CYPRUS AIRWAYS PUBLIC LIMITED

ANNUAL REPORT 2010

C O N T E N T S

CYPRUS AIRWAYS PUBLIC LIMITED

REPORT, CONSOLIDATED AND COMPANY'S
SEPARATE FINANCIAL STATEMENTS

FOR THE YEAR ENDED
31 DECEMBER 2010

CYPRUS AIRWAYS PUBLIC LIMITED

REPORT, CONSOLIDATED AND COMPANY'S SEPARATE FINANCIAL STATEMENTS

For the year ended 31 December 2010

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CYPRUS AIRWAYS PUBLIC LIMITED

BOARD OF DIRECTORS, PROFESSIONAL ADVISERS AND BANKERS

Board of Directors

George Mavrocostas, Executive Chairman (appointed on 16 December 2010)
Kikis Lazarides (resigned on 4 August 2010)
Charalambos Alexandrou
Michalis Antoniou
Andreas Chrysafis (appointed on 16 December 2010)
Kypros Ellinas
George Georghiou
Marios Hadjigavriel (appointed on 16 December 2010)
George Kallis (re-elected on 17 June 2010)
Constantinos (Akis) Lefkaritis (re-elected on 17 June 2010)
Christos Patsalides (resigned on 16 December 2010)
Andreas Philippou
Pavlos Photiades (re-elected on 17 June 2010)
Marios Xenophontos (resigned on 13 July 2010)

Secretary

George Spyrou, Barrister-at-law

Independent Auditors

KPMG Limited

Legal Advisers

Chryssafinis & Polyviou

Bankers in Cyprus

Bank of Cyprus Public Company Limited
Marfin Popular Bank Public Co Limited
Hellenic Bank Public Limited
National Bank of Greece (Cyprus) Limited
Alpha Bank Cyprus Limited
Eurobank EFG Cyprus Limited
JP Morgan Chase & Co.

Registered Office

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CYPRUS AIRWAYS PUBLIC LIMITED

STATEMENT OF THE MEMBERS OF THE BOARD OF DIRECTORS AND THE COMPANY OFFICIAL RESPONSIBLE FOR THE CONSOLIDATED AND COMPANY'S SEPARATE FINANCIAL STATEMENTS

In accordance with Article 9 sections (3)(c) and (7) of the Transparency Requirements (Traded Securities in Regulated Markets) Law of 2007 ("Law") we, the members of the Board of Directors and the Company official responsible for the consolidated and Company's separate financial statements of Cyprus Airways Public Limited for the year ended 31 December 2010, confirm that, to the best of our knowledge:

a) the annual consolidated and Company's separate financial statements which are presented on pages 10 to 60:
   (i) were prepared in accordance with International Financial Reporting Standards as adopted by the European Union and in accordance with the provisions of Article 9 section (4) of the Law, and
   (ii) give a true and fair view of the assets and liabilities, the financial position and the profit or losses of Cyprus Airways Public Limited and the businesses that are included in the consolidated and Company's separate financial statements as a total, and

b) the Directors' report gives a fair review of the developments and the performance of the business as well as the financial position of Cyprus Airways Public Limited and the businesses that are included in the consolidated and Company's separate financial statements as a total, together with a description of the principal risks and uncertainties which they are facing.

Members of the Board and Company official responsible for the consolidated and Company's separate financial statements

George Mavrocostas	Executive Chairman
Charalambos Alexandrou	Non-Executive Director
Michalis Antoniou	Non-Executive Director
Andreas Chrysafis	Non-Executive Director
Kypros Ellinas	Non-Executive Director
Georghios Georghiou	Non-Executive Director
Marios Hadjigavriel	Non-Executive Director
George Kallis	Non-Executive Director
Constantinos (Akis) Lefkaritis	Non-Executive Director
Andreas Philippou	Non-Executive Director
Pavlos Photiades	Non-Executive Director
Eleni Kaloyirou	Deputy Chief Executive Officer

Nicosia, 6 April 2011

CYPRUS AIRWAYS PUBLIC LIMITED

BOARD OF DIRECTORS' REPORT

The Board of Directors of Cyprus Airways Public Limited (the "Company") presents to the members its annual report and the audited consolidated and Company's separate financial statements for the year ended 31 December 2010.

Principal activities

The principal activities of the Group, as well as of the Company, which have not changed since last year, are the transportation of passengers and cargo and other airline related services.

Results

The results of the Group for the year ended 31 December 2010 are summarised below:

	€'000
Continuing operations	
Revenue	236.312
Operating expenses	(259.773)
Other income	18.573
Operating loss	(4.888)
Net finance income	1.915
Loss before tax	(2.973)
Tax	(181)
Loss from continuing operations	(3.154)
Discontinued operations	
Profit from discontinued operations	3.386
Profit for the year	232
Basic and diluted profit per share - €cents	0,06

Review of the Group's current position and performance

The Group made a profit for the year of €232 thousand in comparison to a loss of €3,3 million last year. This change is mainly due to the compensation received from the Government for the prohibition to overfly Turkish airspace for the years 2004-2010 as well as from the sale of the subsidiary Zenon N.D.C. Limited. Revenue for the year reduced significantly as a result of the reduction in passenger revenue due to the decrease in yields despite the increase in passenger numbers.

Future prospects and development potential

The current year is characterized by the continuing effects of the global financial crisis, the instability in the energy sector, the constant currency fluctuations and in particular those of the US Dollar and the Euro, the increase in unemployment and labour insecurity mainly in Europe. All these factors have a direct impact on the Company which is closely monitoring the situation and works out plans in order to be able to respond to emerging developments.

In order to secure its long term viability an action plan has been prepared by the Company. In this respect both the Board of Directors of the Company and the Trade Unions have accepted the Mediation Proposal of the Minister of Labour for employee concessions for 2011 and a compensation scheme for redundant staff. The renewal of the collective agreements as from 2012, where an attempt will be made to eliminate the distortions in the existing ones, is also expected to contribute towards the further reduction of the Company's operating costs. The fulfillment of the Company's just claim towards the Government for the payment of compensation for the continuing prohibition of its flights over Turkish airspace contributed towards correcting to some extent the existing distortions to healthy competition and at the same time improved the Company's liquidity in such a way as to enable it to meet its obligations as they fall due.

Future prospects and development potential (continued)

Significant adjustments have been made to the Company's flight schedule so that it is streamlined and loss making routes are limited.

The renewal of the A320 fleet which is in its final stages, in the context of which as already announced on 3 March 2011 the Company has sold one A320 aircraft for US$ 6 million at a profit of €1,6 million, as well as the decision for the sub-leasing of one of the two A330 aircraft, are expected to yield significant financial benefits for the Company both in terms of profitability and liquidity.

Main risks and uncertainties

The Group is operating in a highly competitive and constantly changing environment. The Group's future performance is subject to a variety of factors some of which are beyond its control. A crucial factor for the Group's future is the continuous effort to contain costs and increase productivity which to a great extent is within the Group's control. It should be noted however that there are important areas, such as the intensity of competition, the continuing global financial crisis, changes in economic conditions, fluctuations in currencies and interest rates, the price of jet fuel, acts of terrorism or war and upheavals in labour relations, which the Group has no or limited ability to influence and which have the potential to adversely affect the effort to secure the long term viability of the Group.

The Group's and the Company's exposure to various risks as well as ways of addressing and managing those risks are disclosed in note 36 of the consolidated and Company's separate financial statements.

Dividend

In accordance with Regulation 110(2) of the Company's Articles of Association, an amount of not less than ten per cent of the Company's available profits for the year shall be distributed to the shareholders as dividend. Section 169A(1) of the Companies Law, Cap 113 prohibits dividend distribution when the net assets of a public company on the closing date of the last financial year are lower than the total of paid up share capital and non distributable reserves, as is the case with the Company as at 31 December 2010.

In view of the above, the Board of Directors does not recommend the payment of a dividend and the profit for the year is transferred to accumulated losses.

Share capital

There were no changes in the share capital of the Company during the year.

Extraordinary General Meeting

On 13 October 2010 an Extraordinary General Meeting of the shareholders was held in accordance with the provisions of Article 169F of the Companies Law to provide a briefing and take necessary decisions, during which a special resolution was approved that, given the present financial condition of the Company, as shown in the announcement of the six-monthly results of the Company, the Company continues its operations in the best possible way under the circumstances.

Board of Directors

The Members of the Board of Directors are presented on page 1. The Company's Board of Directors consists of eleven Directors, eight of which, including the Chairman, are appointed by the Government and the remaining three are elected by the Private Shareholders.

CYPRUS AIRWAYS PUBLIC LIMITED

BOARD OF DIRECTORS' REPORT (continued)

Board of Directors (continued)

Messrs George Kallis, Constantinos (Akis) Lefkaritis and Pavlos Photiades were re-elected as members of the Board at the Separate General Meeting of the Private Shareholders, which took place on 17 June 2010. The term of office of the above mentioned Directors expires on the day of the Separate General Meeting of the Private Shareholders of the Company, which will be held on the same day as the Annual General Meeting after the end of the latter. Elections will be held at the Separate General Meeting of the Private Shareholders to fill three vacancies in the Board of Directors.

Messrs Andreas Chrysafis and Marios Hadjigavriel were appointed as Directors by the Government on 16 December 2010 in place of Messrs Christos Patsalides who resigned on the same date and Marios Xenophontos who resigned on 13 July 2010.

Mr George Mavrocostas was appointed as Executive Chairman on 16 December 2010 in place of Mr Kikis Lazarides who resigned on 4 August 2010.

Significant agreements with key management personnel

At the reporting date there were no significant agreements between the Group or the Company and key management personnel.

Directors' interest in the share capital of the Company

As at 31 December 2010 and at the date of approval of the consolidated and Company's separate financial statements, the beneficial interest in shares of the Company's Directors is presented in note 38 of the consolidated and Company's separate financial statements.

Shareholders holding more than 5% of the share capital of the Company

As at 31 December 2010 and at the date of approval of the consolidated and Company's separate financial statements the shareholders holding more than 5% of the Company's issued share capital, directly or indirectly, are set out below:

	6 April 2011 %	31 December 2010 %
Government of the Republic of Cyprus	69,57	69,57

Statement on Corporate Governance

The Board of Directors has adopted the Code of Corporate Governance (the "Code") of the Cyprus Stock Exchange ("CSE") which is available on the CSE website, www.cse.com.cy.

At present, the Corporate Governance Code is not fully implemented. There are specific provisions of the Code which cannot be adopted since they are contrary to and/or do not accord with the provisions of the Articles of Association of the Company, based on which the Government of the Republic, as the major shareholder in the Company, enjoys special rights and privileges. These special rights of the Government relate mainly to the appointment of Directors by the Government and the length of their tenure.

Furthermore, no separation exists at present in the Articles of Association of the Company between the positions of the Chairman of the Board of Directors and the Chief Executive Officer.

There are also some other deviations from the Code and the Board of Directors will endeavor to remedy these as soon as practicable.

CYPRUS AIRWAYS PUBLIC LIMITED

BOARD OF DIRECTORS' REPORT (continued)

Statement on Corporate Governance (continued)

The Board of Directors ensures through effective internal audit and risk management procedures the collection of the necessary items for the preparation of the periodic reporting required for listed companies.

The Company is governed by the Board of Directors, which comprises eleven members. The Board of Directors meets at frequent intervals and as a result the number of annual Board meetings greatly exceeds the minimum of six meetings specified by the Code. Four of the Directors are non-independent and the remaining seven are independent.

The emoluments and other benefits of the Directors of the Company are presented in the table below:

Directors	Emoluments €	Other benefits €	Total €
George Mavrocostas	3.555	-	3.555
Kikis Lazarides	815	5.143	5.958
Charalambos Alexandrou	1.367	4.201	5.568
Michalis Antoniou	1.367	1.057	2.424
Andreas Chrysafis	56	-	56
Kypros Ellinas	1.367	3.706	5.073
George Georghiou	1.367	2.324	3.691
Marios Hadjigavriel	56	-	56
George Kallis	1.367	3.122	4.489
Constantinos (Akis) Lefkaritis	1.367	1.083	2.450
Christos Patsalides	1.311	2.666	3.977
Andreas Philippou	1.367	4.425	5.792
Pavlos Photiades	1.367	7.205	8.572
Marios Xenophontos	732	2.756	3.488
Total	**17.461**	**37.688**	**55.149**

The Government and Private Shareholders are represented in the Board of Directors pro rata to their shareholding. On the basis of the present shareholding percentages, the Government appoints eight Directors, including the Chairman, for an indefinite term and the Private Shareholders elect three Directors for a term of one year who are eligible for re-election. The Government may at any time revoke the appointment or replace any one of the Directors it has appointed. In consequence of these statutory provisions there can be no compliance with the provisions of Article A.5 of the Code.

The Board of Directors can proceed with the issue of shares following an ordinary resolution from the Company shareholders. For the repurchase of Company shares a special resolution from the Company's shareholders is required, in accordance with the provisions of Article 57A of the Companies Law.

Pursuant to the Articles of Association of the Company, the Board does not have the power to appoint new Directors, and therefore no Nominations Committee has been set up.

According to current Company practice, and due to the special nature and complexity of the operations of an airline such as Cyprus Airways, a large number of important issues relating to the operation of the Company are discussed or decided upon at Board level. Additionally the Board of Directors has set up committees entirely composed of or including Directors for the review and handling of various matters.

The Report on Corporate Governance, which is set out in the annual report, has been prepared in accordance with the provisions of the Code and includes the above mentioned explanations, as well as the information required by Article 5 of the Directive DI 190-2007-04 of the Cyprus Securities and Exchange Commission.

Events after the reporting period

Events after the reporting period are clearly set out in note 40 of the consolidated and Company's separate financial statements.

Ticketing offices

The Company operated thirteen ticketing offices in Cyprus and abroad during the year.

Independent Auditors

The Independent Auditors of the Company, KPMG Limited have expressed their willingness to continue in office. A resolution authorising the Board of Directors to fix their remuneration will be submitted at the Annual General Meeting.

By order of the Board,

George Spyrou
Secretary

Nicosia, 6 April 2011

KPMG

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INDEPENDENT AUDITORS' REPORT

TO THE MEMBERS OF

CYPRUS AIRWAYS PUBLIC LIMITED

Report on the Consolidated and Company's Separate Financial Statements

We have audited the consolidated financial statements of Cyprus Airways Public Limited (the "Company") and its subsidiaries (the "Group") and the Company's separate financial statements on pages 10 to 60 which comprise statements of financial position of the Group and the Company as at 31 December 2010, and the statements of comprehensive income, changes in equity and cash flows of the Group and the Company for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Board of Directors' Responsibility for the Consolidated Financial Statements

The Board of Directors of the Company is responsible for the preparation of consolidated and Company's separate financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union (EU) and the requirements of the Cyprus Companies Law, Cap 113. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated 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.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation of the financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors, as well as evaluating the overall presentation of the financial statements.

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

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KPMG

Opinion

In our opinion, the consolidated and Company's separate financial statements give a true and fair view of the financial position of the Group and the Company as at 31 December 2010, and of the financial performance and the cash flows of the Group and the Company for the year then ended in accordance with International Financial Reporting Standards as adopted by the EU and the requirements of the Cyprus Companies Law, Cap 113.

Report on Other Legal and Regulatory Requirements

Pursuant to the requirements of the Companies Law, Cap. 113, we report the following:

- We have obtained all the information and explanations we considered necessary for the purposes of our audit.
- In our opinion, proper books of account have been kept by the Company.
- The Company's financial statements are in agreement with the books of account.
- In our opinion and to the best of our information and according to the explanations given to us, the financial statements give the information required by the Companies Law, Cap. 113, in the manner so required.
- In our opinion, the information given in the report of the Board of Directors on pages 3 to 7 is consistent with the financial statements.

Pursuant to the requirements of the Directive DI190-2007-04 of the Cyprus Securities and Exchange Commission, we report that a corporate governance statement has been made for the information relating to paragraphs (a), (b), (c), (f) and (g) of article 5 of the said Directive, and it forms a special part of the Report of the Board of Directors.

Other Matter

This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 156 of the Companies Law, Cap.113 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whose knowledge this report may come to.

Chartered Accountants

Nicosia, 6 April 2011

CYPRUS AIRWAYS PUBLIC LIMITED

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2010

	Note	**2010 €000**	2009 €000
Continuing operations			
Revenue	6	**236.312**	247.448
Cost of sales	9	**(249.291)**	(247.301)
Gross (loss)/profit		**(12.979)**	147
Other income	7	**18.573**	4.598
Administrative expenses	9	**(10.482)**	(10.172)
Operating loss		**(4.888)**	(5.427)
Finance income	11	**2.819**	4.122
Finance expense	11	**(904)**	(1.658)
Net finance income		**1.915**	2.464
Loss before tax		**(2.973)**	(2.963)
Tax	12	**(181)**	(78)
Loss for the year from continuing operations		**(3.154)**	(3.041)
Discontinued operations			
Profit/(loss) for the year from discontinued operations	5	**3.386**	(246)
Profit/(loss) for the year		**232**	(3.287)
Other comprehensive income:			
Cash flow hedges		**(67)**	(818)
Net change in cash flow hedges transferred to profit/(loss) for the year		**(1.714)**	(289)
Impairment of aircraft spares		**(37)**	(15)
Deferred tax on freehold property		**23**	-
Other comprehensive income for the year		**(1.795)**	(1.122)
Total comprehensive income for the year		**(1.563)**	(4.409)
Basic earnings/(loss) per share - €cent	13	**0,06**	(0,84)
Diluted earnings/(loss) per share - €cent	13	**0,06**	(0,84)
Basic loss per share from continuing operations - € cent	13	**(0,81)**	(0,78)
Diluted loss per share from continuing operations - € cent	13	**(0,81)**	(0,78)

The notes on pages 18 to 60 form an integral part of these consolidated and Company's separate financial statements.

CYPRUS AIRWAYS PUBLIC LIMITED

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2010

	Note	**2010** **€000**	2009 €000
Revenue	6	**236.367**	247.502
Cost of sales	9	**(249.635)**	(247.599)
Gross loss		**(13.268)**	(97)
Other income	7	**22.203**	4.598
Administrative expenses	9	**(10.482)**	(10.171)
Operating loss		**(1.547)**	(5.670)
Finance income	11	**2.819**	4.122
Finance expense	11	**(904)**	(1.658)
Net finance income		**1.915**	2.464
Profit/(loss) before tax		**368**	(3.206)
Tax	12	**(181)**	(78)
Profit/(loss) for the year		**187**	(3.284)
Other comprehensive income:			
Cash flow hedges		**(67)**	(818)
Net change in cash flow hedges transferred to profit/(loss) for the year		**(1.714)**	(289)
Impairment of aircraft spares		**(37)**	(15)
Deferred tax on freehold property		**23**	-
Other comprehensive income for the year		**(1.795)**	(1.122)
Total comprehensive income for the year		**(1.608)**	(4.406)
Basic earnings/(loss) per share - €cent	13	**0,05**	(0,84)
Diluted earnings/(loss) per share - €cent	13	**0,05**	(0,84)

The notes on pages 18 to 60 form an integral part of these consolidated and Company's separate financial statements.

CYPRUS AIRWAYS PUBLIC LIMITED

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2010

	Note	2010 €'000	2009 €'000
Assets			
Fleet, property and equipment	14	**59.917**	65.598
Intangible assets	15	**1.311**	863
Investment property	16	**950**	1.050
Available-for-sale financial assets	17	**198**	198
Investments in associates	19	**6**	6
Deferred tax assets	20	**4.688**	4.669
Trade and other receivables	21	**20.135**	11.830
Total non-current assets		**87.205**	84.214
Inventories	22	**2.425**	2.961
Trade and other receivables	21	**53.198**	27.524
Derivative financial instruments	30	**-**	333
Cash and cash equivalents	23	**29.871**	58.226
Non-current assets held for sale	24	**10.154**	13.681
Total current assets		**95.648**	102.725
Total assets		**182.853**	186.939
Equity			
Share capital	25	**35.204**	35.204
Reserves	26	**8.070**	10.965
Accumulated losses		**(35.492)**	(36.761)
Total equity		**7.782**	9.408
Liabilities			
Borrowings	27	**39.060**	46.162
Finance lease obligations	28	**12.869**	17.730
Trade, other payables and provisions	29	**29.937**	22.356
Deferred revenue	31	**4.461**	4.016
Total non-current liabilities		**86.327**	90.264
Bank overdrafts	23	**2.494**	1.238
Borrowings	27	**7.102**	7.102
Finance lease obligations	28	**5.148**	5.066
Trade, other payables and provisions	29	**53.409**	55.090
Derivative financial instruments	30	**488**	-
Current tax liabilities		**91**	137
Deferred revenue	31	**20.012**	18.634
Total current liabilities		**88.744**	87.267
Total liabilities		**175.071**	177.531
Total equity and liabilities		**182.853**	186.939

The consolidated financial statements were approved by the Board of Directors on 6 April 2011.

________________________ George Mavrocostas – Executive Chairman

________________________ Andreas Philippou – Director

The notes on pages 18 to 60 form an integral part of these consolidated and Company's separate financial statements.

CYPRUS AIRWAYS PUBLIC LIMITED

STATEMENT OF FINANCIAL POSITION AS AT 31 DECEMBER 2010

	Note	2010 €'000	2009 €'000
Assets			
Fleet, property and equipment	14	**59.917**	65.221
Intangible assets	15	**1.311**	579
Investment property	16	**950**	1.050
Available-for-sale financial assets	17	**198**	198
Investments in subsidiaries	18	**-**	9
Deferred tax assets	20	**4.688**	4.659
Trade and other receivables	21	**20.135**	11.830
Total non-current assets		**87.199**	83.546
Inventories	22	**2.425**	2.961
Trade and other receivables	21	**53.198**	27.912
Derivative financial instruments	30	**-**	333
Cash and cash equivalents	23	**29.871**	58.174
Non-current assets held for sale	24	**10.154**	13.681
Total current assets		**95.648**	103.061
Total assets		**182.847**	186.607
Equity			
Share capital	25	**35.204**	35.204
Reserves	26	**8.070**	10.965
Accumulated losses		**(35.506)**	(36.730)
Total equity		**7.768**	9.439
Liabilities			
Borrowings	27	**39.060**	46.162
Finance lease obligations	28	**12.869**	17.730
Trade, other payables and provisions	29	**29.937**	22.356
Deferred revenue	31	**4.461**	4.016
Total non-current liabilities		**86.327**	90.264
Bank overdrafts	23	**2.494**	1.226
Borrowings	27	**7.102**	7.102
Finance lease obligations	28	**5.148**	5.066
Trade, other payables and provisions	29	**53.417**	54.739
Derivative financial instruments	30	**488**	-
Current tax liabilities		**91**	137
Deferred revenue	31	**20.012**	18.634
Total current liabilities		**88.752**	86.904
Total liabilities		**175.079**	177.168
Total equity and liabilities		**182.847**	186.607

The Company's separate financial statements were approved by the Board of Directors on 6 April 2011.

______________________ George Mavrocostas – Executive Chairman

______________________ Andreas Philippou – Director

The notes on pages 18 to 60 form an integral part of these consolidated and Company's separate financial statements.

CYPRUS AIRWAYS PUBLIC LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2010

	Share capital €'000	Reserves €000	Accumulated losses €000	Total €'000
1 January 2009	**35.204**	**12.706**	**(34.039)**	**13.871**
Total comprehensive income for the year				
Loss for the year	-	-	(3.287)	(3.287)
Other comprehensive income				
Cash flow hedges	-	(1.107)	-	(1.107)
Impairment of aircraft spares	-	(15)	-	(15)
	-	(1.122)	(3.287)	(4.409)
Transactions with owners				
Special defence contribution on deemed dividend distribution	-	-	(54)	(54)
Transfers between reserves				
Transfer on sale of aircraft spares	-	(619)	619	-
31 December 2009/1 January 2010	**35.204**	**10.965**	**(36.761)**	**9.408**
Total comprehensive income for the year				
Profit for the year	-	-	232	232
Other comprehensive income				
Cash flow hedges	-	(1.781)	-	(1.781)
Deferred tax on freehold property	-	23	-	23
Impairment of aircraft spares	-	(37)	-	(37)
	-	(1.795)	232	(1.563)
Transactions with owners				
Special defence contribution on deemed dividend distribution	-	-	(63)	(63)
Transfers between reserves				
Transfer on sale of aircraft spares	-	(1.100)	1.100	-
31 December 2010	**35.204**	**8.070**	**(35.492)**	**7.782**

Deemed dividend distribution

From 1 January 2003 onwards, companies which do not distribute 70% of their profits after tax, as defined by the Special Contribution for the Defence of the Republic law, within two years after the end of the relevant tax year, will be deemed to have distributed as dividends 70% of these profits. Special contribution for defence at 15% will be payable on such deemed dividends to the extent that the shareholders are Cyprus tax residents. The amount of deemed distribution is reduced by any actual dividends paid out of the profits of the relevant year at any time. This special contribution for defence is payable by the Company for the account of the shareholders.

The notes on pages 18 to 60 form an integral part of these consolidated and Company's separate financial statements.

CYPRUS AIRWAYS PUBLIC LIMITED

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2010

	Share capital €'000	Reserves €000	Accumulated losses €000	Total €'000
1 January 2009	**35.204**	**12.706**	**(34.010)**	**13.900**
Total comprehensive income for the year				
Loss for the year	-	-	(3.284)	(3.284)
Other comprehensive income				
Cash flow hedges	-	(1.107)	-	(1.107)
Impairment of aircraft spares	-	(15)	-	(15)
	-	(1.122)	(3.284)	(4.406)
Transactions with owners				
Special defence contribution on deemed dividend distribution	-	-	(55)	(55)
Transfers between reserves				
Transfer on sale of aircraft spares	-	(619)	619	-
31 December 2009/1 January 2010	**35.204**	**10.965**	**(36.730)**	**9.439**
Total comprehensive income for the year				
Profit for the year	-	-	187	187
Other comprehensive income				
Cash flow hedges	-	(1.781)	-	(1.781)
Deferred tax on freehold property	-	23	-	23
Impairment of aircraft spares	-	(37)	-	(37)
	-	(1.795)	187	(1.608)
Transactions with owners				
Special defence contribution on deemed dividend distribution	-	-	(63)	(63)
Transfers between reserves				
Transfer on sale of aircraft spares	-	(1.100)	1.100	-
31 December 2010	**35.204**	**8.070**	**(35.506)**	**7.768**

Deemed dividend distribution

From 1 January 2003 onwards, companies which do not distribute 70% of their profits after tax, as defined by the Special Contribution for the Defence of the Republic law, within two years after the end of the relevant tax year, will be deemed to have distributed as dividends 70% of these profits. Special contribution for defence at 15% will be payable on such deemed dividends to the extent that the shareholders are Cyprus tax residents. The amount of deemed distribution is reduced by any actual dividends paid out of the profits of the relevant year at any time. This special contribution for defence is payable by the Company for the account of the shareholders.

The notes on pages 18 to 60 form an integral part of these consolidated and Company's separate financial statements.

CYPRUS AIRWAYS PUBLIC LIMITED

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2010

	Note	**2010** **€'000**	2009 €'000
Cash flows from operating activities			
Profit for the year		**232**	(3.287)
Adjustments for:			
Depreciation of fleet, property and equipment	14	**6.900**	6.832
Amortisation of intangible assets	15	**446**	390
Loss on disposal of fleet, property and equipment	10	**128**	133
Profit on sale of non-current assets held for sale	7	**(1.469)**	(4.533)
Exchange gain on foreign currency loans and finance leases		**(840)**	(914)
Fair value loss from investment property	16	**100**	-
Profit from discontinued operations	5	**(3.711)**	-
Interest payable	11	**692**	1.488
Interest receivable	11	**(1.980)**	(3.209)
Tax charge	12	**178**	66
Net cash flow from/(for) operating activities before changes in working capital		**676**	(3.034)
Decrease in inventories		**536**	385
(Increase)/decrease in trade and other receivables		**(33.018)**	4.044
Increase/(decrease) in trade, other provisions and accruals		**5.955**	(16.331)
Increase in deferred revenue		**1.820**	1.459
Net cash flow for operating activities before taxation		**(24.031)**	(13.477)
Taxation paid		**(296)**	(362)
Net cash flow for operating activities		**(24.327)**	(13.839)
Cash flows from investing activities			
Proceeds from sale of non-current assets held for sale		**6.020**	13.410
Proceeds from sale of fleet, property and equipment		**22**	56
Proceeds from sale of subsidiary	5	**3.628**	-
Interest received		**1.712**	2.390
Acquisition of fleet, property and equipment	14	**(2.690)**	(1.898)
Acquisition of intangible assets	15	**(1.074)**	(648)
Net cash flow from investing activities		**7.618**	13.310
Cash flows from financing activities			
Repayment of borrowings		**(7.102)**	(7.102)
Repayment of finance lease obligations		**(5.131)**	(5.057)
Interest paid		**(669)**	(1.464)
Net cash flow for financing activities		**(12.902)**	(13.623)
Net decrease in cash and cash equivalents		**(29.611)**	(14.152)
Cash and cash equivalents at the beginning of the year	23	**56.988**	71.140
Cash and cash equivalents at the end of the year	23	**27.377**	56.988

The notes on pages 18 to 60 form an integral part of these consolidated and Company's separate financial statements.

CYPRUS AIRWAYS PUBLIC LIMITED

CASH FLOW STATEMENT

For the year ended 31 December 2010

	Note	**2010 €'000**	2009 €'000
Cash flows from operating activities			
Profit for the year		**187**	(3.284)
Adjustments for:			
Depreciation of fleet, property and equipment	14	**6.757**	6.661
Amortisation of intangible assets	15	**342**	249
Loss on disposal of fleet, property and equipment	10	**128**	133
Profit on sale of non-current assets held for sale	7	**(1.469)**	(4.533)
Fair value loss in investment property	16	**100**	-
Profit from sale of subsidiary	18	**(3.630)**	-
Exchange gain on foreign currency loans and finance leases		**(840)**	(914)
Interest payable	11	**691**	1.487
Interest receivable	11	**(1.979)**	(3.208)
Tax charge	12	**181**	78
Net cash flow from/(for) operating activities before changes in working capital		**468**	(3.331)
Decrease in inventories		**536**	385
(Increase)/decrease in trade and other receivables		**(33.048)**	3.766
Increase/(decrease) in trade, other provisions and accruals		**6.228**	(15.877)
Increase in deferred revenue		**1.820**	1.459
Net cash flow for operating activities before taxation		**(23.996)**	(13.598)
Taxation paid		**(296)**	(362)
Net cash flow for operating activities		**(24.292)**	(13.960)
Cash flows from investing activities			
Proceeds from sale of non-current assets held for sale		**6.020**	13.410
Proceeds from sale of fleet, property and equipment		**11**	43
Proceeds from sale of subsidiary	18	**3.639**	-
Interest received		**1.711**	2.390
Acquisition of fleet, property and equipment	14	**(2.685)**	(1.878)
Acquisition of intangible assets	15	**(1.074)**	(547)
Net cash flow from investing activities		**7.622**	13.418
Cash flows from financing activities			
Repayment of borrowings		**(7.102)**	(7.102)
Repayment of finance lease obligations		**(5.131)**	(5.057)
Interest paid		**(668)**	(1.463)
Net cash flow for financing activities		**(12.901)**	(13.622)
Net decrease in cash and cash equivalents		**(29.571)**	(14.164)
Cash and cash equivalents at the beginning of the year	23	**56.948**	71.112
Cash and cash equivalents at the end of the year	23	**27.377**	56.948

The notes on pages 18 to 60 form an integral part of these consolidated and Company's separate financial statements.

1. INCORPORATION AND PRINCIPAL ACTIVITIES

Cyprus Airways Public Limited (the "Company") was established in Nicosia in 1947 as a public company(Reg. Number 314) in accordance with the requirements of the Cyprus Companies Law, Cap.113. The Company is listed on the Cyprus Stock Exchange.

The consolidated and Company's separate financial statements for the year ended 31 December 2010 comprise the Company and its subsidiaries (the "Group") and the Group's interest in associates.

The principal activities of the Group, as well as of the Company, are the transportation of passengers and cargo and other airline related services.

2. BASIS OF PRESENTATION

2.1 Statement of compliance

The consolidated and Company's separate financial statements for the year ended 31 December 2010 have been prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union ("EU") and the requirements of the Cyprus Companies Law, Cap. 113 and the Cyprus Stock Exchange Laws and Regulations.

2.2 Basis of measurement

The consolidated and Company's separate financial statements have been prepared on the historical cost basis except for the following material items in the statement of financial position that are measured at fair value: derivative financial instruments, freehold property, investment property and aircraft spares. Defined benefit assets or liabilities are recognised as the net total of the plan assets, plus unrecognised past service cost and unrecognised actuarial losses, less unrecognised actuarial gains and the present value of the defined benefit obligation.

2.3 Functional and presentation currency

The consolidated and Company's separate financial statements are presented in Euro (€), which is the functional currency of the Group and the Company, as of 1 January 2008, date of adoption of the Euro as the official currency of the Republic of Cyprus. All financial information has been rounded to the nearest thousand.

2.4 Use of estimates and judgements

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

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

Estimates and judgements are based on historical experience and on various other factors that are considered to be reasonable under the circumstances, the results of which comprise the basis for the use of judgement for the current values of assets and liabilities that are not available from other sources.

Management makes judgements, estimates and assumptions in relation to taxation, employee benefits and the Frequent Flyer Programme as stated in the relevant notes of the consolidated and Company's separate Financial Statements.

3. SIGNIFICANT ACCOUNTING POLICIES

The following accounting policies have been consistently applied for all the years presented in these consolidated and Company's separate financial statements. Uniform accounting policies have been applied for the preparation of the financial statements of all the Group companies and, except where a change is stated, these are consistent with those applied in the previous year.

The comparative statement of comprehensive income has been re-presented as if an operation discontinued during the current year had been discontinued from the start of the comparative year (Note 5).

3.1. Adoption of new and revised International Financial Reporting Standards

As from January 2010, the Group and the Company adopted all IFRSs and International Accounting Standards (IAS) which are relevant to their operations. The adoption of these Standards did not have a material effect on the consolidated and Company's separate financial statements.

The following Standards, Amendments to Standards and Interpretations have been issued by the International Accounting Standards Board but are not yet effective for the year ended 31 December 2010:

Standards and Interpretations adopted by the EU

- Improvements to IFRSs issued in May 2010 (Effective for annual periods beginning on or after 1 July 2010 and 1 January 2010 as applicable).
- IFRS1 (amendment): "Limited exemption from comparative IFRS7 disclosures for first time adopters" (effective for annual periods beginning on or after 1 July 2010)
- IAS 24 "Related Party Disclosures" (revised)(effective for annual periods beginning on or after 1 January 2011).
- IAS 32 "Classification of rights issues" (amendments) (effective for annual periods beginning on or after 1 February 2010).
- IFRIC 14 "Prepayments of a Minimum Funding Requirement" (amendments) (effective for annual periods beginning on or after 1 January 2011).
- IFRIC 19: "Extinguishing Financial Liabilities with Equity Instruments" (effective for annual periods beginning on or after 1 July 2010).

Standards and Interpretations not yet adopted by the EU

- IFRS 1 "Severe Hyperinflation and Removal of Fixed Dates for First-Time Adopters" (amendments) (effective for annual periods beginning on or after 1 July 2011).
- IFRS 7 "Financial Instruments (amendments): Disclosures - Transfers of Financial Assets"(effective for annual periods beginning on or after 1 July 2011).
- IFRS 9 "Financial Instruments" (effective for annual periods beginning on or after 1 January 2013).
- IAS 12 - "Deferred tax": Recovery of Underlying Assets (amendments)(effective for annual periods beginning on or after 1 January 2012).

The Board of Directors expects that the adoption of the above financial reporting standards in future periods will not have a significant effect on the consolidated and Company's separate financial statements except for the adoption of IFRS9 that could change the classification and measurement of financial assets. The extent of the impact has not been determined.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.2. Basis of consolidation

3.2.1. Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that currently are exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

The accounting policies of subsidiaries have been changed, when necessary, to align them with the policies adopted by the Group.

3.2.2. Loss of control

Upon the loss of control, the Group derecognises the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in profit or loss. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently it is accounted for as an associate or as an available-for-sale financial asset depending on the level of influence retained.

3.2.3. Associates

Associates are those entities over the financial and operating policies of which the Group has significant influence, but not control. Significant influence is presumed to exist when the Group holds between 20% and 50% of the voting power of another entity.

Associates are accounted for using the equity method and are recognised initially at cost.

The consolidated financial statements include the Group's share of the income and expenses and equity movements of associates, after adjustments to align the accounting policies with those of the Group, from the date that significant influence or joint control commences until the date that significant influence or joint control ceases.

When the Group's share of losses exceeds its interest in an associate, the carrying amount of that interest (including any long-term investments) is reduced to nil and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the associate.

3.2.4. Transactions eliminated on consolidation

Intra-group balances and transactions and any unrealised income and expenses arising from intra-group transactions are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with associates are eliminated against the investment to the extent of the Group's interest in the associate. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

3.3. Foreign currency transactions

Transactions in foreign currencies are translated to Euro at exchange rates prevailing on the transaction date.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to Euro at the exchange rate prevailing on that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortised cost in foreign currency translated at the exchange rate at the end of the year.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.3 Foreign currency transactions (continued)

Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to Euro at the exchange rate prevailing on the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in the statement of comprehensive income, except for differences arising on the retranslation of available-for-sale financial assets and qualifying cash flow hedges which are recognised directly in equity.

Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity investments or qualifying cash flow hedges, which are recognised in other comprehensive income.

3.4. Revenue

Revenue earned by the Group and the Company is recognised on the following basis:

3.4.1. Passenger and cargo revenue

Passenger and cargo revenue are recognised in the accounting period in which the services are rendered i.e. when the transportation is provided. Unutilised passenger tickets and air waybills are shown as a liability in the statement of financial position under revenue received in advance and are recognised as revenue in the statement of comprehensive income on a systematic basis based on the tickets' expiration date and historical experience of their redemption percentage.

3.4.2. Frequent Flyer Programmes

The Group operates the SunMiles Frequent Flyer Programme according to which frequent travellers accumulate credits which are redeemable with tickets on the Company's flights as well as other benefits. The fair value of the consideration received or is receivable in respect of the initial sale is allocated between the SunMiles points and the other components of the sale. The amount allocated to the SunMiles points is estimated by reference to the fair value of the points if these were sold separately. The estimation of the fair value is based on the lowest fare class by route and the percentage of the points that are expected to be redeemed based on their expiration date and historical experience of their redemption percentage.

Such amount is deferred and revenue is recognised when the points are redeemed and the Group has fulfilled its obligations to carry the passengers and provide the other benefits. Deferred revenue is also released to revenue when it is no longer considered probable that the points will be redeemed.

3.4.3. Sale of aircraft maintenance services

Revenue from the sale of aircraft maintenance is recognised in the accounting period in which the services are rendered with reference to the completion of the transaction in question. This is usually the case when the Group or the Company have provided the aircraft maintenance to the customer, the customer has accepted the service and recovery of the consideration is fairly secured.

3.4.4. Sale of catering services

Revenue from the sale of catering services is recognised in the accounting period in which the services are rendered with reference to the completion of the transaction in question. This is usually the case when the Group or the Company have delivered the catering products to the customer, the customer has accepted the catering products and recovery of the consideration is fairly secured.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.4 Revenue

3.4.5. Rental income

Rental income from the investment property is recognised in the statement of comprehensive income on a straight-line basis over the term of the lease.

3.5. Finance income and expenses

Finance income comprises interest income on funds invested, dividend income and gains on hedging instruments that are recognised in the statement of comprehensive income. Interest income is recognised on an accruals basis using the effective interest method. Dividend income is recognised when the right to receive payment is established.

Finance expenses comprise interest expense on borrowings, interest expense on finance lease obligations, losses on hedging instruments that are recognised in profit or loss and bank charges. All borrowing costs are recognised in profit or loss using the effective interest method.

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

3.6. Aircraft maintenance

Aircraft maintenance costs (including overhaul of engines and other aircraft parts) are charged to profit or loss on the basis of aircraft utilisation (hours flown) or as incurred if they relate to ad hoc expenses.

3.7. Discontinued operation

A discontinued operation is a component of the Group's business that represents a separate major line of business or geographical area of operations that has been disposed of or is held for sale or distribution, or is a subsidiary acquired exclusively with a view to resale. Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held for sale, if earlier. When an operation is classified as a discontinued operation, the comparative statement of comprehensive income is re-presented as if the operation had been discontinued from the start of the comparative year.

3.8. Taxation

Income tax expense comprises current and deferred tax and is recognised in profit or loss except to the extent that it relates to items recognised directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted at the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.8 Taxation (continued)

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

3.9. Fleet, property and equipment

3.9.1. Recognition and measurement

Freehold property is stated at valuation by independent external valuers after deducting accumulated depreciation for buildings. Aircraft spares are also stated at valuation based on the last available indication of their market value. Revaluations are made at regular intervals so that the carrying amount will not be significantly different from the fair value. The remaining fleet, property and equipment are stated at cost less accumulated depreciation.

Cost includes expenditure that is directly attributable to the acquisition of the asset.

Surpluses or deficits that result from the revaluation of freehold property and aircraft spares are recognised in the revaluation reserve. If a deficit arises which is not covered by the accumulated surpluses in the revaluation reserve for a specific asset it is written off in the statement of comprehensive income.

Gains or losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and are recognised on a net basis within other income in profit or loss. When revalued assets are sold, the amounts included in the revaluation reserve are transferred to retained earnings/accumulated losses.

3.9.2. Subsequent costs

The cost of replacing a part of an item of fleet, property and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group, and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of fleet, property and equipment are recognised in profit or loss as incurred.

3.9.3. Depreciation

Depreciation is calculated over the depreciable amount, which is the cost of an asset, or other amount substituted for cost, less its residual value. Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of fleet, property and equipment as presented below, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset.

Freehold land	no charge
Buildings on freehold property	over 20 years
Buildings and improvements on leasehold property	over the shorter of the building's life or the lease term
A319/A320 aircraft, spares and equipment	over 16 years with 10% residual value
Other equipment	over 2 to 6 years

Depreciation method, useful lives and residual values are reassessed annually.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.9. Fleet, property and equipment (continued)

3.9.3. Depreciation (continued)

Depreciation for aircraft acquired through finance leases is being provided over the shorter of the aircraft's useful life and the lease term. However, in view of the fact that the Group and the Company intend to obtain ownership of the aircraft at the end of the lease term, these aircraft are depreciated using the straight line method over a period of 16 years with 10% residual value, which is consistent with the accounting policy applied by the Group and the Company for the depreciation of owned aircraft.

3.9.4. Leased assets

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases.

Assets acquired by way of finance leases are capitalised under fleet, property and equipment at the inception of the lease at the lower of the fair value of the leased asset or the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and are not recognised in the Group's statement of financial position.

3.10. Intangible assets

Intangible assets consist of the cost of computer software and are stated at cost less accumulated amortisation. Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognised in profit or loss as incurred. Amortisation is calculated over the cost of the asset, or other amount substituted for cost, less its residual value and is recognised in profit or loss on a straight-line basis over a period of five years. Amortisation methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate.

3.11. Investment property

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, nor for use in the production or supply of goods or services or for administrative purposes. Investment property is measured at cost on initial recognition and subsequently at fair value with any change therein recognised in other income in profit or loss. The fair value is determined annually by external valuers on the open market value basis. The revaluation reserve includes also a surplus from the revaluation of property that was originally used by the Group for the provision of services and was subsequently reclassified as investment property.

3.12. Financial instruments

3.12.1. Non-derivative financial assets

The Group initially recognises loans and receivables and deposits on the date that they are originated. The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.12 Financial instruments (continued)

3.12.1Non-derivative financial assets (continued)

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

The Group has the following non-derivative financial assets: (i) loans and receivables and (ii) available-for-sale financial assets.

(i) Loans and receivables

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

Loans and receivables comprise cash and cash equivalents, aircraft maintenance reserves, security deposits and trade and other receivables.

(ii) Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale and that are not classified in any of the previous categories. The Group's investments in equity securities and certain debt securities are classified as available-for-sale financial assets. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses and foreign currency differences are recognised in other comprehensive income and presented within equity in the fair value reserve. When an investment is derecognised, the cumulative gain or loss recognised in equity is transferred to profit or loss.

3.12.2. Non-derivative financial liabilities

The Group initially recognises debt securities issued and subordinated liabilities on the date that they are originated. The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

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

Such financial liabilities are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortised cost using the effective interest method.

The Group has the following non-derivative financial liabilities: borrowings, finance lease obligations, bank overdrafts, and trade and other payables.

3.12.3. Ordinary share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity.

Dividend distribution to the Company's shareholders is recognised as a liability in the consolidated and Company's separate financial statements in the year in which the dividends are approved by the shareholders of the Company.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.12. Financial instruments (continued)

3.12.4. Derivative financial instruments and hedge accounting

The Group and the Company, as a matter of principle, seek to reduce their exposure to fluctuations in the rates of exchange of foreign currencies. For this purpose the Group and the Company try to achieve natural hedging by matching as far as possible the currencies of their borrowings or liabilities with those of future incomes or other future receivables based on contractual agreements.

The Group holds derivative financial instruments to hedge its foreign currency and fuel price risk exposures.

On initial designation of the hedge, the Group formally documents the relationship between the hedging instrument(s) and hedged item(s), including the risk management objectives and strategy in undertaking the hedge transaction, together with the methods that will be used to assess the effectiveness of the hedging relationship. The Group makes an assessment, both at the inception of the hedge relationship as well as on an ongoing basis, whether the hedging instruments are expected to be "highly effective" in offsetting the changes in the fair value or cash flows of the respective hedged items during the period for which the hedge is designated, and whether the actual results of each hedge are within a range of 80-125 percent. For a cash flow hedge of a forecast transaction, the transaction should be highly probable to occur and should present an exposure to variations in cash flows that could ultimately affect reported net income.

Derivatives are recognised initially at fair value; attributable transaction costs are recognised in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value and changes therein are accounted for as described below.

Cash flow hedges

When a derivative is designated as the hedging instrument in a hedge of the variability in cash flows attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction that could affect profit or loss, the effective portion of changes in the fair value of the derivative is recognised in other comprehensive income and presented in the hedging reserve in equity. The amount recognised in other comprehensive income is removed and included in profit or loss in the same period as the hedged cash flows affect profit or loss under the same line item in the statement of comprehensive income as the hedged item. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in profit or loss.

If the hedging instrument no longer meets the criteria for hedge accounting, expires or is sold, terminated, exercised, or the designation is revoked, then hedge accounting is discontinued prospectively. The cumulative gain or loss previously recognised in other comprehensive income and presented in the hedging reserve in equity remains there until the forecast transaction affects profit or loss. When the hedged item is a non-financial asset, the amount recognised in other comprehensive income is transferred to the carrying amount of the asset when the asset is recognised. If the forecast transaction is no longer expected to occur, then the balance in other comprehensive income is recognised immediately in profit or loss. In other cases the amount recognised in other comprehensive income is transferred to profit or loss in the same period that the hedged item affects profit or loss.

3.13. Cash and cash equivalents

For cash flow statement purposes, cash and cash equivalents include cash and other readily convertible investments as well as bank overdrafts that are repayable on demand and form an integral part of the Group's and the Company's cash management.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.14. Non-current assets held for sale

Non-current assets that are expected to be recovered primarily through sale rather than through continuing use are classified as held for sale. Immediately before classification as held for sale, the assets, or components of a disposal group, are remeasured in accordance with the Group's accounting policies. Thereafter generally the assets, or disposal group, are measured at the lower of their carrying amount and fair value less cost to sell.

3.15. Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories includes expenditure incurred in acquiring the inventories and other costs incurred in bringing them to their existing location and condition. On-board sales items and catering stocks are valued at average cost. Consumable spares for aircraft are written off over a period of three years. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

3.16. Impairment of assets

3.16.1. Receivables

Receivables are assessed at each reporting date to determine whether there is objective evidence that they are impaired. A receivable is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial receivables are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, or indications that a debtor or issuer will enter bankruptcy. The Group considers evidence of impairment for receivables at a specific asset level.

3.16.2. Other non-financial assets

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

The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell. An impairment loss is recognised if the carrying amount of an asset exceeds its estimated recoverable amount.

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

3.17. Provisions

Provisions are recognised in the statement of financial position when the Group or the Company have a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.18. Lease payments

Leases in terms of which the Group and or Company do not assume substantially all the risks and rewards of ownership of the underlying asset are classified as operating leases.

Operating lease rentals, which are paid on a monthly basis, are charged in profit or loss on a straight line basis over the period of the lease.

At the inception of the finance lease the present value of the minimum lease payments are recognised as a non-current liability. Subsequently payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

3.19. Employee benefits

The Group and the Company operate a number of Provident Funds for their employees as described in note 35 of the consolidated and Company's separate financial statements.

3.19.1. Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which a company pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an employee benefit expense in the statement of comprehensive income when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

3.19.2. Defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Group's net obligation or asset is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods less any unrecognised past service costs and the fair value of the plan's assets. The future benefit is discounted to determine its present value based on a discount rate equal to the expected future yield of the plan's assets.

The calculation is performed at regular intervals by a qualified actuary using the projected unit method. If the calculation results in a liability a provision is made by the Group and the Company for additional contributions on the salaries of the employees affected over a period equal to the average remaining working life of the said employees.

If the calculation results in a benefit to the Group and the Company, an asset is recognised to the extent that economic benefits are expected to be available in the form of any future recoveries from the plan or reductions in future contributions to the plan.

Actuarial gains or losses are recognized in profit or loss over a period equal to the average working life of employees to the extent that it does not exceed 10% of the higher of the fair value of the plan assets and the defined benefit obligation, in accordance with the provisions of IAS19 "Employee Benefits".

In case the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognised in profit or loss on a straight-line basis over the average period until the benefits become vested.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

3.20. Segment reporting

An operating segment is a part of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other parts. The operating results of an operating segment, for which separately identifiable financial information is available, are reviewed regularly by the Board of Directors to make decisions about resources to be allocated to the segment and to assess its performance.

Segment results that are reported to the Board of Directors include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets and income tax assets and liabilities.

3.21. Determination of fair values

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and / or disclosure purposes for various assets and liabilities and more information on this is given in the relevant notes to the consolidated and Company's separate financial statements.

3.22. Comparative figures

Wherever needed, the comparative figures have been restated to comply with the changes made in the presentation of the current year.

4. SEGMENT REPORTING

The Board of Directors makes decisions about the allocation of resources and assesses the Group's performance based on route profitability. Therefore, segmental reporting for the Group and the Company is presented in respect of geographical segments as follows:

The Group and the Company	**2010 €'000**	2009 €'000
Revenue		
Europe	**200.886**	210.608
Middle East and Gulf	**19.074**	18.944
	219.960	229.552
Operating loss		
Europe	**(25.478)**	(9.026)
Middle East and Gulf	**(4.108)**	(4.251)
	(29.586)	(13.277)

Reconciliation of operating segments' results to financial statements

	The Group		The Company	
	2010 €'000	2009 €'000	**2010 €'000**	2009 €'000
Revenue of analysed operating segments	**219.960**	229.552	**219.960**	229.552
Other revenue[1]	**16.352**	17.896	**16.407**	17.950
Revenue as per financial statements	**236.312**	247.448	**236.367**	247.502
Results of analysed operating segments	**(29.586)**	(13.277)	**(29.586)**	(13.277)
Net finance income[2]	**2.129**	2.635	**2.129**	2.635
Other net income[3]	**24.240**	7.433	**27.825**	7.436
Elimination of discontinued operations	**244**	246	**-**	-
(Loss)/profit before tax from continuing operations	**(2.973)**	(2.963)	**368**	(3.206)

[1]For segmental reporting purposes revenue comprises passenger, freight and mail revenue but does not include other revenue, as this is presented in the financial statements, other than revenue from unclaimed tickets.

[2]Net finance income does not include bank charges.

[3]Other net income includes gains/losses from disposal of assets, exchange gains/losses from operations, the compensation for the prohibition to overfly Turkish airspace, the profit from the sale of a subsidiary etc.

In arriving at the revenue and operating loss by geographical area the results of individual routes to/from each of the two areas are aggregated. The revenue contribution of the Middle East and Gulf routes to European routes and vice versa is not reflected in the results shown above and accordingly their stated contribution to the operating profit for the year may not be indicative of their true overall impact to the Group's and the Company's network results. There is no inter-segment pricing between Europe and Middle East and Gulf.

Due to the fact that the Group's and the Company's aircraft are used on different routes during the year, it is not possible to prepare an accurate geographical analysis of the Group's and the Company's operating capital.

5. DISCONTINUED OPERATIONS

On 24 December 2010 the Group sold 100% of the shares held in its wholly owned subsidiary Zenon N.D.C. Ltd ("Zenon") to the Sabre group of companies. Zenon operations were not considered discontinued operations or classified as held for sale at 31 December 2009 and the comparative statement of comprehensive income has been re-presented to show the discontinued operation separately from continuing operations.

Results of discontinued operations	**2010 €000**	2009 €000
Revenue	**1.391**	1.525
Expenses	**(1.714)**	(1.777)
Results from operating activities	**(323)**	(252)
Net finance expenses	**(5)**	(6)
Results from operating activities before taxation	**(328)**	(258)
Taxation	**3**	12
Results from operating activities after taxation	**(325)**	(246)
Profit from discontinued operations	**3.711**	-
Profit/(loss) for the year	**3.386**	(246)
Basic and diluted earnings/(loss) per share - €cent	**0,87**	(0,06)

Cash flows (for)/ from discontinued operations	**2010 €'000**	2009 €'000
Net cash flow (used in)/from operating activities	**(35)**	122
Net cash flow from/(used in) investing activities	**7**	(108)
Net cash flow used in financing activities	**(1)**	(1)
Net cash flow for the year	**(29)**	13

Effect from disposal of Zenon on the financial position of the Group Change in assets and liabilities	2010 €'000
Fleet, property and equipment	(229)
Intangible assets	(180)
Deferred tax assets	(14)
Trade and other receivables	(102)
Cash and cash equivalents	(11)
Trade and other payables	608
Net liabilities	72
Consideration received, satisfied in cash	3.639
Cash and cash equivalents disposed of	(11)
Net cash inflow	3.628

Profit from discontinued operations	2010 €'000
Consideration received, satisfied in cash	3.639
Net liabilities disposed	72
Profit from discontinued operations	3.711

6. REVENUE

	The Group		The Company	
	2010	2009	**2010**	2009
	€'000	€'000	**€'000**	€'000
Passenger revenue	**199.138**	205.587	**199.138**	205.587
Freight and mail revenue	**16.302**	16.470	**16.302**	16.470
Other revenue	**20.872**	25.391	**20.927**	25.445
	236.312	247.448	**236.367**	247.502

The Group operates the SunMiles Frequent Flyer Programme according to which frequent travellers accumulate credits which are redeemable with tickets on the Company's flights as well as other benefits. During the year an amount of €490 thousand (2009:€904 thousand) was recognised as deferred revenue and reduced the revenue of the Group and the Company respectively.

Other revenue includes revenue from on-board sales, third party catering sales, revenue from unused tickets etc.

7. OTHER INCOME

		The Group		The Company	
		2010	2009	**2010**	2009
	Note	**€'000**	€'000	**€'000**	€'000
Compensation for the prohibition to overfly Turkish airspace	7.1	**16.813**	-	**16.813**	-
Profit from sale of subsidiary	18	**-**	-	**3.630**	-
Profit from sale of non-current assets held for sale		**1.469**	4.533	**1.469**	4.533
Change in fair value of investment property		**(100)**	-	**(100)**	-
Profit from sale of location goodwill		**325**	-	**325**	-
Rental income		**66**	65	**66**	65
		18.573	4.598	**22.203**	4.598

7.1 Compensation for the prohibition to overfly Turkish airspace

The amount presented as compensation above relates to the years 2004 to 2009 and was received from the Government in the context of the compensation plan for Cypriot air carriers that are affected by the prohibition to overfly Turkish airspace, holding an air carrier's licence and having the ability to perform flights. The total amount of the compensation received comes to €20 million and the amount of €3,2 million that relates to 2010 has reduced the relevant expense categories.

8. STAFF COSTS

		2010	2009
The Group and the Company	Note	**€'000**	€'000
Wages and salaries		**46.499**	46.493
Social insurance		**5.599**	5.541
Contributions to Provident Funds		**4.056**	4.071
Employee redundancy compensation		**59**	114
Other staff costs		**15.225**	14.895
	9	**71.438**	71.114

The average number of staff employed by the Group and the Company during the year was 1.385 and 1.371 respectively (2009: 1.417 and 1.403 respectively).

9. ANALYSIS OF EXPENSES BY NATURE

		The Group		The Company	
		2010	2009	**2010**	2009
	Note	**€'000**	€'000	**€'000**	€'000
Staff costs	8	**71.438**	71.114	**71.438**	71.114
Aircraft maintenance		**25.769**	36.698	**25.769**	36.698
Aircraft operating leases		**18.034**	13.944	**18.034**	13.944
Aircraft ad hoc leases		**1.087**	1.268	**1.087**	1.268
Fuel cost		**64.529**	51.578	**64.529**	51.578
En route charges, landing and handling fees		**46.038**	46.963	**46.038**	46.963
Aircraft catering and on-board sales costs		**5.574**	5.665	**5.574**	5.665
Depreciation of fleet, property and equipment	14	**6.757**	6.661	**6.757**	6.661
Amortisation of intangible assets	15	**342**	249	**342**	249
Insurance costs		**2.204**	2.038	**2.204**	2.038
Selling and promotional expenses		**8.459**	8.027	**8.803**	8.325
Other expenses		**9.542**	13.268	**9.542**	13.267
Total operating expenses		**259.773**	257.473	**260.117**	257.770
Operating expenses are analysed into:					
Cost of sales		**249.291**	247.301	**249.635**	247.599
Administrative expenses		**10.482**	10.172	**10.482**	10.171
		259.773	257.473	**260.117**	257.770

10. OPERATING LOSS

Operating loss is presented after charges in respect of the following:

		The Group		The Company	
		2010	2009	**2010**	2009
	Note	**€'000**	€'000	**€'000**	€'000
Land and buildings operating lease rentals		**2.514**	2.700	**2.514**	2.648
Depreciation of fleet, property and equipment	14	**6.757**	6.661	**6.757**	6.661
Amortisation of intangible assets	15	**342**	249	**342**	249
Loss on disposal of fleet, property and equipment		**128**	133	**128**	133
Independent auditors' remuneration		**91**	91	**85**	85
Independent auditors' remuneration – prior years		**-**	(2)	**-**	-
Directors' emoluments	37.1				
- Executive		**9**	10	**9**	10
- Non Executive		**57**	61	**46**	51

11. NET FINANCE INCOME

The Group and the Company	**2010 €'000**	2009 €'000
Interest income	**1.979**	3.208
Net foreign exchange gain	**840**	914
Finance income	**2.819**	4.122
Bank charges	**(214)**	(171)
Interest expense on loans	**(305)**	(630)
Interest expense on bank overdrafts	**(30)**	(10)
Interest payable on finance lease obligations	**(355)**	(847)
Finance expense	**(904)**	(1.658)
	1.915	2.464

12. TAXATION

The Group and the Company	**2010 €'000**	2009 €'000
Tax charge for the year		
Special defence contribution – current year	**187**	318
Deferred tax credit	**(6)**	(240)
	181	78

Reconciliation of tax charge based on taxable income to tax charge based on accounting profit

	The Group		**The Company**	
	2010 €'000	2009 €'000	**2010 €'000**	2009 €'000
Profit/(loss) before tax from continuing operations	**(2.973)**	(2.963)	**368**	(3.206)
Tax at the applicable tax rate of 10%	**(298)**	(296)	**37**	(321)
Tax effect of non-deductible expenses	**1.137**	1.371	**1.137**	1.371
Tax effect of income and allowances not subject to taxation	**(1.320)**	(1.332)	**(1.649)**	(1.307)
Special defence contribution – current year	**187**	318	**187**	318
Adjustment on tax losses brought forward	**-**	95	**-**	95
Deferred tax on timing differences	**-**	(78)	**(6)**	(78)
Deferred tax on tax losses not provided for	**475**	-	**475**	-
Tax charge for the year	**181**	78	**181**	78

The Company and its subsidiaries are subject to corporation tax at the rate of 10%.

Under certain conditions interest may be subject to special defence contribution at the rate of 10%. In such cases interest will be exempt from corporation tax.

Tax losses

Tax losses can be carried forward without any restriction until their full utilisation and can also be set off against taxable profits of other Group companies. The Company's tax losses available for setting off against future tax profits is €92,8 million (2009: €88,0 million). The tax affairs and the tax losses of the Company have been agreed with the Inland Revenue Department until the end of 2006.

13. (LOSS)/EARNINGS PER SHARE

	The Group		The Company	
	2010	2009	**2010**	2009
Loss from continuing operations - €'000	**(3.154)**	(3.041)	**187**	(3.284)
Profit/(loss) from discontinued operations - €'000	**3.386**	(246)	**-**	-
(Loss)/profit for the year - €'000	**232**	(3.287)	**187**	(3.284)
Weighted average number of shares - '000				
Basic and diluted	**391.155**	391.155	**391.155**	391.155
Basic and diluted *earnings/(loss) per share*				
From continuing operations - *€cents*	**(0,81)**	(0,78)	**0,05**	(0,84)
From discontinued operations - *€cents*	**0,87**	(0,06)	**-**	-
For the year - *€cents*	**0,06**	(0,84)	**0,05**	(0,84)

The diluted earnings per share are calculated by adjusting the weighted average number of shares outstanding during the year on the basis that all dilutive potential shares, e.g. share options, will be converted to shares by their holders. For the year ended 31 December 2010 no such diluted potential shares were outstanding and as a result the diluted and basic earnings/(loss) per share are the same.

14. FLEET, PROPERTY AND EQUIPMENT

The Group

Year 2010	Fleet, spare engines and spare parts €'000	Freehold property €'000	Leasehold property €'000	Equipment €'000	Total €'000
Cost or valuation					
1 January	115.418	3.588	8.794	14.412	142.212
Additions	1.204	-	710	777	2.691
Reclassifications	(11)	-	(1.609)	1	(1.619)
Transfers to non-current assets held for sale	(10.239)	-	-	-	(10.239)
Discontinued operations	-	-	-	(766)	(766)
Disposals/write-offs	(325)	-	-	(599)	(924)
31 December	106.047	3.588	7.895	13.825	131.355
Depreciation					
1 January	56.277	-	7.827	12.510	76.614
Charge for the year:					
- Continuing operations	5.794	-	167	796	6.757
- Discontinued operations	-	-	-	143	143
Reclassifications	(1)	-	(1.609)	-	(1.610)
Transfers to non-current assets held for sale	(9.215)	-	-	-	(9.215)
Discontinued operations	-	-	-	(537)	(537)
Disposals/write-offs	(134)	-	-	(580)	(714)
31 December	52.721	-	6.385	12.332	71.438
Net book value 31 December	53.326	3.588	1.510	1.493	59.917
Year 2009					
Cost or valuation					
1 January	228.956	3.588	8.258	14.645	255.447
Additions	610	-	536	752	1.898
Reclassifications	(85)	-	-	(5)	(90)
Transfers to non-current assets held for sale	(113.725)	-	-	-	(113.725)
Disposals/write-offs	(338)	-	-	(980)	(1.318)
31 December	115.418	3.588	8.794	14.412	142.212
Depreciation					
1 January	153.612	-	7.664	12.354	173.630
Charge for the year:					
- Continuing operations	5.559	-	163	939	6.661
- Discontinued operations	-	-	-	171	171
Reclassifications	(61)	-	-	(5)	(66)
Transfers to non-current assets held for sale	(102.624)	-	-	-	(102.624)
Disposals/write-offs	(209)	-	-	(949)	(1.158)
31 December	56.277	-	7.827	12.510	76.614
Net book value 31 December	59.141	3.588	967	1.902	65.598

14. FLEET, PROPERTY AND EQUIPMENT (continued)

The Company

Year 2010	Fleet, spare engines and spare parts €'000	Freehold property €'000	Leasehold property €'000	Equipment €'000	Total €'000
Cost or valuation					
1 January	115.418	3.588	8.794	13.610	141.410
Additions	1.204	-	710	771	2.685
Reclassifications	(11)	-	(1.609)	1	(1.619)
Transfers to non-current assets held for sale	(10.239)	-	-	-	(10.239)
Disposals/write-offs	(325)	-	-	(557)	(882)
31 December	106.047	3.588	7.895	13.825	131.355
Depreciation					
1 January	56.277	-	7.827	12.085	76.189
Charge for the year	5.794	-	167	796	6.757
Reclassifications	(1)	-	(1.609)	-	(1.610)
Transfers to non-current assets held for sale	(9.215)	-	-	-	(9.215)
Disposals/write-offs	(134)	-	-	(549)	(683)
31 December	52.721	-	6.385	12.332	71.438
Net book value 31 December	53.326	3.588	1.510	1.493	59.917
Year 2009					
Cost or valuation					
1 January	228.956	3.588	8.258	13.568	254.370
Additions	610	-	536	732	1.878
Reclassifications	(85)	-	-	(2)	(87)
Transfers to non-current assets held for sale	(113.725)	-	-	-	(113.725)
Disposals/write-offs	(338)	-	-	(688)	(1.026)
31 December	115.418	3.588	8.794	13.610	141.410
Depreciation					
1 January	153.612	-	7.664	11.818	173.094
Charge for the year	5.559	-	163	939	6.661
Reclassifications	(61)	-	-	-	(61)
Transfers to non-current assets held for sale	(102.624)	-	-	-	(102.624)
Disposals/write-offs	(209)	-	-	(672)	(881)
31 December	56.277	-	7.827	12.085	76.189
Net book value 31 December	59.141	3.588	967	1.525	65.221

14. FLEET, PROPERTY AND EQUIPMENT (continued)

The last revaluation of the freehold property held by the Group and the Company, consisting of land and buildings, was carried out at 31 December 2007 by independent valuation experts using the open market value basis. In the opinion of the Directors the carrying value of freehold property represents its fair value as there is no evidence for a material change since last revaluation. Aircraft spares are stated at valuation based on the last available indication of their market value.

If fleet, property and equipment were measured under the historic cost principle their carrying values would be as follows:

	Fleet, spare engines and spare parts €'000	Freehold property €'000	Leasehold property €'000	Equipment €'000	Total €'000
The Group					
31 December 2010					
Cost	100.781	24	7.895	15.038	123.738
Depreciation	(48.775)	-	(6.385)	(12.881)	(68.041)
Net book value	52.006	24	1.510	2.157	55.697
31 December 2009					
Cost	110.152	24	8.794	14.266	133.236
Depreciation	(52.331)	-	(7.827)	(12.457)	(72.615)
Net book value	57.821	24	967	1.809	60.621
The Company					
31 December 2010					
Cost	100.781	24	7.895	15.038	123.738
Depreciation	(48.775)	-	(6.385)	(12.881)	(68.041)
Net book value	52.006	24	1.510	2.157	55.697
31 December 2009					
Cost	110.152	24	8.794	13.464	132.434
Depreciation	(52.331)	-	(7.827)	(12.033)	(72.191)
Net book value	57.821	24	967	1.431	60.243

The carrying value of the two A319 aircraft that were acquired through finance leases and are included in fleet, spare engines and spare parts, is presented below:

	2010 €'000	2009 €'000
The Group and the Company		
Cost	**74.616**	74.616
Depreciation	**(36.049)**	(31.854)
Net book value	**38.567**	42.762

15. INTANGIBLE ASSETS

		Computer software			
		The Group		**The Company**	
		2010	2009	**2010**	2009
	Note	**€'000**	€'000	**€'000**	€'000
Cost					
1 January		**4.647**	4.000	**3.713**	3.167
Additions		**1.074**	648	**1.074**	547
Write-offs		**(109)**	(1)	**(109)**	(1)
Discontinued operations		**(934)**	-	**-**	-
31 December		**4.678**	4.647	**4.678**	3.713
Amortisation					
1 January		**3.784**	3.395	**3.134**	2.886
Charge for the year:					
- Continuing operations	9	**342**	249	**342**	249
- Discontinuing operations		**104**	141	**-**	-
Write-offs		**(109)**	(1)	**(109)**	(1)
Discontinued operations		**(754)**	-	**-**	-
31 December		**3.367**	3.784	**3.367**	3.134
Net book value 31 December		**1.311**	863	**1.311**	579

16. INVESTMENT PROPERTY

The Group and the Company

	2010	2009
	€'000	€'000
1 January	**1.050**	1.050
Fair value loss	**(100)**	-
31 December	**950**	1.050

As at 31 December 2010 a revaluation of the freehold building in Athens was carried out by independent valuation experts using the open market value basis indicating a value of €950 thousand. The fair value loss has been recognised in the profit for the year.

17. AVAILABLE-FOR-SALE FINANCIAL ASSETS

The Group and the Company

	2010	2009
	€'000	€'000
1 January and 31 December	**198**	198

Non-current available-for-sale financial assets relate to share investment certificates of SITA Inc. These share investment certificates are stated at cost which equals their fair value.

18. INVESTMENTS IN SUBSIDIARIES

	2010	2009
	€'000	€'000
The Company		
1 January	**9**	9
Sale	**(9)**	-
31 December	**-**	9

The sale relates to the investment in the wholly owned subsidiary Zenon N.D.C. Limited the principal activity of which is the provision of distribution services and technology solutions for the travel industry. The profit from the sale is presented below. More information is presented in Note 5 – "Discontinued operations" of the consolidated and separate financial statements of the Company.

	2010
	€'000
Consideration	**3.639**
Less cost of investment in the subsidiary	**(9)**
Profit on sale of subsidiary	**3.630**

Details for the subsidiary Cyprair Tours Limited, which is not listed, are presented below:

Name	Country of incorporation	Share capital €'000	Principal activities	Participation interest (%) 2010	Participation interest (%) 2009
Cyprair Tours Limited	Cyprus	342	Tour operator	100	100

The investment in Cyprair Tours Limited has been fully impaired.

19. INVESTMENTS IN ASSOCIATES

	2010	2009
The Group	**€'000**	€'000
1 January and 31 December	**6**	6

In the Company's separate financial statements investments in associates are presented at cost less impairment. As at 31 December 2010 the investments were fully impaired.

Cyprus Airways (Duty-Free Shops) Limited

Although Cyprus Airways (Duty-Free Shops) Limited is wholly owned by Cyprus Airways Public Limited, the former is treated in accordance with International Accounting Standard 28 "Investments in Associates" as an associate, because the Board of Directors of the company is appointed by the Minister of Finance.

The whole amount for impairment relates to Cyprus Airways (Duty-Free Shops) Limited which ceased operating on 30 June 2006 when the strategic investor, Hermes Airports Ltd, took over the operation of the duty-free shops at Larnaca and Paphos airports. The said company is under voluntary liquidation since 22 September 2008 following a resolution approved by the extraordinary general meeting of its shareholders.

19. INVESTMENTS IN ASSOCIATES (continued)

Swissport Cyprus Limited ("Swissport")

The company was incorporated by Cyprus Airways Public Limited and Swissport G.A.P. Vassilopoulos (Cyprus) Ltd and its main activity is the provision of ground handling services at Larnaca and Paphos airports, after securing the necessary licence from the airports' operator Hermes Airports Ltd. The provision of the aforesaid services by the associate commenced on 22 May 2008 for Paphos airport and on 29 May 2008 for Larnaca airport.

The participation of the Group is 25,1% and the cost of the initial investment was €251. Based on the provisions of the equity method, the liability recognised in relation to the loss of Swissport Cyprus Limited for the reporting period was limited to the extent of the Group's interest. Swissport made a profit for the year ended 31 December 2010 and the share attributable to the Group is €175 thousand. The profit was insufficient to cover the Group's share of unrecognised losses since incorporation, which aggregate to €34 thousand.

For the preparation of the consolidated and Company's separate financial statements the audited financial statements of the company for the year ended 31 December 2010 were used.

Summary financial information for Swissport is presented below:

	2010	2009
	€'000	€'000
Current assets	**2.895**	2.279
Non current assets	**6.930**	7.573
Total assets	**9.825**	9.852
Current liabilities	**6.704**	5.575
Non current liabilities	**3.256**	5.110
Total liabilities	**9.960**	10.685
Income	**23.081**	21.310
Expenses	**(22.383)**	(21.134)
Profit	**698**	176

20. DEFERRED TAX ASSETS

	The Group		**The Company**	
	2010	2009	**2010**	2009
	€'000	€'000	**€'000**	€'000
1 January	**4.669**	4.417	**4.659**	4.419
Recognised in statement of comprehensive income	**33**	252	**29**	240
Discontinued operations	**(14)**	-	**-**	-
31 December	**4.688**	4.669	**4.688**	4.659

The carrying amount of deferred tax assets as at 31 December are made up as follows:

	The Group		**The Company**	
	2010	2009	**2010**	2009
	€'000	€'000	**€'000**	€'000
Temporary timing differences between depreciation and capital allowances	**(3.384)**	(3.402)	**(3.384)**	(3.390)
Revaluation of immovable property	**(731)**	(754)	**(731)**	(754)
Tax losses	**8.803**	8.825	**8.803**	8.803
	4.688	4.669	**4.688**	4.659

21. TRADE AND OTHER RECEIVABLES

		The Group		The Company	
		2010	2009	**2010**	2009
	Note	**€'000**	€'000	**€'000**	€'000
Trade receivables		**18.378**	**15.264**	**18.378**	15.235
Amounts due from related parties	37.3	-	-	-	572
VAT receivable		**1.279**	**588**	**1.279**	588
Aircraft maintenance reserves		**17.281**	**8.791**	**17.281**	8.791
Security deposits for leased aircraft		**2.854**	**3.039**	**2.854**	3.039
Other receivables, prepayments and accrued income		**33.541**	**11.672**	**33.541**	11.517
		73.333	39.354	**73.333**	39.742

Trade and other receivables are classified in relation to their maturity as follows:

	The Group		The Company	
	2010	2009	**2010**	2009
	€'000	€'000	**€'000**	€'000
Non-current	**20.135**	11.830	**20.135**	11.830
Current	**53.198**	27.524	**53.198**	27.912
	73.333	39.354	**73.333**	39.742

The Group's and the Company's exposure to credit risk is disclosed in note 36 of the consolidated and Company's separate financial statements.

22. INVENTORIES

	2010	2009
The Group and the Company	**€'000**	€'000
Consumable spares	**1.880**	2.359
On-board sales items	**291**	483
Other	**254**	119
	2.425	2.961

23. CASH AND CASH EQUIVALENTS

For the purposes of the cash flow statement cash and cash equivalents and bank overdrafts include the following:

	The Group		The Company	
	2010	2009	**2010**	2009
	€'000	€'000	**€'000**	€'000
Cash at bank and in hand	**6.845**	15.511	**6.845**	15.459
Term deposits	**23.026**	42.715	**23.026**	42.715
Cash and cash equivalents	**29.871**	58.226	**29.871**	58.174
Bank overdrafts	**(2.494)**	(1.238)	**(2.494)**	(1.226)
	27.377	56.988	**27.377**	56.948

23. CASH AND CASH EQUIVALENTS (continued)

Bank overdrafts bear interest fluctuating between 1,76% and 3,26% annually depending on the currency each overdraft is denominated in.

The Group's and the Company's exposure to liquidity risk, interest rate risk and a sensitivity analysis of financial assets and financial liabilities are disclosed in note 36 of the consolidated and Company's separate financial statements.

24. NON-CURRENT ASSETS HELD FOR SALE

The Group and the Company	**2010** **€'000**	2009 €'000
1 January	**13.681**	11.431
Transfer from fleet, property and equipment	**1.024**	11.101
Sale	**(4.554)**	(8.832)
Write offs	**-**	(19)
Reclassifications	**3**	-
31 December	**10.154**	13.681

During the year the Group sold an aircraft included in this category for a total consideration of US Dollars 6,2 million as well as aircraft spares for US Dollars 1,4 million. A profit of €1,5 million arose as a result of the sale of the aircraft. Three aircraft engines, for the sale of which a plan and commitment by the Board of Directors exists, have been transferred to this category during the year.

Non-current assets held for sale are analysed as follows:

	2010 **€'000**	2009 €'000
Aircraft	**7.975**	11.101
Aircraft engines	**1.024**	-
Aircraft spares	**1.155**	2.580
	10.154	13.681

25. SHARE CAPITAL

The Group and the Company

	2010		2009	
	No of shares (thousands)	**€'000**	No of shares (thousands)	€'000
Authorised:				
Ordinary shares of a nominal value of €0,09 per share	**1.500.000**	**135.000**	1.500.000	135.000
Issued and fully paid:				
1 January and 31 December	**391.155**	**35.204**	391.155	35.204

26. RESERVES

The Group and the Company

Reserves at the reporting date were as follows:

	2010	2009
	€'000	€'000
Revaluation reserve	**6.648**	7.762
Hedging reserve	**1.422**	3.203
	8.070	10.965

26.1. Revaluation reserve

The revaluation reserve which is not available for distribution is analysed as follows:

	2010	2009
	€'000	€'000
Immovable property	**4.036**	4.013
Aircraft spares	**2.612**	3.749
	6.648	7.762

26.2. Hedging reserve

The hedging reserve which is not available for distribution is analysed as follows:

	2010	2009
	€'000	€'000
Fair value changes of derivative financial instruments	**(488)**	313
Exchange difference from translation of foreign currency loans and finance lease obligations	**2.890**	4.083
Exchange difference from translation of other assets in foreign currencies	**(980)**	(1.193)
	1.422	3.203

27. BORROWINGS

The Group and the Company

	2010	2009
	€'000	€'000
Current liabilities		
Within one year	**7.102**	7.102
Non-current liabilities		
Between one to five years	**28.407**	28.407
More than five years	**10.653**	17.755
	39.060	46.162
Total	**46.162**	53.264

27. BORROWINGS (continued)

The carrying amount of the loan represents the balance of a long term loan of €78 million, which is guaranteed by the Government of the Republic of Cyprus.

The loan, unless prepayments are effected, is payable in 20 equal semi-annual instalments from December 2007 up to June 2017 and bears interest at EURIBOR + 0,04%.

The movement during the year consists of repayments of €7,1 million (2009: €7,1 million)

The Group's and the Company's exposure to interest rate risk and liquidity risk are disclosed in note 36 of the consolidated and Company's separate financial statements.

28. FINANCE LEASE OBLIGATIONS

The Group and the Company	**Minimum lease payments**	**Future financing cost**	**Present value of minimum lease payments**
Year 2010	**€'000**	**€'000**	**€'000**
Within one year	**5.420**	**272**	**5.148**
Between one to five years	**13.184**	**315**	**12.869**
	18.604	**587**	**18.017**
Year 2009			
Within one year	5.365	299	5.066
Between one to five years	18.226	496	17.730
	23.591	795	22.796

Finance lease obligations relate to the acquisition of two A319 aircraft effected during 2002. The aircraft are presented in fleet, property and equipment.

The Group's and the Company's exposure to interest rate risk, currency risk and liquidity risk are disclosed in note 36 of the consolidated and Company's separate financial statements.

29. TRADE, OTHER PAYABLES AND PROVISIONS

		The Group		**The Company**	
		2010	2009	**2010**	2009
	Note	**€'000**	€'000	**€'000**	€'000
Trade payables		**16.656**	16.270	**16.656**	16.206
Amount due to related parties	37.3	**435**	448	**435**	448
Provision for aircraft maintenance and engine overhaul		**40.035**	32.219	**40.035**	32.219
Provision to safeguard the value of the Provident Fund	35	**1.502**	1.317	**1.502**	1.317
Accrued staff related costs		**7.803**	6.382	**7.803**	6.382
VAT payable		**65**	69	**65**	27
Deferred income		**664**	1.248	**664**	1.248
Passenger taxes		**6.429**	6.423	**6.429**	6.423
Other provisions and accruals		**9.757**	13.070	**9.765**	12.825
		83.346	77.446	**83.354**	77.095

29. TRADE, OTHER PAYABLES AND PROVISIONS (continued)

Trade and other receivables are classified in relation to their maturity as follows:

	The Group		The Company	
	2010	2009	**2010**	2009
	€'000	€'000	**€'000**	€'000
Non-current	**29.937**	22.356	**29.937**	22.356
Current	**53.409**	55.090	**53.417**	54.739
	83.346	77.446	**83.354**	77.095

The Group's and the Company's exposure to currency risk and liquidity risk are disclosed in note 36 of the consolidated and Company's separate financial statements.

30. DERIVATIVE FINANCIAL INSTRUMENTS

	2010	2009
The Group and the Company	**€'000**	€'000
Cash flow hedges:		
Forward foreign exchange contracts	**(522)**	-
Jet fuel price swaps	**34**	333
	(488)	333

30.1 Forward foreign exchange contracts

The Group and the Company use forward foreign exchange contracts to hedge their foreign currency exposure.

At 31 December 2010 the Group and the Company had outstanding forward foreign exchange contracts for the purchase of US Dollars 18,3 million for Euro (2009: NIL). The contracts expire during 2011.

30.2 Jet fuel price swaps

The Group and the Company also use jet fuel price swaps to hedge their exposure to jet fuel price fluctuations.

At 31 December 2010 the Group and the Company had outstanding jet fuel price swaps to hedge jet fuel purchases of a nominal value of US Dollars 4,1 million (2009: US Dollars 4,5 million). These contracts mature during 2011.

30.3 Fair value hierarchy

The different levels of fair value valuation have been defined as follows:

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

The Group and the Company use over-the-counter derivative financial instruments, the measurement of which in fair value is derived using the mark-to-market basis. Therefore the financial instruments used are classified in Level 2.

31. DEFERRED REVENUE

The Group and the Company	**2010** €'000	2009 €'000
Revenue received in advance	**22.218**	20.885
Frequent Flyer Programme	**2.255**	1.765
	24.473	22.650

Deferred revenue is classified in relation to its maturity as follows:

	2010 €'000	2009 €'000
Non-current	**4.461**	4.016
Current	**20.012**	18.634
	24.473	22.650

32. CONTIGENT LIABILITIES

The Group and the Company

At the statement of financial position date contingent liabilities consist of the following:

(i) An amount of US$6,3m regarding bank guarantees given to the A320s aircraft leasing company in lieu of payment of the respective amount in cash in relation to security deposits for the leasing of aircraft and aircraft maintenance reserves. For the issue of these guarantees an equivalent amount has been deposited as security with the issuing banks.

(ii) Security deposits for knock in forward deals aggregating to €1,1 million.

(iii) An amount of €191 thousand (2009: €377 thousand) regarding a bank guarantee given to the Association of Cyprus Travel Agents (ACTA). It is possible for this guarantee to be called upon to satisfy any outstanding obligations towards customers of Cyprair Holidays inclusive tours program.

(iv) Guarantees amounting to €362 thousand (2009: €353 thousand) given by the Group to the Customs and Excise Department of the Republic of Cyprus, Cyprus Tourism Organisation and other Civil Aviation Authorities.

(v) Corporate guarantee for the settlement of any obligation that may arise in relation to its associate "Cyprus Airways (Duty-Free Shops) Ltd" which is under liquidation until its final dissolution.

(vi) A corporate guarantee given by the Company to Hermes Airports Ltd ("Hermes") for the fulfilment of the obligations of the associate Swissport Cyprus Limited ("Swissport") under the Sub-concession Agreement dated 4 April 2008 between Hermes and Swissport for the provision by Swissport of ground handling services at Larnaca and Paphos airports. The obligations of the Company under the said guarantee, which expires on 1 July 2014, are joint and several with G.A.P. Vassilopoulos Aviation Ltd and Swissport International AG which have also provided corporate guarantees to Hermes for the same purpose.

Contingent liabilities do not include any amount regarding a number of proceedings/applications that have been instituted before the Labour Disputes Tribunal by employees and former employees of the Company in respect of the Company's reduction of their emoluments, pursuant to the Company's Restructuring Plan. During 2010 judgment has been issued by the Labour Disputes Tribunal against the Company in one case. Following an appeal by the Company, the Supreme Court issued on 30 April 2010 a writ of Certiorari according to which the judgment of first instance of the Labour Disputes Tribunal was annulled. Difficult issues of law are raised that render any attempt of a reasonable assessment of contingent liabilities misleading at present. The Company is defending the proceedings vigorously and is determined to take whatever steps may be necessary to ensure that the Restructuring Plan is not jeopardised.

33. OPERATING LEASES

The Group and the Company

	2010	2009
	€'000	€'000
Property leasing		
Within one year	**2.283**	2.455
Between one and five years	**570**	558
Over five years	**2.587**	2.734
	5.440	5.747
Aircraft operating leases		
Within one year	**24.193**	17.050
Between one and five years	**58.192**	50.001
Over five years	**17.889**	2.195
	100.274	69.246

34. CAPITAL COMMITMENTS

Capital commitments for which a provision has not been made in the consolidated and Company's separate financial statements at 31 December 2010 amount to €490 thousand and relate to expenditure for the acquisition of computer software (2009: €225 thousand).

35. PROVIDENT FUNDS

The Group and the Company operate a number of retirement benefit plans for their employees as follows:

The liability/(asset) for the safeguarding of the Provident Funds is analysed as follows:

	2010	2009
	€'000	€'000
Funded defined benefit plans - Cyprus	**675**	**(113)**
Funded defined benefit plans – Greece and Italy	**827**	**1.430**
	1.502	**1.317**

35.1 The Cyprus Airways Public Limited Employees' Provident Fund

All staff of Cyprus Airways Public Limited (excluding pilots) based in Cyprus is eligible to join this defined benefit scheme. The scheme is funded and all its assets constitute a separate entity. The scheme provides that, further to the defined contributions made, the Company has guaranteed the purchasing power of the employees' retirement benefits so that these are not less than a "minimum total benefit". The purchasing power of retirement benefits is secured by the Guaranteed Purchase Power Account which is the subject of the actuarial valuation. Actuarial valuations are carried out at regular intervals. The most recent valuation, as at 31 December 2008 was completed during January 2010.

The valuation used for IAS 19 disclosures as at the reporting date has been based on a roll-forward of the liabilities as at 31 December 2009. The present values of the defined benefit obligation, the related current service cost and any past service costs were measured using the projected unit credit method.

35. PROVIDENT FUNDS (continued)

35.1 The Cyprus Airways Public Limited Employees' Provident Fund (continued)

The main assumptions used are as follows:

	2010	2009
Discount rate	**4,51%**	4,25%
Salary increases	**4,25%**	4,25%
Underlying inflation	**2,25%**	2,25%
Expected return on assets	**4,25%**	4,25%

Cash flow data

	Actual		Expected	
	2010	2009	**2010**	2009
	€'000	€'000	**€'000**	€'000
Employer contributions	**2.175**	2.138	**1.996**	2.175
Employer contributions	**263**	265	**241**	263
Benefits paid	**3.214**	2.539	**2.948**	3.214

The expected cash flow data were used to calculate the interest cost and expected return on assets.

Reconciliation of movement in the (liability)/asset to safeguard the value of the Provident Funds recognised in the statement of financial position

	2010	2009
	€'000	€'000
Fair value of assets	**54.192**	56.034
Present value of funded defined benefit obligations	**(56.568)**	(57.888)
	(2.376)	(1.854)
Unrecognized net actuarial (gains)/losses	**1.701**	1.967
(Liability)/asset	**(675)**	113

Analysis of charge in the statement of comprehensive income

	2010	2009
	€'000	€'000
Current service costs	**2.622**	2.660
Interest cost	**2.392**	2.440
Expected return on assets	**(2.365)**	(2.223)
Net actuarial losses recognised in the year	**-**	(78)
Expense recognised in profit/(loss) for the year	**2.649**	2.799

Movements in (liability)/asset as per the statement of financial position

	2010	2009
	€'000	€'000
1 January	**113**	1.440
Actual contributions paid by the Company	**2.175**	2.138
Expense recognised in statement of comprehensive income	**(2.963)**	(2.799)
(Liability)/asset before adjustment	**(675)**	779
Adjustment	**-**	(666)
31 December	**(675)**	113

35. PROVIDENT FUNDS (continued)

35.1 The Cyprus Airways Public Limited Employees' Provident Fund (continued)

Reconciliation of defined benefit obligation

	2010	2009
	€'000	€'000
1 January	**57.888**	58.700
Current service cost	**2.622**	2.660
Interest cost	**2.392**	2.441
Members' contributions	**263**	265
Actuarial gains on liabilities	**(3.383)**	(3.639)
Benefits paid	**(3.214)**	(2.539)
31 December	**56.568**	57.888

Reconciliation of plan assets

	2010	2009
	€'000	€'000
1 January	**56.034**	52.381
Expected return on assets	**2.365**	2.223
Actuarial (losses)/gains on liabilities	**(3.431)**	1.566
Contributions by the employer	**2.175**	2.138
Members' contributions	**263**	265
Benefits paid	**(3.214)**	(2.539)
31 December	**54.192**	56.034

Reconciliation of plan asset returns

	2010
	€'000
Expected return on assets	**2.365**
Actuarial (losses)/gains on liabilities	**(3.431)**
Actual return on assets	**(1.066)**

In order to safeguard the retirement benefits of the members of the Provident Fund and in accordance with the actuary's recommendation, the Company provides for additional contributions of 3,0% on the salaries of the employees affected for a twelve-year period, that represents the average remaining working life of the said employees.

The funding of the Provident Fund is performed on a discontinuance basis. The difference between the amount provided for and the amount funded is included in trade, other payables and provisions if the provision is higher or in trade and other receivables if the funding is higher.

35.2 Provident Fund of pilots and flight engineers of Cyprus Airways Public Limited

All Cyprus Airways Public Limited pilots are eligible to join this defined contribution scheme. The amount recognised as an expense in the statement of comprehensive income during the year is €854 thousand (2009: €821 thousand).

35. PROVIDENT FUNDS (continued)

35.3 Cyprus Airways Public Limited – Staff based outside Cyprus

Greece and Italy

All Cyprus Airways Public Limited staff based in Greece and in Italy are eligible to join this defined benefit scheme. The scheme is unfunded and provision is made in the Group's and the Company's records on a discontinuance basis. The amount recognised as an expense in the statement of comprehensive income during the year is €128 thousand (2009: €284 thousand). The total amount of the unfunded balance provided for amounts to €0,8 million (2009: €1,4 million) and is included in trade, other payables and provisions.

35.4 All other staff

All Cyprus Airways Public Limited staff based outside Cyprus, other than those based in Greece and Italy, are eligible to join schemes of a defined contribution type. The total amount recognised as an expense in the statement of comprehensive income during the year is €161 thousand (2009: €165 thousand).

36. RISK MANAGEMENT

The Group and the Company are exposed to the following risks:

36.1 Credit risk
36.2 Liquidity risk
36.3 Market risk
36.4 Tourist industry risk
36.5 Competition risk
36.6 Operational risk
36.7 Compliance risk
36.8 Litigation risk
36.9 Reputation risk
36.10 Other risks
36.11 Capital management

This note presents information about the Group's and the Company's exposure to each of the above risks, the Group's and Company's objectives, policies and processes for measuring and managing risk and about the Company's management of capital. It also includes further quantitative disclosures.

The Board of Directors has overall responsibility for the establishment and oversight of the Group's and the Company's risk management framework.

The Group's and the Company's risk management policies are established in order to identify and analyse the risks faced by the Group and the Company, to set appropriate risk limits and controls and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and in the Group's and the Company's activities.

36.1 Credit risk

Credit risk arises when a failure by counterparties to discharge their obligations could reduce the amount of future cash inflows from financial assets. The Group and the Company have no significant concentration of credit risk. The Group and the Company have policies in place to ensure that sales of products and services are made to customers with an appropriate credit history and monitor on a continuous basis the ageing profile of their receivables. Cash balances are held with high credit quality financial institutions and the Group and the Company have policies to limit the amount of credit exposure to any financial institution.

36. RISK MANAGEMENT (continued)

36.1 Credit risk

Trade and other receivables

The Group's and the Company's exposure to credit risk is affected mainly by the individual characteristics of each customer.

The Group and the Company establish an allowance for impairment that represents their estimate of possible losses in respect of trade and other receivables. The main components of this allowance are a specific loss component that relates to possible losses on individually significant exposures and a collective loss component established for groups of similar assets in respect of losses which are likely to arise.

Exposure to credit risk

The carrying amount of financial assets in the consolidated and Company's separate financial statements, net of impairment losses, representing the maximum credit exposure, without taking into account the value of any collateral obtained, is as follows:

	The Group		**The Company**	
	2010	2009	**2010**	2009
	€'000	€'000	**€'000**	€'000
Non-current trade and other receivables	**20.135**	11.830	**20.135**	11.830
Current trade and other receivables	**53.198**	27.524	**53.198**	27.912
	73.333	39.354	**73.333**	39.742

Trade and other receivable as at the reporting date include an amount of €20m in relation to compensation payable by the Government to the Company for the ban of the flights of the Company over Turkey for 2004-2010.

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

	2010	2009
The Group and the Company	**€'000**	€'000
I January	**1.370**	2.072
Reversal of provisions	**(569)**	(998)
Impairment	**1.760**	694
Write-offs	**(478)**	(398)
31 December	**2.083**	1.370

The ageing of trade receivables at the reporting date was:

		2010			2009	
	Gross	**Impairment**	**Carrying amount**	Gross	Impairment	Carrying amount
	€'000	**€'000**	**€'000**	€'000	€'000	€'000
The Group						
Not past due	**1.218**	**-**	**1.218**	1.866	-	1.866
Past due:						
0 – 30 days[1]	**10.719**	**(55)**	**10.664**	5.836	(1)	5.835
31 – 120 days	**3.118**	**(373)**	**2.745**	3.305	(89)	3.216
121 – 365 days	**1.656**	**(760)**	**896**	1.854	(255)	1.599
More than one year[2]	**3.750**	**(895)**	**2.855**	3.773	(1.025)	2.748
	20.461	**(2.083)**	**18.378**	16.634	(1.370)	15.264

36. RISK MANAGEMENT (continued)

36.1 Credit risk (continued)

Exposure to credit risk (continued)

	2010			2009		
	Gross	**Impairment**	**Carrying amount**	Gross	Impairment	Carrying amount
	€'000	**€'000**	**€'000**	€'000	€'000	€'000
The Company						
Not past due	**1.218**	**-**	**1.218**	1.866	-	1.866
Past due:						
0 – 30 days[1]	**10.719**	**(55)**	**10.664**	5.855	(1)	5.854
31 – 120 days	**3.118**	**(373)**	**2.745**	3.301	(89)	3.212
121 – 365 days	**1.656**	**(760)**	**896**	1.887	(255)	1.632
More than one year[2]	**3.750**	**(895)**	**2.855**	3.696	(1.025)	2.671
	20.461	**(2.083)**	**18.378**	16.605	(1.370)	15.235

The maximum exposure to credit risk for trade receivables at the reporting date by geographical region was:

The Group The Company	**2010** **€'000**	2009 €'000
Middle East and Gulf	**861**	1.119
Europe[1]	**17.362**	13.860
Other regions	**155**	256
	18.378	15.235

[1] An amount receivable from the Sabre group in relation to the sale of the subsidiary Zenon is included in this category.
[2] In this category a receivable from an engine maintenance company is included in the form of long term credits that will be set-off against the cost of services provided by this company in the future.

36.2 Liquidity risk

Liquidity risk is the risk that arises when the maturity of assets and liabilities does not match. An unmatched position may mean that the Group and the Company are unable to meet their obligations as and when they become due. The Group and the Company have procedures with the object of managing such risk, such as monitoring cash flow on a continuous basis through short and medium term cash planning, maintaining sufficient cash and other highly liquid current assets and by having available a number of credit facilities.

The following are the contractual maturities of financial liabilities, including estimated interest payments:

The Group

2010	Carrying amounts €'000	Contractual cash flows €'000	Up to 1 year €'000	1-2 years €'000	2-5 years €'000	More than 5 years €'000
Borrowings	46.162	48.554	7.722	7.632	22.340	10.860
Finance lease obligations	18.017	18.604	5.420	5.337	7.847	-
Trade, other payables and provisions	83.346	83.346	53.409	2.843	27.094	-
Bank overdrafts	2.494	2.494	2.494	-	-	-
Total	150.019	152.998	69.045	15.812	57.281	10.860

36. RISK MANAGEMENT (continued)

36.2 Liquidity risk

	Carrying amounts	Contractual cash flows	Up to 1 year	1-2 years	2-5 years	More than 5 years
2009						
Borrowings	53.264	55.494	7.640	7.567	22.254	18.033
Finance lease obligations	22.796	23.591	5.365	5.296	12.930	-
Trade, other payables and provisions	77.446	77.446	55.090	6.849	15.507	-
Bank overdrafts	1.238	1.238	1.238	-	-	-
Total	154.744	157.769	69.333	19.712	50.691	18.033

The Company

2010	Carrying amounts €'000	Contractual cash flows €'000	Up to 1 year €'000	1-2 years €'000	2-5 years €'000	More than 5 years €'000
Borrowings	46.162	48.554	7.722	7.632	22.340	10.860
Finance lease obligations	18.017	18.604	5.420	5.337	7.847	-
Trade, other payables and provisions	83.354	83.354	53.417	2.843	27.094	-
Bank overdrafts	2.494	2.494	2.494	-	-	-
Total	150.027	153.006	69.053	15.812	57.281	10.860

	Carrying amounts	Contractual cash flows	Up to 1 year	1-2 years	2-5 years	More than 5 years
2009						
Borrowings	53.264	55.494	7.640	7.567	22.254	18.033
Finance lease obligations	22.796	23.591	5.365	5.296	12.930	-
Trade, other payables and provisions	77.095	77.095	54.739	6.849	15.507	-
Bank overdrafts	1.226	1.226	1.226	-	-	-
Total	154.381	157.406	68.970	19.712	50.691	18.033

36.3 Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates, equity prices and fuel prices will affect the Group's and the Company's income or the value of their holdings of financial instruments.

36.3.1 Interest rate risk

Interest rate risk is the risk that the value of financial instruments may fluctuate due to changes in market interest rates. Borrowings made at variable rates expose the Group and the Company to cash flow interest rate risk and may also have an impact on their profitability. Borrowings made at fixed rates expose the Group and the Company to fair value interest rate risk. The Group's and the Company's management monitors interest rate fluctuations on a continuous basis and acts accordingly.

36. RISK MANAGEMENT (continued)

36.3 Market risk (continued)

36.3.1 Interest rate risk (continued)

At the reporting date the interest rate profile of interest-bearing financial instruments, that comprise cash and cash equivalents, borrowings and finance lease obligations and are presented in notes 23, 27 and 28, is reported below:

	2010	2009
	€000	€000
Variable rate:		
Financial assets	**6.845**	15.459
Financial liabilities	**(66.673)**	(77.286)
	(59.828)	(61.827)
Fixed rate:		
Financial assets	**23.026**	42.715

Interest rate risk - Sensitivity analysis

An increase of 100 basis points in interest rates would have decreased profit for the year 2010 by approximately €273 thousand (2009: €164 thousand). This analysis assumes that all other variables, in particular foreign currency exchange rates, remain constant. For a decrease of 100 basis points there would be an equal and opposite impact.

36.3.2 Currency risk

Currency risk is the risk that the value of financial assets and liabilities may fluctuate due to changes in foreign currency exchange rates. Currency risk arises when future commercial transactions, as well as recognised assets and liabilities are denominated in a currency that is not the Group's and the Company's measurement currency. The Group and the Company are exposed to foreign exchange risk arising from various currency exposures primarily with respect to the United States Dollar and the Great Britain Pound. The Group's and the Company's management monitors exchange rate fluctuations on a continuous basis and act accordingly.

The Group and the Company, as a matter of principle, seek to reduce their exposure to fluctuations in the rates of exchange of foreign currencies. For this purpose the Group and the Company try to achieve natural hedging by matching as far as possible the currencies of their borrowings or liabilities with those of their future incomes or other future receivables based on contractual agreements thus reducing their net exposure in each currency. Such natural hedging includes the following:

- Finance lease in Great Britain Pounds

  The repayments of the finance lease in Great Britain Pounds hedge effectively against forecasted inflows on their contractual payment dates i.e. on 30 April and 31 October of each year until 2014.

- Non-current security deposits and aircraft maintenance reserves

  The non-current security deposits and aircraft maintenance reserves, which are included in non-current receivables, relate to the operating lease contracts for the A319, A320 and A330 and aircraft and hedge against forecasted outflows in US Dollars on the termination of the operating lease contracts.

The Group and the Company also use forward foreign currency contracts to hedge their exposure to exchange rate fluctuations.

36. RISK MANAGEMENT (continued)

36.3 Market risk (continued)

36.3.2Currency risk (continued)

Currency risk - sensitivity analysis

Given the breakdown of the values of the Group's and the Company's assets and liabilities and income and expenditure by currency, strengthening of the Great Britain Pound against the Euro by one basis point (e.g. from 1,14 €/£ to 1,15 €/£) during 2010 would have increased profit by approximately €335 thousand (2009: €307 thousand) and decreased equity by approximately €94 thousand (2009: €112 thousand). Weakening of the Great Britain Pound against the Euro by one basis point would have an equal and opposite effect on the results and on equity.

Similarly, strengthening of the US Dollar against the Euro by one basis point, (e.g. from 1,40 US$/€ to 1,39 US$/€) during 2010 would have decreased by approximately €595 thousand (2009: €522 thousand) and increased equity by approximately €101 thousand (2009: NIL). Weakening of the US Dollar against the Euro by one basis point would have an equal and opposite effect on the results and on equity.

This analysis assumes that all other variables, in particular interest rates, remain constant.

36.3.3Equity price risk

The Group and the Company are not directly exposed to changes in equity prices since they do not hold any shares of quoted companies.

36.3.4 Fuel price risk

Fuel cost is the second highest single expense category for the Company and the Group in 2010. Changes in fuel prices can significantly affect the Group's and the Company's results in any particular year. The Group's and the Company's management monitor movements in fuel prices on a continuous basis and act accordingly. Efforts are made to pass on to passengers as much of any increases incurred as possible through respective increases in the fuel surcharge imposed. In addition the Group and the Company use fuel hedging instruments to reduce the fluctuation in the cost of fuel.

Fuel price risk - sensitivity analysis

An increase in the fuel price by US Dollar 1 per metric ton would have an adverse effect of approximately US Dollars 112 thousand on the results of the Group and the Company (2009: US Dollars 116 thousand) to the extent that no recovery of this increase is made through an increase in fuel surcharges payable by passengers.

Hedging Committee

As part of their overall market risk management policy the Group and the Company have set up a hedging committee which meets at regular intervals to consider and decide on action to be taken in order to deal with the various types of risk to which they are exposed.

36. RISK MANAGEMENT (continued)

36.4 Tourist industry risk

- The political situation in Cyprus may seriously impact the tourist industry.
- The operations of the Company are characterised by a high degree of seasonality, between the summer and winter months. Specifically, the Group's and the Company's high season is in the summer, between April and October, and its low season between the months of November and March.
- The competitiveness of Cyprus in the international tourist market and the increasing competition between the Cypriot and other regional competing markets may affect the results of the Group and the Company.
- The economic situation in Europe and the political upheavals in the Middle East may adversely affect the travel industry and consequently the Group's and the Company's results, as these comprise core markets for the Group and the Company.

The Company reviews the above risks and considers ways to address them.

36.5 Competition risk

There is stiff competition in the markets in which the Group and the Company operate. The Group and the Company face direct competition from other scheduled and chartered airline companies flying directly to their own destinations, as well as indirectly from companies providing flights through intermediate stops. Some competitors have lower costs than the Group and the Company or have other comparative advantages. This competition can lead to pressure on fares, which negatively affects the financial results of the Company. The Company makes every effort possible to increase its competitiveness by reducing operating costs as well as through setting appropriate marketing strategies and optimisation of its flight operations.

36.6 Operational risk

Operational risk is the risk that derives from the deficiencies relating to the Group's and the Company's information technology and control systems as well as the risk of human error and natural disasters. The Group's and the Company's systems are evaluated, maintained and upgraded continuously.

36.7 Compliance risk

Compliance risk is the risk of financial loss, including fines and other penalties, which arises from non-compliance with laws and regulations of the state and other supervisory authorities. The risk is limited to a significant extent due to the supervision applied by the responsible officials, as well as by the monitoring controls applied by the Group and the Company.

36.8 Litigation risk

Litigation risk is the risk of financial loss, interruption of the Group's and the Company's operations or any other undesirable situation that arises from the possibility of non-execution or violation of legal contracts and consequentially of lawsuits. The risk is restricted through meticulous vetting of all contractual and legal obligations and the use of sound legal advice on the contracts used by the Group and the Company to execute their operations.

36.9 Reputation risk

The risk of loss of reputation arising from the negative publicity relating to the Group's and the Company's operations (whether true or false) may result in a reduction of their clientele, reduction in revenue and legal cases against the Group and the Company. The Group and the Company apply procedures to minimise this risk.

36. RISK MANAGEMENT (continued)

36.10 Other risks

The general economic environment prevailing in Cyprus and internationally may affect the Group's and the Company's operations to a great extent. Concepts such as inflation, unemployment, and development of the gross domestic product are directly linked to the economic course of every country and any variation in these and the economic environment in general may create chain reactions in all areas hence affecting the Group and the Company.

36.11 Capital management

The Company manages its capital to ensure that it will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Company's overall strategy remains unchanged from last year.

36.12 Fair value

Fair value represents the amount for which an asset may be exchanged or a liability may be settled in an arm's length transaction. The fair value of financial assets and liabilities of the Group and the Company at the reporting date is presented in the respective notes to the consolidated and Company's separate financial statements when this is required. The fair value of financial assets and liabilities of the Group and the Company is approximately the same as their carrying value as presented in the statement of financial position.

37. RELATED PARTY TRANSACTIONS

The Company is a public company listed on CSE. 69,57% of its share capital is held by the Government of the Republic of Cyprus and the remaining 30,43% is widely spread amongst investors.

37.1 Directors' emoluments

The Group	Executive		Non-Executive	
	2010	2009	**2010**	2009
	€'000	€'000	**€'000**	€'000
Remuneration / fees	**4**	4	**24**	24
Other benefits	**5**	6	**33**	37
	9	10	**57**	61

The Company	Executive		Non-Executive	
	2010	2009	**2010**	2009
	€'000	€'000	**€'000**	€'000
Remuneration / fees	**4**	4	**13**	14
Other benefits	**5**	6	**33**	37
	9	10	**46**	51

On 16 December 2010 Mr George Mavrocostas was appointed Executive Chairman.

37. RELATED PARTY TRANSACTIONS (continued)

37.2 Related party transactions

	The Group		The Company	
	2010	2009	**2010**	2009
	€'000	€'000	**€'000**	€'000
Purchases of goods/services				
Directors[(1)] – aircraft supplies and other services	**65**	86	**65**	86
Swissport Cyprus Limited – ground handling services	**8.204**	8.359	**8.204**	8.359
	8.269	8.445	**8.269**	8.445
Sales of goods/services				
Zenon N.D.C. Limited – management fees	**-**	-	**56**	54
Swissport Cyprus Limited - Services	**532**	609	**532**	609
	532	609	**588**	663

(1) Transactions with Directors also include their spouses and minor children as well as companies in which they hold, directly or indirectly, at least 20% of the voting rights that are defined as related parties.

The above transactions were made on an arm's length basis as part of the ordinary activities of the Group and the Company.

37.3 Year-end balances

	Note	**2010 €'000**	2009 €'000
Receivables			
Zenon N.D.C. Limited	21	**-**	**572**
Payables			
Swissport Cyprus Limited	29	**435**	**448**

The above balances are unsecured, bear no interest and are repayable on demand.

37.4 Significant agreements with key management personnel

At reporting date there were no significant agreements between the Group or the Company and key management personnel.

38. DIRECTORS' INTEREST IN THE SHARE CAPITAL OF THE COMPANY

As at 31 December 2010 and at the date of approval of the consolidated and Company's separate financial statements, the beneficial interest in shares of the Company's directors, their spouses and minor children as well as companies in which they hold, directly or indirectly, at least 20% of the voting rights are set out below:

	6 April 2011 %	31 December 2010 %
George Kallis	4,25	4,25
Pavlos Photiades	2,91	2,91
Constantinos (Akis) Lefkaritis	0,37	0,37
Marios Hadjigavriel[(1)]	0,00	0,00

(1) Mr Hadjigavriel's interest in the share capital of the Company appears as nil because of the negligible number of shares he holds.

39. SHAREHOLDERS HOLDING MORE THAN 5% OF THE SHARE CAPITAL OF THE COMPANY

As at 31 December 2010 at the date of approval of the consolidated and Company's separate financial statements the shareholders holding more than 5% of the Company's issued share capital, directly or indirectly, are set out below:

	6 April 2011 %	31 December 2010 %
Government of the Republic of Cyprus	69,57	69,57

40. EVENTS AFTER THE REPORTING DATE

40.1 An action plan has been prepared by the Company with a view to safeguarding its long term survival, in the context of which:-

- The flight programme of the Company has been significantly modified and as a result one A330 aircraft is available for sub-leasing, something which is expected to boost considerably the revenues of the Company;

- A redundancy plan for a significant number of employees and cuts in the emoluments of the rest of the staff has already been implemented; and

- In the forthcoming negotiations for the renewal of the collective agreements, the Company will be seeking significant changes in its current mode of operation that will yield substantial savings.

40.2 On 2 March 2011, the Company completed the sale of one A320-200 aircraft to Myanmar Airways International Co Ltd for US Dollars 6 million. The sale was made in the context of the decision of the Company for the partial renewal of its fleet with the replacement of the older A320 aircraft it has in its fleet with younger aircraft. The sale of the said aircraft resulted in a profit of €1,6 million.

40.3 One of the Company owned A320 aircraft that has exhausted its useful economic life, was sold by the Company on consignment for teardown and sale of its parts in February 2011.

40.4 One of the three aircraft engines that were included in non current assets held for sale at the reporting date was sold in March 2011 for US$0,8 million.

40.5 An agreement was announced on 22 March 2011 for a wide-ranging cooperation between the Company and Olympic Air that provides amongst others for the carrying of code sharing direct scheduled flights of the Company and Olympic Air (domestic and international) as well as for cooperation in other areas such as the provision of ground handling services at the airports of Cyprus and Greece and the exploration of all options for the utilisation of the infrastructures the two airlines have at the airports.

END

CYPRUS AIRWAYS PUBLIC LIMITED

REPORT ON CORPORATE GOVERNANCE

CYPRUS AIRWAYS PUBLIC LIMITED

Report on Corporate Governance

Part A

Adoption of Corporate Governance Code

The Cyprus Airways Group recognizes the importance of implementing sound corporate governance policies, practices and procedures. As a company listed on the Cyprus Stock Exchange ("CSE"), Cyprus Airways embraces the principles of the Corporate Governance Code issued by the CSE, as the same is amended from time to time (the "Code").

In the light of the provisions of the Code, the Board hereby submits to the Shareholders this Report on Corporate Governance for the year ending 31 December 2010.

Part B

Observance of the provisions of the Code

At present, the Corporate Governance Code is not fully implemented. It is pointed out that specific provisions of the Code cannot be adopted by the Company as they are contrary to and/or do not accord with the provisions of the Articles of Association of the Company, based on which, the Government of the Republic, enjoys special rights and privileges which relate mainly to the appointment of Directors by the Government and the length of their period of office.

Furthermore, no separation exists at present between the positions of the Chairman of the Board of Directors and the Chief Executive Officer.

There are also some other deviations from the Code and the Board of Directors intends to remedy these deviations, as soon as this may become feasible.

CHAPTER A: DIRECTORS

A.1. Board of Directors

The Company is governed by a Board of Directors comprising eleven (11) persons which meets at frequent intervals as a result of which the number of annual Board meetings greatly exceed the minimum of six (6) meetings specified by the Code.

The Board of Directors has officially adopted a list of issues regarding which decisions must be made only by the Board of Directors (Articles A.1.2. and A.1.3.).

According to current Company practice, and due to the nature and complexity of the operation of an airline such as Cyprus Airways, not only the matters mentioned in article A.1.2., but a large number of other important matters concerning the operation of the Company are discussed or decided upon at Board level.

The Board of Directors recognises the need for the provision of adequate information to its members on issues requiring specialised knowledge, which frequently arise in the fields of the diverse activities of the Company and in addition to the Company's professional advisers in Cyprus the Board of Directors consults and/or invites experts from abroad, where it deems necessary, with a view to providing to the members the fullest possible information and independent advice for the best possible performance of their duties (Article A.1.4.).

A.2 Balance of Board of Directors

Of the maximum number of eleven (11) Directors, eight (8), including the Chairman, are appointed by the Government. The remaining three (3) are elected by the Private Shareholders at a separate General Meeting, for a one-year (1) period of office, and may stand for re-election. The Directors possess the qualifications and experience to be able to participate actively and effectively in the Board's decision-making process. With the exception of the Chairman, during the year in question none of the other members of the Board of Directors had any executive powers.

Under the Company's Articles of Association, the Board of Directors has the power to appoint and does in fact appoint, be it on a continuous or on an ad hoc basis, committees consisting of Board members with such powers and terms or reference as the Board may designate, for the review and handling of various matters.

During the year under review the composition of the Board was as follows:

Kikis N Lazarides (Executive Chairman up to 20/5/10, the date when Mr G Mavrocostas was appointed as Chief Executive Officer. He remained as Chairman of the Board of Directors until his resignation on 4/8/2010).

George Mavrocostas (He was appointed as Chairman on 16/12/2010 in addition to his duties as Chief Executive Officer).

Based on Article A.2.3 of the Code, the Board of Directors consider the following non executive Directors that have been appointed by the Government as independent

Andreas Philippou
Charalambos Alexandrou
Michalis Antoniou
Marios Xenophontos (resigned 13/7/2010)
Kypros Ellinas
Andreas Chrysafis (appointed 16/12/2010)
Marios Hadjigavriel (appointed 16/12/2010)

Regarding Mr A Philippou it is clarified that although his two terms in office as a member of the Board of Directors exceed in total nine (9) years, the interval of ten

(10) years that occurred between the first and the current tenure is such that justifiably allows the two terms not to be aggregated for the purpose of measuring the nine (9) year limit. Besides this, it should be noted that neither during his first tenure of office nor during the present one, Mr A Philippou was a shareholder or had any other financial interest in relation to the Company.

The non independent non executive Directors that have been appointed by the Government are the following:

Georghios Georghiou
Christos Patsalides (resigned 16/12/2010)

Members that have been elected by the Private Shareholders are the following:

George Kallis (non-independent based on Article A.2.3(h) of the Code, non-executive)
Pavlos Photiades (non-independent based on Article A.2.3(h) of the Code, non-executive)
Constantinos Lefkaritis (independent, non-executive)

Prior to the separate general meetings of the Private Shareholders for the purpose of electing Directors, the candidates' CVs are distributed among the voting shareholders.

Senior Independent Director

No Senior Independent Director has been appointed. There is though direct communication of the shareholders with the Company's Secretariat.

A.3 Supply of Information

The Company recognises the need for timely and full information to be provided to the members of the Board of Directors with regard to matters falling within the scope of their powers, in order to ensure that they are able to perform their duties in an effective way. The Management therefore makes every possible effort to see to it that comprehensive briefs are dispatched in good time to the members regarding the business to be discussed by the Board of Directors in a forthcoming meeting or regarding serious matters that have unexpectedly arisen and of which the Board must be informed, and, in certain cases, upon which decisions must be taken immediately. Minutes of Meetings of the Board of Directors are unfailingly presented for ratification at the meeting immediately following that to which they relate.

A.4 Appointments to the Board of Directors

Pursuant to the Articles of Association of Cyprus Airways, the Board of Directors does not have the authority to appoint new Directors, and therefore no Nominations Committee has been set up. The Government and Private Shareholders appoint directors prorata to their shareholding in the Company's share capital. Based on the present shareholding percentage, the Government appoints eight (8) Directors for an indefinite term and the Private Shareholders appoint three (3) Directors at a separate General Meeting of the Private Shareholders for a term of one (1) year.

A.5 Re-election

The three (3) Directors who are elected by the Private Shareholders as mentioned above are eligible for re-election. The appointment of the remaining eight (8) by the Government is for an indefinite period. The Government may at any time revoke the appointment or replace any of the Directors it has appointed. In view of these statutory provisions there can be no compliance with the provisions of Article A.5 of the Code.

CHAPTER B: REPORT ON REMUNERATION OF DIRECTORS

In 2007 a Remunerations Committee was set up comprising the following members:

Andreas Philippou
Christos Patsalides (up to 16/12/10)
George Kallis

Shareholders at a General Meeting approve the remuneration of Directors in their capacity as members of the Board of Directors.

Further details of Directors' remuneration and benefits for the year 2010 are set out in the attached table.

Further details of Directors' remuneration and benefits for the year 2010 are set out in Note 37 of the Consolidated and Company's Separate Financial Statements for the year 2010.

CHAPTER C: ACCOUNTABILITY AND AUDIT

C.1 Financial Reports

The Company has proceeded to a large extent with the implementation of the Restructuring Plan as submitted to the European Commission for the approval of the restructuring aid. The implementation of the said Plan aims at securing the Group's long term viability.

Cyprus Airways operates in a highly competitive environment which has become even more stressful as a result of the global financial crisis. The Company is closely monitoring the situation and works out plans to deal with developments as they arise. It should be noted in this respect that the existence of peace in labour relations constitutes an indispensable prerequisite for the prosperity and growth of the Company and to this effect concerted efforts are made in cooperation with the Trade Unions.

During the year under review, the Company continued its efforts for the replacement of its owned 1989-1993 vintage A320 aircraft. For this purpose the Company has proceeded with the lease from the leasing company CIT of three (3) relatively new A320 aircraft, one of which was delivered during 2010 whereas the other two at the beginning of 2011. In September 2010 the Company sold one (1) of its owned A320 aircraft for US Dollars 6,175 million and another one in March 2011 for US Dollars 6 million. Additionally one (1) of the A320 aircraft which completed its useful economic life was sold by the Company on consignment for teardown and sale of its parts. At the same time the Company proceeded with redesigning its flight schedule which resulted in one (1) of the two (2) leased A330 aircraft becoming surplus to requirements and available for subleasing.

Other significant events that affect the financial statements of 2010 were the sale of the subsidiary ZENON N.D.C. Limited to the Sabre Group for the amount of US Dollars 5,5 million, a transaction which brought to the Company a profit of Euro 3,6 million, as well as the amount of Euro 20 million which was by Law paid by the Government to the Company as compensation for the financial loss that the Company suffered during the period 2004-2010 due to the ban of its flights over Turkish airspace.

In view of the uncertainty arising from the global economic crisis, no accurate forecasts can be made for the current year. The Company will continue to monitor the situation and adjust its plans accordingly. Further information will be provided through the interim management statement and the Group is reasonably expected to continue its operations as a going concern for the next twelve months.

C.2 Internal Audit

The Board is generally responsible for maintaining a sound internal audit system, which will secure, among other things, the Company's assets, the reliability of financial data and compliance with current legislation.

The Management of each business unit of the Company is charged with the introduction and operation of a satisfactory system of internal controls, which accords with the nature and scope of the Company's operations and which must include as a minimum the following:

- A clear organisational structure and allocation of responsibilities including supervision
- Written procedures for the main areas of activity
- Preparation of regular financial and statistical performance data
- Adequate support of operations by reliable and safe computer systems
- Approval of transactions by duly authorised persons
- Adequate insurance cover

Additionally a Risk Management Committee has been set up with regard to Currency and Fuel Hedging which is composed of non-executive Directors and in which senior management officers also participate.

The effectiveness and adequacy of the Company's internal control system, including its financial and operating systems, are inspected regularly by the Internal Audit Department. The Department's findings/conclusions are communicated to the Audit Committee, which notifies the Board of any important issues that might arise and submits the Internal Auditor's Annual Report to the Board. The Audit Committee also makes recommendations to the Departments concerned for the rectification of the insufficiencies/weaknesses that have been discovered.

The Board of Directors certifies that these systems, as well as the procedures to verify the correctness, completeness and validity of the information provided to investors operate successfully.

The Board of Directors also certifies that no infringement of the Securities and Cyprus Stock Exchange Laws and Regulations has come to its attention, which is not already known to the competent stock exchange authorities.

Directors' Borrowing Powers

At Cyprus Airways and its subsidiaries no loans are granted to the members of the Boards of Directors. Consequently, there is no policy or procedure for the granting of such loans.

C.3 Audit Committee, Auditors and Compliance with the Code

The Board has set up an Audit Committee as provided by the Code. The Audit Committee is composed entirely of independent, non-Executive Directors, with written terms of reference which accord with the provisions of the Code. The Committee is composed of Messrs Andreas Philippou (Chairman), Charalambos Alexandrou and Michalis Antoniou (Members).

During the year under review the Audit Committee had thirteen (13) meetings, as against the minimum of two (2) provided by the Code. At these meetings, the matters discussed have included the financial statements of the Company, reports prepared by the Internal Audit Department on various issues and reports concerning the internal audit systems and their effectiveness. Minutes of these meetings were taken by the Company's Internal Auditor, and were ratified by the Chairman and the Members of the Committee.

In order to be in a position to perform its duties, the Committee has full access to all information and technical know-how from the competent Departments of the Company, as well as from the Auditors and may seek independent professional advice.

The Committee's responsibilities include, inter alia, the following:

1. To oversee and monitor the work of the Internal Audit Department and to approve its work schedule.
2. To oversee the choice of accounting principles for the Company's financial reports.

3. To examine all substantial transactions with persons associated with the Company and to ensure that these are conducted at arms length and are compatible with the Company's regulations and policies.
4. To ensure the preparation by the Board of Directors of an Annual Report on Corporate Governance, in association with the Internal Auditor and the Code Compliance Officer.
5. To review the internal audit systems and the procedures verifying the correctness, completeness and validity of the information provided to third parties.
6. To examine and evaluate periodically Company policy in the area of risk management and its effect on the Company.
7. To submit to the Board suggestions with regard to the appointment of the Auditors, and their fees.
8. To observe the nature and extent of any services provided by the Auditors that are not related to auditing to ensure that these are not on a scale that undermine their independence and objectivity.

Officer for Compliance with the Corporate Governance Code

The Board of Directors has appointed Mr George Spyrou, Corporate Secretary/Head of Legal Services of the Group, as the Officer for Compliance with the Corporate Governance Code.

CHAPTER D: RELATIONS WITH SHAREHOLDERS

D.1 Constructive use of Annual General Meeting

The Company's Annual General Meetings are conducted in accordance with the provisions of the law, the Company's Articles of Association and the provisions of the Code.

D.2 Equal Treatment of Shareholders

All Company shareholders enjoy equal treatment and in the course of the Annual General Meeting they are given an opportunity to ask questions to the Board.

The Chairman of the Board grants to the Shareholders the opportunity for free discussion on the items included in the agenda of the General Meetings.

There is no express provision in the Articles of Association of Cyprus Airways granting the right to shareholders whose combined shares amount to at least 5% of the share capital, to enter matters to be discussed at the general meetings, as required by Article D.2.1 (e) of the Code. It is noted, however, that Regulation 46 of the Articles of Association grants to shareholders the right to convene an Extraordinary General Meeting, and so does Section 126 of the Companies Law. Moreover, the Board is compelled to convene an extraordinary general meeting of the Company following a request by shareholders who, at the time of submission of the request, hold a combined total of at least 10% of the Company's shares with a voting right.

The Board of Directors has appointed Ms Natasa Christou as Investor Liaison Officer.

Information concerning the Company is provided in good time and free of charge to all shareholders.

Reporting to the shareholders for own material interest or conflict of interests of the members of the Board and for mergers and/or acquisitions

The Board of Directors informs the shareholders of the Company that no own material interest has arisen from transactions of the Company or any other conflict of own interests with those of the Company.

Directors' emoluments and other benefits for 2010

Directors	Emoluments	Other benefits	Total
	€	€	€
George Mavrocostas	3.555	-	3.555
Kikis Lazarides	815	5.143	5.958
Charalambos Alexandrou	1.367	4.201	5.568
Michalis Antoniou	1.367	1.057	2.424
Andreas Chrysafis	56	-	56
Kypros Ellinas	1.367	3.706	5.073
George Georghiou	1.367	2.324	3.691
Marios Hadjigavriel	56	-	56
George Kallis	1.367	3.122	4.489
Constantinos (Akis) Lefkaritis	1.367	1.083	2.450
Christos Patsalides	1.311	2.666	3.977
Andreas Philippou	1.367	4.425	5.792
Pavlos Photiades	1.367	7.205	8.572
Marios Xenophontos	732	2.756	3.488
Total	**17.461**	**37.688**	**55.149**