipment	70,791	-	70,791	-
Passenger interline commission	2,439,974	-	2,439,974	-
Miscellaneous	460,500	144,578	460,500	144,578
	3,308,578	405,440	3,308,578	405,440
11 MARKETING EXPENSES				
Advertising and publicity	1,290,971	1,140,796	1,290,971	1,140,796
Entertainment	9,941	23,294	9,941	23,294
	1,300,912	1,164,090	1,300,912	1,164,090

12 ADMINISTRATIVE EXPENSES

Staff costs				
Salaries and wages	18,864,955	13,368,148	18,864,955	13,368,148
Contribution to pension fund	1,682,523	1,072,093	1,682,523	1,072,093
Payroll levies	1,100,699	788,176	1,100,699	788,176
Other employment costs	4,812,366	5,608,077	4,812,366	5,608,077
Bank charges	529,327	448,665	529,327	448,665
Motor vehicle expenses	2,775,514	1,899,172	2,775,514	1,899,172
Legal and professional fees	346,962	527,841	346,962	527,841
Rent, maintenance and supplies	2,705,774	3,507,098	2,705,774	3,507,098
General expenses	1,847,860	3,594,142	1,847,861	3,440,301
Board meeting expenses	50,085	51,527	50,085	51,527
Donations	6,176	43,769	6,176	43,769
Depreciation-motor vehicles, computers,furniture and equipment	301,578	496,086	99,353	293,861
Amortization of intangible assets	36,563	168,439	36,563	168,439
	35,060,382	31,573,233	34,858,158	31,217,167
Legal and professional fees include:				
Audit fees	43,955	43,955	43,955	43,955

13 FINANCE COSTS

Interest on debts and borrowings	7,652,711	7,318,524	7,598,033	7,186,771
	7,652,711	7,318,524	7,598,033	7,186,771

14 LOSS ON FOREIGN CURRENCY EXCHANGE

Loss on foreign currency exchange	3,070,840	2,247,108	2,936,518	2,131,257
	3,070,840	2,247,108	2,936,518	2,131,257

Loss on foreign currency denominated transactions and balances largely relates to translation of US\$ borrowings and US\$ suppliers balances.

PRECISION AIR SERVICES PLC

NOTES TO THE CONSOLIDATED THE FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 MARCH 2012

15 PROPERTY AND EQUIPMENT-GROUP

	Aircraft	Aircraft components	Aircraft improvements	Aircraft	Motor vehicles	Computers	Furniture, equipment & structures	Work in progress (Hanger)	Total
	TZS '000	TZS '000	TZS '000	TZS '000	TZS '000	TZS '000	TZS '000	TZS '000	TZS '000
Cost or valuation:									
At 1 April 2010	131,556,451	18,345,152	7,519,323	689,592	634,424	496,951	504,472	159,746,364	
Revaluations	5,104,184	266,066	-	-	-	-	-	5,370,250	
Additions	79,364,663	2,028,493	-	110,558	250,956	2,121,885	4,518,646	88,395,201	
At 31 March 2011	216,025,298	20,639,710	7,519,323	800,150	885,381	2,618,836	5,023,118	253,511,815	
Additions	-	4,640,465	-	240,590	193,637	156,304	3,698,384	8,929,380	
Disposal	-	-	-	(145,207)	-	-	-	(145,207)	
At 31 March 2012	216,025,298	25,280,175	7,519,323	895,533	1,079,018	2,775,140	8,721,502	262,295,988	
Depreciation and impairment:									
At 1 April 2010	12,437,462	12,443,475	3,903,864	542,157	495,268	383,862	-	30,206,088	
Charge for the year	11,130,915	743,507	2,400,000	124,591	108,283	264,166		14,771,461	
At 31 March 2011	23,568,377	13,186,981	6,303,864	666,749	603,551	648,027	-	44,977,549	
Disposal	-	-	-	(144,749)	-	-	-	(144,749)	
Charge for the year	13,944,639	1,332,895	1,215,459	23,593	119,907	158,080	-	16,794,573	
At 31 March 2012	37,513,016	14,519,876	7,519,323	545,593	723,458	806,107	-	61,627,373	

Carrying amount

At 31 March 2012	178,512,282	10,760,299	(7,519,323)	349,940	355,560	1,969,032	8,721,502	200,668,615
At 31 March 2011	192,456,920	7,452,729	1,215,459	133,401	281,830	1,970,808	5,023,118	208,534,265

Aircraft with registration no 5H-PAG and 5H-PAA are mortgaged against banking facilities secured from Kenya Commercial Bank (T) Limited and Stanbic Tanzania Limited respectively. Refer Note 23 of the these financials statements.

During 2011, the Company engaged Ascend Online Values (V1) Portfolio Services, an accredited independent valuer, to determine the fair value of aircrafts.

Fair value is determined by reference to market based evidence. This means that valuations performed by the valuer are based on active market prices, adjusted for any difference in the nature, location or condition of the specific property. The date of revaluation was 31 March 2011.

If the aircrafts were measured using the cost model, the carrying amounts would be as follows:

	2012	2011
	AMOUNT	AMOUNT
	TZS '000	TZS '000
Cost	125,995,704	125,995,704
Accumulated depreciation and impairment	(36,699,318)	(23,568,377)
Carrying amount	89,296,386	102,427,327

PRECISION AIR SERVICES PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 MARCH 2012

15 PROPERTY AND EQUIPMENT-
COMPANY

	Aircraft TZS '000	Aircraft components TZS '000	Aircraft improvements TZS '000	Motor vehicles TZS '000	Computers TZS '000	Furniture, equipment & structures TZS '000	Work in progress (Hanger) TZS '000	Total TZS '000
Cost or valuation:								
At 1 April 2010	131,556,451	18,345,152	7,519,323	689,592	634,424	496,951	504,472	159,746,364
Revaluations	5,104,184	266,066	-	-	-	-	-	5,370,250
Additions	79,364,663	2,028,493	-	86,470	201,054	222,235	4,518,646	86,421,561
At 31 March 2011	216,025,298	20,639,710	7,519,323	776,062	835,478	719,186	5,023,118	251,538,175
Additions	-	4,640,465	-	240,590	193,637	156,304	3,698,384	8,929,380
Disposal	-	-	-	(145,207)	-	-	-	(145,207)
At 31 March 2012	216,025,298	25,280,175	7,519,323	871,445	1,029,115	875,490	8,721,502	260,322,348

Depreciation and impairment:

At 1 April 2010	12,437,462	12,443,475	3,903,864	542,157	495,268	383,862	-	30,206,088
Charge for the year	11,130,915	743,507	2,400,000	118,569	102,045	74,201	-	14,569,237
At 31 March 2011	23,568,377	13,186,981	6,303,864	660,727	597,313	458,062	-	44,775,325
Disposal	-	-	-	(144,749)	-	-	-	(144,749)
Charge for the year	13,944,639	1,332,895	1,215,459	17,571	113,669	(31,887)	-	16,592,346
At 31 March 2012	37,513,016	14,519,876	7,519,323	533,549	710,982	426,175	-	61,222,922

Carrying amount

At 31 March 2012	178,512,282	10,760,299	-	337,896	318,133	449,315	8,721,502	199,099,426
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At 31 March 2011	192,456,920	7,452,729	1,215,459	115,335	238,165	261,124	5,023,118	206,762,850
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Aircraft with registration no 5H-PAG and 5H-PAA are mortgaged against banking facilities secured from Kenya Commercial Bank (T) Limited and Stanbic Tanzania Limited respectively. Refer Note 23 of the these financials statements.

During 2011, the Company engaged Ascend Online Values (V1) Portfolio Services, an accredited independent valuer, to determine the fair value of aircrafts.

Fair value is determined by reference to market based evidence. This means that valuations performed by the valuer are based on active market prices, adjusted for any difference in the nature, location or condition of the specific property. The date of revaluation was 31 March 2011.

If the aircrafts were measured using the cost model, the carrying amounts would be as follows:

	2012 AMOUNT TZS '000	2011 AMOUNT TZS '000
Cost	125,995,704	125,995,704
Accumulated depreciation and impairment	(36,699,318)	(23,568,377)
Carrying amount	89,296,386	102,427,327

PRECISION AIR SERVICES PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED 31 MARCH 2012

	Group	Group	Company	Company
	<u>31-Mar-12</u>	<u>31-Mar-11</u>	<u>31-Mar-12</u>	<u>31-Mar-11</u>
	TZS '000	TZS '000	TZS '000	TZS '000
16 INTANGIBLE ASSETS				
<i>Computer software</i>				
<u>Cost</u>				
At 1 April	842,194	548,677	842,194	548,677
Additions	38,361	293,517	38,361	293,517
At 31 March	880,555	842,194	880,555	842,194
<u>Accumulated amortisation</u>				
At 1 April	581,989	413,550	581,989	413,550
Charge for the year	36,563	168,439	36,563	168,439
At 31 March	618,552	581,989	618,552	581,989
Carrying amount	262,003	260,205	262,003	260,205
17 INVENTORIES				
Aircraft spare parts	4,507,050	4,073,167	4,507,050	4,073,167
Fuel and stationeries	3,679,326	2,901,082	3,679,326	2,901,082
	8,186,377	6,974,249	8,186,377	6,974,249

There was no inventory written off during the year (2011: TZS Nil).

18 OTHER FINANCIAL ASSETS

SITA Global Investment	5,255	5,255	5,255	5,255
Aircraft security deposit	10,433,786	-	10,433,786	-
	10,439,041	5,255	10,439,041	5,255
-Current portion	(10,433,786)	(5,255)	(10,433,786)	(5,255)
-Non Current portion	5,255	-	5,255	-

SITA Global investment represents US \$ 4,000 advanced to SITA on loan basis to be reimbursed in ten equal annual installments beginning October 2003. The loan bears interest at the average LIBOR of the last five working days of the month preceding the period concerned.

The long term receivables relate to initial deposit made for new aircraft. The contractual deposit is only released upon return of the aircraft or delivery of the aircraft respectively. The additional deposit during the year was towards one leased aircraft and 5 new aircraft acquisition paid to ATR, KAI Schroder and Airplanes Finance.

The deposit do not attract any interest.

The movement in deposit is as follows:

At the beginning of the year	5,255	1,532,194	5,255	1,532,194
Additional deposit paid	10,433,786	-	10,433,786	-
Refunds in the year	-	(1,526,938)	-	(1,526,938)
At the end of the year	10,439,041	5,255	10,439,041	5,255

19 TRADE AND OTHER RECEIVABLES

Trade receivables - Third party	8,069,790	11,551,109	8,069,790	11,551,109
Less: Allowance for credit losses	(1,249,870)	(864,597)	(1,249,870)	(864,597)
	6,819,920	10,686,512	6,819,920	10,686,512
Trade receivables - Related party (Note 25)	758,767	-	3,117,949	1,157,334
Advances to suppliers	234,613	647,884	234,613	647,884
Inward bills control	5,883,971	3,386,216	5,883,971	3,386,216
Staff loans, advances and imprests	928,462	113,477	928,462	113,477
Other debtors	60,029	-	60,028	-
	14,685,762	14,834,089	17,044,943	15,991,423

The movement in the valuation of allowance for credit losses is set out below:

At 01 April	864,597	864,597	864,597	833,716
Addition	385,272	30,881	385,272	30,881
Utilised	-	(30,881)	-	-
At 31 March	1,249,870	864,597	1,249,870	864,597

Age analysis of trade receivables - third party

==> Neither past due nor impaired	6,238,789	10,672,450	6,238,789	10,672,450
==> Past due but not impaired - Above 90 days	581,133	14,063	581,133	14,063
==> Overdue and impaired - Greater than 150 days	1,249,868	864,597	1,249,868	864,597
	8,069,790	11,551,109	8,069,790	11,551,109

PRECISION AIR SERVICES PLC
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31
MARCH 2012

	Group	Group	Company	Company
	31-Mar-12	31-Mar-11	31-Mar-12	31-Mar-11
	TZS '000	TZS '000	TZS '000	TZS '000

19 TRADE AND OTHER RECEIVABLES (Continued)

Trade and other receivables comprise of the following amounts denominated in foreign currency:

United States Dollars	USD	3,457,269	5,701,794	3,457,269	5,701,794
Euro	EURO	486,667	151,228	486,667	151,228
Sterling Pound	GBP	259,600	197,952	259,600	197,952
Australian Dollars	UAD	46,304	-	46,304	-
Canadian Dollars	CAD	12,918	-	12,918	-
South African Rand	ZAR	342,227	211,331	342,227	211,331
Kenya Shillings	KES	265,437	326,834	265,437	326,834
		4,870,421	6,589,139	4,870,421	6,589,139

==> For terms and conditions relating to related party receivables, refer to Note 25.

==> Trade receivables are non-interest bearing and are generally on 30 - 90 day terms.

20 CASH AND CASH EQUIVALENTS

Cash and bank balances	6,618,856	8,857,140	6,618,856	8,857,140
Bank overdraft (Note 23)	(10,165,761)	(8,718,504)	(10,165,761)	(8,718,504)
	(3,546,905)	138,636	(3,546,905)	138,636

Cash and bank balances comprise of the following amounts denominated in foreign currency:

United States Dollars	USD	3,749,719	4,743,655	3,749,719	4,743,655
Euro	EURO	336,208	301,939	336,208	301,939
South African Rand	ZAR	638,281	103,994	638,281	103,994
Kenya Shillings	KES	98,160	177,208	98,160	177,208
		4,822,367	5,326,796	4,822,367	5,326,796

21 TAXATION

(a) **Tax (recoverable)/payable**

At 1 January	118,649	118,649	118,649	118,649
Payments during the year	(65,000)	-	(65,000)	-

Alternate minimum tax charge	-	-	-	-
Balance at 31 March	53,649	118,649	53,649	118,649

(b) **Income tax expense**

Current year tax	-	-	-	-
Alternate minimum tax	-	-	-	-
Deferred tax charge/(credit)	1,206,856	692,978	1,025,756	874,079
	1,206,856	692,978	1,025,756	874,079

Section 4(1) (a) of the income tax Act 2004 as amended requires corporations with perpetual loss status for three consecutive years on income as a result of tax investments to pay tax at the rate of 0.3% of the annual turnover of the third year in the period in which the corporation is in a loss. The company made tax profit for the current year ended 31 March 2012; hence, not liable to alternate minimum tax charge in year 2012.

(c) **Deferred tax**

Deferred tax liability

Accelerated depreciation for tax purposes	134,167,613	133,834,557	134,167,613	133,771,579
Revaluation surplus	10,930,996	10,930,996	10,930,996	10,930,996
	145,098,609	144,765,553	145,098,609	144,702,575

Deferred tax liability thereon at 25% (2011:30%)	36,274,652	43,429,666	36,274,652	43,410,772
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Deferred tax asset

Leave accrual	(253,126)	(638,268)	(253,126)	(638,268)
Cashflow hedging reserve	(24,639,502)	(14,543,635)	(24,639,502)	(14,543,635)
General impairment of receivables	(1,249,870)	(864,597)	(1,249,870)	(864,597)
Tax losses	(110,545,331)	(117,319,700)	(110,545,331)	(116,653,053)
	(136,687,829)	(133,366,201)	(136,687,829)	(132,699,554)

Deferred tax asset thereon at 25% (2011:30%)	(34,171,957)	(40,009,860)	(34,171,957)	(39,809,866)
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Net deferred tax liability	2,102,695	3,419,806	2,102,695	3,600,906
Less: Opening net deferred tax liability	3,419,806	5,478,844	3,600,906	5,478,844
Deferred tax release	(1,317,111)	(2,059,038)	(1,498,211)	(1,877,938)

Charged to:

Income statement	1,206,856	692,978	1,025,756	874,079
Equity	(2,523,967)	(2,752,016)	(2,523,967)	(2,752,016)
	(1,317,111)	(2,059,038)	(1,498,211)	(1,877,938)

PRECISION AIR SERVICES PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED 31 MARCH 2012

21 TAXATION (Continued)

(d) Reconciliation of tax expense to tax based on accounting profit:

Accounting profit before tax	1,840,653	1,555,524	2,231,877	2,159,194
Tax applicable rate of 30%	552,196	466,657	669,563	647,758

Tax effect on non taxable/non deductible items

Alternate minimum tax charge	-	-	-	-
Disallowable expenses	654,660	226,321	356,193	226,320
Tax expense/(credit)	1,206,856	692,978	1,025,756	874,079

(e) Final Tax assessments

The normal procedure for agreeing final income tax liability in Tanzania involves the company filing its final income tax returns with the Tanzania Revenue Authority (TRA) followed by TRA performing their own review of the company's submissions and issuing their notice of final income tax assessments to the company. The final income tax assessment may be determined by TRA after their review and possible site visit may differ from the assessments determined by the Company and procedures are in place for the company to object and appeal against the TRA assessments. It is common that a timeframe from the Company's own submission of its final tax returns and for TRA performing their reviews and issuing of notice of final tax assessment may take several months or years.

The Company has duly submitted its final tax returns for all previous years including 2011, with the final assessments for years prior to 2009 settled with the TRA.

The Company has received from TRA notices for the final assessments up to year 2008 which indicates tax losses of TZS 23,558,059,000 which has been agreed by the Company. Final assessments by TRA for financial years 2009, 2010, 2011 and 2012 have not been communicated to the Company by TRA.

The Company's final tax return for the financial year ended 31 March 2012 is not yet due until 30 September 2012 however, no liability are envisaged by management due to the tax loss position brought forward from previous years.

22 SHARE CAPITAL

Authorised:

242,000,000 Ordinary Shares of TZS 20/= each

(2011: 242,000,000 Ordinary Shares of TZS 20/= each)	4,840,000	4,840,000	4,840,000	4,840,000
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Issued and fully paid up:

160,469,800 Ordinary Shares of TZS 20/= each

(2011: 135,015,000 Ordinary Shares of TZS 20/= each)

3,209,396 2,700,300 3,209,396 2,700,300

Share premium

10,490,987 - 10,490,987 -

The Company realised share premium of TZS 11,583,226,000 from the IPO. Transaction costs amounting to TZS 1,092,238 were incurred and have been offset against the share premium account.

The shareholders of the Company as at 31 March 2012 were as follows:

<u>Name of shareholder</u>	<u>No. of shares</u>	<u>% Shares</u>	<u>Type</u>	<u>Nationality</u>
Michael N. Shirima	68,857,650	42.91%	Individual	Tanzanian
Kenya Airways Ltd	66,157,350	41.23%	Corporate	Kenyan
Precision Air Employee Share Option Scheme	1,765,300	1.10%	Corporate	Tanzanian
Damas Dismas Kamani	475,700	0.30%	Individual	Tanzanian
Fahad Saleh Nahdi	421,000	0.26%	Individual	Tanzanian
Shinyanga Emporium (1978) Ltd	400,000	0.25%	Corporate	Tanzanian
Tanzania Standard (News Papers) Ltd	300,000	0.19%	Corporate	Tanzanian
Quality Group Ltd	210,500	0.13%	Corporate	Tanzanian
Raj Chintan Kakkad	200,000	0.12%	Minor	Tanzanian
Shilpa Pratish Kakkad	200,000	0.12%	Individual	Tanzanian
Chintan Maganlal Kakkad	200,000	0.12%	Individual	Tanzanian
Dhiraj Chintan Kakkad	200,000	0.12%	Individual	Tanzanian
Pratish Maganlal Kakkad	200,000	0.12%	Individual	Tanzanian
Than Investments Ltd	200,000	0.12%	Corporate	Tanzanian
NICOL (T) Ltd	200,000	0.12%	Corporate	Tanzanian
Others	20,482,300	12.76%	Various	Tanzanian
	160,469,800	100.00%		

Revaluation Reserves

The revaluation reserve is used to record increases in the fair value of items of property, plant and equipment and decreases to the extent that such decrease relates to a reversal of an increase on the same class of assets previously recognised in equity.

PRECISION AIR SERVICES PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 MARCH 2012

23 INTEREST BEARING LOANS AND BORROWINGS

	Average Interest rate	Maturity	Group 31-Mar-12 TZS '000	Group 31-Mar-11 TZS '000	Company 31-Mar-12 TZS '000	Company 31-Mar-11 TZS '000
<u>Secured Bank term loans</u>						
Kenya Commercial Bank Limited-US\$	8.88%	30.10.2011	-	770,682	-	770,682
Citibank International Plc-US\$	4.28%	2008 - 2022	160,793,273	168,175,596	160,793,273	168,175,596
Kenya Commercial Bank Limited-US\$ (Hangar Loan)	9.00%	30.08.2015	6,007,255	3,637,357	6,007,255	3,637,357
Stanbic Tanzania Ltd-US\$ (Caravan)	5.50%	31.12.2012	2,485,253	901,252	2,485,253	901,252
Stanbic Tanzania Ltd-US\$	5.50%	31.12.2012	1,857,232	2,273,570	1,857,232	2,273,570
			171,143,012	175,758,457	171,143,012	175,758,457
<u>Unsecured term loan</u>						
Other -Ground handling - US\$	7.50%	30.03.2012	204,901	1,217,751	-	-
			171,347,913	176,976,208	171,143,012	175,758,457
<u>Secured Bank overdrafts</u>						
Kenya Commercial Bank - US\$	9.00%	on demand	3,355,211	3,688,283	3,355,211	3,688,283
Stanbic Bank (T) Limited - US\$	9.50%	on demand	6,810,551	5,030,221	6,810,551	5,030,221
			10,165,761	8,718,504	10,165,761	8,718,504

Grand total Interest Bearing loans and borrowings

Non-Current Interest bearing loans and borrowings

Current Interest bearing loans and borrowings

The movement in secured term loans is as follows:

At the beginning of the year

Additional loans received

Translation loss through cashflow hedging reserve

Repaid in the year

At the end of the year

As at year end, the overdraft facilities were fully utilised.

As at year end, the following term loan facility was undrawn:

*	Kenya Commercial Bank (Hangar loan-USD 5,794,973)	1,903,069	4,757,198	1,903,069	4,757,198
**	Stanbic Bank (Short term enhanced loan-US\$ 1,300,000)	378,420	209,375	378,420	209,375
**	Stanbic Bank (Short term revolving loan -US\$ 700,000)	210,977	152,832	210,977	152,832

181,513,675 **185,694,712** **181,308,774** **184,476,961**

148,707,735 155,136,749 148,707,735 155,136,748

32,805,940 30,557,963 32,601,039 29,340,213

181,513,675 **185,694,712** **181,308,774** **184,476,961**

176,976,208 99,945,646 175,758,457 99,945,646

7,454,941 86,983,330 7,454,941 84,855,849

10,095,867 14,543,635 10,095,867 14,543,635

(23,179,103) (24,496,403) (22,166,253) (23,586,672)

171,347,913 **176,976,208** **171,143,012** **175,758,457**

- * The loan has been approved for construction of hangar project. The loan is secured by mortgage over hangar property to be constructed at Mwalimu Julius Nyerere International Airport for entire exposure to the tune of US\$ 9,795,000
- ** The two Stabic Bank loans have been approved for enhancement of existing facilities. The loan is secured by mortgage over the debentures pledged on the original borrowings.

KCB Limited: Loan -US\$ 4,005,000 and Overdraft - US\$ 2,000,000

The loan was granted for the purpose of paying off the loan existing at East African Development Bank Limited (EADB) and is payable over 6 years.

The facilities are secured by Chattels Mortgage over:

- ATR 42 No. 5H PAG to secure entire exposure to the tune of US\$ 9,795,000
- Debenture over floating assets to the maximum exposure of US\$ 9,795,000
- Assignment over monthly BSP receivables
- Insurance cover with bank's interest registered

Stanbic Bank Ltd: Loan - US\$ 3,180,076 and Overdraft - US\$ 4,000,000

The loan was granted for the purpose of purchasing one ATR 72 aircraft.

The facilities are secured by:

- Single debenture dated 2 April 2003 creating a first ranking fixed charge over the aircraft ATR 42-320 Registration No. 5H-PAA for US\$ 4,934,000
- Debenture over floating assets plus aircraft components ,excluding assets specifically encumbered to other lenders ,registered for US\$ 1,424,750
- Comprehensive insurance policy for the full replacement value over all assets which the bank holds as security with an insurance company approved by the bank where in the Bank is noted as First Loss Payee.

PRECISION AIR SERVICES PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)
FOR THE YEAR ENDED 31 MARCH 2012

23 INTEREST BEARING LOANS AND BORROWINGS (Continued)

Citibank International Plc loan in the aggregate amount of US\$ 127,000,000

- The purpose of the loan is to finance the acquisition of 5 ATR 72-500 and 2 ATR42-500.
- 7 Aircraft have been delivered.
- The loan is secured by the aircrafts that have been delivered.

- Seven aircraft in the Precision Air Fleet are registered in the name of Swala Leasing and Finance Limited. Swala Leasing and Finance limited is a fully owned subsidiary of Maples Fiduciary Services (Ireland) Ltd which holds the one share issued by Swala Leasing and Finance Limited in trust for the benefit of a qualified charity in accordance with the terms of the Declaration of Trust. The aircraft are encumbered by charges in favour of Citibank International Plc, and the legal title for the aircraft is to be transferred to Precision Air Services Limited once the Citibank loans are fully repaid.

24 TRADE AND OTHER PAYABLES

Trade payables - third parties

Group	Group	Company	Company
31-Mar-12	31-Mar-11	31-Mar-12	31-Mar-11
TZS '000	TZS '000	TZS '000	TZS '000
24,154,444	18,722,244	24,154,444	18,722,244

Trade payables - related parties (Note 25)	9,727	10,091	9,727	10,091
Advances from customers	21	66,025	21	66,025
Sales in advance of carriage	1,004,079	4,550,332	1,004,079	4,550,332
Accruals and other creditors	13,499,535	12,728,901	13,499,535	12,728,902
	38,667,806	36,077,593	38,667,806	36,077,594

Trade and other payables comprise of the following amounts denominated in foreign currency:

United States Dollars	USD	10,618,471	10,286,872	10,618,471	10,286,872
Euro	EURO	689,015	20,737	689,015	20,737
Great Britain Pound	GBP	73,210	197,612	73,210	197,612
South African Rand	ZAR	669,018	7,276	669,018	7,276
Kenya Shillings	KES	108,946	72,578	108,946	72,578
		12,158,659	10,585,074	12,158,659	10,585,074

For terms and conditions relating to related party payables, refer to Note 25.

Trade and other payables are non-interest bearing and are normally settled within three months.

The carrying values of trade and other payables are assumed to approximate their fair values due to the short term nature of trade receivables and payables.

25 RELATED PARTY DISCLOSURES

(i) Key management remuneration

Short term benefits	263,273	263,273	263,273	263,273
Post employment benefits	7,927	7,927	7,927	7,927
Directors allowances	50,085	40,800	50,085	40,800
	321,285	312,000	321,285	312,000

Key Management personnel include the Managing Director and Chief Executive Officer.

(ii) **Purchases and other transactions from related parties during the year**

Kenya Airways Limited	15,860,581	17,915,304	15,860,581	17,915,304
Ngaleku Childrens Home Contribution	4,467	5,260	4,467	5,260

(iii) **Sales and other transactions to related parties during the year**

Kenya Airways Limited	465,362	4,624,322	465,362	4,624,322
Ngaleku Childrens Home Contribution	-	-	-	-

Kenya Airways Limited owns 41.23 % of the ordinary shares of Precision Air Services Limited as is common throughout the airline industry, Precision Air Services Limited and Kenya Airways Limited from time to time carry each other's passengers travelling on the other airline's tickets. The settlement between the two carriers is actioned through IATA Clearing House (ICH) of which both airlines are members.

The transactions carried out with Kenya Airways Limited relate inter-line services and advances.

Huduma Exim Limited and Rombo Millers Company Limited are owned by Mr. Michael N. Shirima, the board Chairman and 42.91 % stake holder in the company. Ngaleku Childrens Home Contribution is a related part by virtue of the board Chairman being a Trustee.

Precision Handling Limited was incorporated in Tanzania during the year 2010 and 100 % of its share capital is held by the Company. The subsidiary provides ground handling services to Precision Air Services Limited and is yet to obtain a licence to also serve other airlines. The outstanding balance relates to loan principal and interest repayments on behalf of the subsidiary.

PRECISION AIR SERVICES PLC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued) FOR THE YEAR ENDED 31 MARCH 2012

Group	Group	Company	Company
31-Mar-12	31-Mar-11	31-Mar-12	31-Mar-11
TZS '000	TZS '000	TZS '000	TZS '000

25 RELATED PARTY DISCLOSURES (Continued)

Balances outstanding on account of transactions with related parties are as follows: -

(i)	Balances due from related parties				
	Precision Ground Handling Limited	-	-	2,359,182	1,157,334
	Kenya Airways Limited	758,767	-	758,767	-
		758,767	-	3,117,949	1,157,334
(ii)	Balances due to related parties				
	Ngaleku Childrens Home Contribution	9,727	5,260	9,727	5,260
	Kenya Airways Limited	-	3,765	-	3,765
	Huduma Exim Limited	-	1,066	-	1,066
		9,727	10,091	9,727	10,091

Terms and conditions of transactions with related parties:

The sales to and purchases from related parties are made at market prices. Outstanding balances at the period end are unsecured, interest and settlement occurs in cash. There has been no guarantee provided or received for any related party receivable or payables. For the year ended 31 March 2012 the Company has not recorded any impairment of receivables relating to amount owed by related parties (March 2011: Nil). The assessment is undertaken each financial year through examining the financial position of the related party and the market in which the related party operates.

26 LEASE COMMITMENTS

Operating lease

The aggregate payments for which the Company has commitments under operating leases at the end of the year fall due as follows:

As at the end of the year the company had two leased aircraft (2011: only one leased aircraft)

Within one year	5,059,157	2,709,000	5,059,157	2,709,000
After one year but not more than five years	17,372,956	8,127,000	17,372,956	8,127,000
More than five years	-	-	-	-
	22,432,113	10,836,000	22,432,113	10,836,000

The aircraft fleet lease rentals are fixed and payable monthly throughout the lease period. The lease agreement do not provide for purchase options on expiry of the lease term and no restrictions have been imposed by the lessor on the company in respect of dividend payouts, borrowings or further leasing.

27 OTHER COMMITMENTS

Guarantee

In the ordinary course of business, the Group has standby letter of credit and bank guarantee with Stanbic Bank (T) Limited with a limit amount of US\$ 1,000,000 and US\$ 1,300,000 respectively.

Capital commitment

On 26th January 2010, the Company signed an agreement with Catic International Engineering (T) Limited for the erection and completion of hangar complex at Mwalimu Julius Nyerere International Airport. The remaining construction work will cost US\$ 1.9 Million (TZS 3.02 billion).

28 CONTINGENCIES

Legal claims

As at 31 March 2012, the Group is a defendant in the following legal actions:

- **Moshi District Court [Civil Case No. 4/2007]: Pastory Timira Vs PRECISION AIR SERVICES PLC & Kenya Airways Limited (KA).**

This is a suit against the Group and Kenya Airways by a passenger claiming damages to the tune of over TZS 80 million as damages for loss of luggage on the Hong Kong-Nairobi-Kilimanjaro route.

- **Misc. Commercial [Case No. 7/2010]: Interpremier Holding (T) Limited Vs PRECISION AIR SERVICES PLC:**

A non- Tanzanian Company known as Flair Aviation is claiming an amount of USD 238,774.51 from the Group as outstanding aircraft-leasing charges. The claimant has filed a petition in court applying for the winding up of the Company. Legal consultants however advise that (i) the petition stands little chance of success since the statutory circumstances upon which a company can be wound up for failure to pay its debts do not exist in this case, (ii) the claimed amount is seriously contested and (iii) in the unlikely event of the entire claim being proven in court the Group has the financial ability to settle before a winding-up decision is made.

- **Labour Dispute [No. 49/2008]: Kato Samwel Kilungu & 20 Others Vs the Company**

In this case three ex-employees of the Group are claiming a total of over TZS 200 million (approximately USD 150,000) as overtime allowance not paid.

The Group has been advised by its legal counsel that it is only possible, but not probable, that the actions will succeed and accordingly no provision for any liability has been made in these financial statements.

No provision has been made as professional advice indicates that it is unlikely that any significant loss will arise if there were any rulings against the Group.

The Directors are not aware of any other major contingent liabilities that are required to be disclosed or recorded in accordance with International Financial Reporting Standards.

29 EMPLOYEES

Number of employees for the Group at the end of the year was 704 (2011: 657).

30 EARNINGS PER SHARE

- Basic earnings per share is calculated on the profit or loss after tax attributable to ordinary equity holders by the weighted average number of ordinary shares outstanding during the year. This is calculated by dividing (loss)/ profit for the year (after tax) by the number of issued and fully paid ordinary shares i.e. 160,469,800 (2011: 135,015,000)
- Diluted earnings per share is calculated on the profit or loss after tax attributable to ordinary equity holders by the weighted average number of ordinary shares outstanding after adjustment of dilutive potential ordinary shares.
- The basic and diluted earnings per share are the same as there are no convertible instruments.

31 FINANCIAL RISK MANAGEMENT

The Group's principal financial instruments comprise treasury loans and trade payables. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various financial assets such as trade receivables and cash and short-term deposits, which arise directly from its operations.

The main risks arising from the Group's financial instruments are cash flow interest rate risk, liquidity risk, foreign currency risk and credit risk. The board reviews and agrees policies for managing each of these risks which are summarised below.

a Liquidity risk

Liquidity risk is the risk that suitable sources of funding for the Group's business activities may not be available and thus the Group being unable to fulfil its existing and future cash flow obligations.

The Group's liquidity is managed by forecasting the cash and currency requirements. In managing its liquidity risk, the Group has access to a wide range of funding at competitive rates through banks.

The amounts disclosed in the table below are the contractual undiscovered cash flows.

	On demand TZS' Million	Less than 1 year TZS' Million	Between 1 year and five years TZS' Million	After five years TZS' Million
At 31 March 2012				
Interest bearing borrowings	10,166	34,711	83,898	68,389
Trade and other payables	-	38,668	-	-
	<u>10,166</u>	<u>73,379</u>	<u>83,521</u>	<u>68,389</u>
At 31 March 2011				
Interest bearing borrowings	8,719	29,437	114,471	102,566
Trade and other payables	-	36,078	-	-
	<u>8,719</u>	<u>65,515</u>	<u>114,471</u>	<u>102,566</u>

31 FINANCIAL RISK MANAGEMENT (Management)

b Treasury risk management

The Group operates a treasury function to provide competitive funding costs, invest and monitor financial risk. The Group does not use derivative financial instruments for speculative purposes.

c Foreign currency risk

The Group can experience adverse or beneficial effects arising from foreign exchange rate movements. The Group seeks to reduce foreign exchange exposures arising from transactions in various currencies through a policy of matching, as far as possible, receipts and payments in each individual currency. Surpluses of convertible currencies are sold, either spot or forward, for US dollars or Tanzanian Shillings.

As at the reporting date the Group held significant foreign currency exposure resulting mainly from loans denominated in United States dollars.

Foreign currency risk is managed at an operational level and monitored by the Finance Department. The Group utilises its US dollar debt repayments as a hedge of future US dollar revenues.

The following table demonstrates the sensitivity of financial instruments to a reasonably possible change in the US dollar exchange rates, with all other variables held constant, on equity. Exposure to other foreign currencies is not material.

	Increase/decrease in the value of TZS vs. US Dollar	Effect on profit TZS'000	Effect on equity TZS'000
Net effect based on statement of financial position as at 31 March 2012	+10%	-18,472,000	-13,854,000
	-10%	+18,472,000	+13,854,000
Net effect based on statement of financial position as at 31 March 2011	+10%	-18,432,000	-12,902,400
	-10%	+18,432,000	+12,902,400

31 FINANCIAL RISK MANAGEMENT (Management)

d Interest rate risk

The Group has adopted a non- speculative approach to the management of interest rate risk. For the past twelve months, there have been no significant changes in interest rates obtained by the Group from its Bankers for its loans and borrowings. Furthermore, no significant change in interest rates is expected for the coming twelve months.

The following table demonstrates the sensitivity to possible changes in interest, with all other variables held constant, of the Group's profit before tax and equity:

	Increase/ decrease in interest rate	Effect on profit before tax	Effect on equity
		TZS'000	TZS'000
Net effect based on statement of financial position as at 31 March 2012	+1 %	-75,733	-75,733
	-1 %	+75,733	+75,733
Net effect based on statement of financial position as at 31 March 2011	+1 %	-71,867	-71,867
	-1 %	+71,867	+71,867

e Credit risk management

Credit risk is the risk that a customer or counter party to a financial instrument will fail to perform or fail to pay amounts due causing financial loss to the Group. Potential concentration of credit risk consists principally of short term cash and cash equivalents, and trade receivables. The Group deposits short term cash surpluses only with major banks of high credit standing.

The Group has a credit policy that is designed to ensure that consistent processes are in place throughout the Group to measure and control credit risk. Credit risk is considered as part of the risk-reward balance of doing business. On entering into any business contract the extent to which the arrangement exposes the Group to credit risk is considered. Key requirements of the policy are formal delegated authorities to the sales and marketing teams to incur credit risk and to a specialized credit function to set counterparty limits;

Trade account receivables comprise a widespread customer base. Ongoing credit evaluation of the financial position of customers is performed. The granting of credit is made on application and is approved by the directors.

Trade receivables are presented net of allowance for doubtful debts. Accordingly, the Group has no significant concentration of credit risk which has not been insured or adequately provided for.

31 FINANCIAL RISK MANAGEMENT (Management)

e Credit risk management (Continued)

With respect to the trade and other receivables that are neither impaired nor past due, there are no indications as of the reporting date that the debtors will not meet their payment obligations.

The analysis of trade and other receivables is as per note 19.

Maximum exposure

The amount that best represents the Group's maximum exposure to credit risk at 31 March 2012 is made up of as follows:

	2012 TZS'000	2011 TZS'000
Cash and cash equivalents	6,618,856	8,857,140
Trade receivables and other receivables	14,685,762	14,834,089
Other financial assets	<u>10,439,041</u>	<u>5,255</u>
	<u>31,743,659</u>	<u>23,696,484</u>

f Fuel price risk

The Group's fuel risk management strategy aims to provide the airline with protection against sudden and significant increases in oil prices. To meet this objective, the Group's strategy is to charge fuel surcharge for every ticket sold.

32 HEDGES

Cash flow hedges

At 31 March 2012 the Group and Company held one principal risk management activity that was designated as hedges of future forecast transactions. These was a hedge of a proportion of future long-term revenue receipts by future debt repayments in foreign currency hedging future foreign exchange risk. To the extent that the hedge was assessed as highly effective, the amounts included in equity as detailed below:

	2012 TZS'000	Charged to other comprehensive income TZS'000	2012 TZS'000
Debt repayments to hedge future revenue	(14,543,635)	(10,095,867)	(24,639,502)
Related deferred tax charge	4,363,091	3,028,760	7,391,851
Total amount included within equity	<u>(10,180,544)</u>	<u>(7,067,107)</u>	<u>(17,247,651)</u>

There was no ineffective portion of the hedge during the year (2011: Nil).

33 FAIR VALUE OF FINANCIAL INSTRUMENTS

Set out below is the carrying amounts and fair value of the Group's financial instruments that are carried in the financial statements.

	Fair values		Carrying amount	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
	<u>TZS'000</u>	<u>TZS'000</u>	<u>TZS'000</u>	<u>TZS'000</u>
<u>Financial assets</u>				
Trade and other receivables	14,685,762	14,834,089	14,685,762	14,834,089
Other financial assets	10,439,041	5,255	10,439,041	5,255
Cash and short-term deposits	6,618,856	8,857,140	6,618,856	8,857,140
<u>Financial liabilities</u>				
Interest bearing loans and borrowings	181,513,675	185,694,712	181,513,675	185,694,712
Trade and other payables	38,667,806	36,077,593	38,667,806	36,077,593

Held to maturity financial assets, other receivables, fixed deposits with financial institutions; cash and bank balances and other payables are at amortised cost and their carrying amounts approximate their fair values as they have variable interest rate and the rates are market related.

The fair value of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The Group did not have at the reporting date any financial assets and liabilities measured at fair value.

The following methods and assumptions were used to estimate the fair values.

- Other financial assets, cash and short-term deposits, trade and other receivables, bank overdraft and trade and other payables approximate their carrying amounts largely due to the short-term maturities of these instruments.
- The fair value of interest bearing loans and borrowings is estimated by discounting future cash flows using rates currently available for debt or similar terms and remaining maturities.

34 CAPITAL MANAGEMENT DISCLOSURES AND ANALYSIS OF CHANGES IN NET DEBT

The Group defines capital as the total equity of the Group. The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholder value.

The Group is not subject to any externally imposed capital requirements. The Group manages its capital structure and adjusts it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group aims to maintain capital discipline in relation to investing activities and may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies, or processes during the years end 31 March 2012 and 31 March 2011.

The Group monitors capital using a gearing ratio, which is net debt divided by total equity plus net debt. The Group includes within net debt, interest bearing loans and borrowings, trade and other payables, less cash and cash equivalents. All components of equity are included in the denominator of the calculation.

At 31 March 2012, the net debt ratio was 91.80% (2011: 93.41%). The Group does not have a targeted debt ratio.

	2012 TZS'000	2011 TZS'000
<u>Gross debt</u>		
Interest bearing loans and borrowings	181,513,675	185,694,712
Trade and other payables	38,667,806	36,077,593
Cash and bank balances	(6,618,856)	(8,857,140)
Net Debt	213,562,625	212,915,165
Equity	19,081,980	15,020,000
 Capital and net debt	 232,644,605	 227,935,165
 Net Debt Ratio	 91.80%	 93.41%

35 SUBSEQUENT EVENTS

There are no subsequent events that have occurred which are either to be disclosed or to be adjusted in the financial statements that could materially affect the financial statements.

36 CHANGE IN NAME OF THE COMPANY

Following the successful listing of the Company during the year, the name of the Company changed to Precision Air Services Plc.

From 18th May 2012

LUSAKA, LUBUMBASHI

2hrs \$599

Return Tax Inclusive
3 x a week

Departure 10:30, Wednesday,
Friday and Sunday

For further details, please contact Precision Air Offices Tel: +255 787 888 409/408/417 or your favourite travel agent

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