AIR MALTA p.l.c.

Annual Report and Consolidated Financial Statements 31 March 2017

Company Registration Number: C 2685

Directors' report

The Directors present their report and the audited financial statements of Air Malta p.l.c. for the year ended 31 March 2017.

Principal activities

The principal activity of Air Malta p.l.c. is the undertaking of airline operations, which include activities such as ground handling and cargo operations.

Review of the business and results

General Overview

Air Malta p.l.c. has been in a restructuring process for a number of years with the intent of returning the Company to profitability in the near future. The results can be divided into two: those of the operation of the Airline and the results of the Group.

With reference to the operation of the Airline, the airline's loss for the year ended 31 March 2017 amounted to €13.1 million compared to €4.4million the year before.

With reference to the results of the Group, during financial year ended 31 March 2017, the Group incurred losses after tax from continuing operations amounting to €14.9 million (2016: €6.8 million). The Group's liabilities exceeded its assets as at 31 March 2017 by €64.6 million (2016: €64.3 million).

Financial Results

After accounting for non-operational costs and losses and discontinued operations (Shield Insurance dissolution), the airline's loss for the financial year 2017 amounted to €13.1 million (2016: €4.4 million).

The revenue from airline operations for the reporting period amounted to €192.2 million compared to €220.5 million registered in the preceding financial year. The lower revenues compared to the prior year were mainly driven through a capacity reduction of 20% (2 Aircraft less with a fleet remaining at 8 aircraft in FY 16/17). Furthermore, the yield (average ticket price) was negatively impacted by market pressure on ticket prices mainly due to substantially lower fuel costs. Part of the revenue shortfall of airline activities was offset by other revenue streams (i.e. industry standard admin fees and other charges).

The airline's operational costs decreased from €226.5 million in the financial year ended 31 March 2016 to € 205.9 million in the financial year ended 31 March 2017. The decrease in operating costs was driven by fuel savings due to less flying and a 20% reduction in fleet resulting in lower aircraft lease and maintenance costs, some efficiencies and savings on a number of contracts and admin expenses.

Air Malta had to absorb a financial hit during the reporting period due to fuel hedging contracts in place at a higher average price and for a longer period when compared to competitors. Therefore, Air Malta was not in a position to benefit in full from the very low fuel prices in FY 2016/17.

Taking all this into account the Group registered a loss for the year of €14.6 million, compared to a small profit of €0.1 million the preceding year. However, these results are mainly driven by fuel hedging contracts referred to above which had a negative effect of €14.3 million. All of these contracts have come to an end in March 2017 which puts Air Malta back in line with competition as far as fuel costs are concerned.

Information relating to the Group's use of financial instruments is disclosed in Note 2 – 'Financial risk management' to the financial statements.

Directors' report - continued

Restructuring process

Air Malta p.l.c. has been incurring losses on its core Airline business for several years. In order to address the Airline's commercial challenges, its Restructuring Plan was devised setting out the turnaround strategy for the five-year period FY2012 to FY2016. The Plan was drawn up following the Government's notification – and subsequent European Commission approval – of the provision of a €52 million Rescue Aid Loan to the Airline. According to the Restructuring Plan, a capital increase of €130 million was necessary to restructure the Group. The European Commission had communicated its decision confirming approval of Restructuring Aid for Air Malta p.l.c. and it resolved that a €130 million aid amount granted to the Airline for its restructuring was in line with EU state aid rules.

The Restructuring Plan was intrinsically linked to the ability of the Airline to successfully execute a range of cost and revenue initiatives. The Restructuring Plan indicated that the level of losses registered could be turned around to profitability by FY2015. However, these financial result targets have not been achieved in view of difficult market conditions in certain territories and the delayed implementation of certain cost initiatives envisaged in the Plan.

In this context and taking into account the term of the Restructuring Plan, during FY2016 the Board of Directors of Air Malta p.l.c. had approved a 3 year Business Plan covering FY2016 – FY2018. According to this Business Plan the level of losses could be turned around to breakeven by FY2017 and to profitability by FY2018. The key assumptions within the Business Plan comprised:

- Fleet rationalisation geared towards operating with 8 aircraft, increasing aircraft utilisation levels, with a positive impact on the Airline's cost base;
- Revenue strategy based on increasing seat load factors but reducing yields, with a more effective distribution system;
- Cost savings in staff and related employment costs attributable to renegotiation of collective agreements and enhanced productivity measures;
- Adoption of specific mechanisms in relation to fuel price and foreign exchange rate management.

However, subsequent to the approval of the Business Plan it transpired that further losses were expected to be incurred during FY2017 and FY2018. The FY2017 financial results have been adversely impacted by a decline in revenue amounting to €28.3 million when compared to the comparative figure, which contributed in a significant manner to the increase in the Airline's operating loss from €5 million to €13.7 million. In view of these unforeseen circumstances, KM has had to continually modify and adapt its operations to mitigate – insofar as reasonably possible – the negative impact of these market conditions, while at the same time pursuing its restructuring process. This adaptation has constrained the Airline's ability to restructure within the prescribed timeframe and indeed has delayed the implementation of the Plan.

Directors' report - continued

Restructuring process - continued

The planned revenue enhancement and cost management initiatives assumed within the plan, as highlighted above, could not be implemented as envisaged but had to be shifted to later periods. Hence, the explicit period of the approved 3 year Business Plan had been shifted to FY2018 – FY2020 with break even objective targeted for FY2019 and profitability for FY2020, as approved by the Board of Directors.

However the forecast FY2018 financial results, based on information which is available as at the date of authorisation for issue of these financial statements, now reflect the possibility of achieving break even within FY2018, one year in advance of the target established within the Business Plan referred to above. The forecast FY2018 financial results are based on actual results up to 30 September and a detailed forecast for the remaining six month period. The improved financial results, when compared to those envisaged within the Business Plan highlighted above, are attributable to increased revenues as a result of higher activity levels, reflecting market conditions as well as local economic activity, and to cost management measures, particularly in respect of fuel and other operating expenditure.

In the context of these developments subsequent to the end of FY2017, the Board of Directors has approved a revised 3 year Business Plan covering FY2019 – FY2021 which is considered a revenue growth driven business plan. This business plan comprises the following strategic initiatives:

- Increase in fleet size from 8 to 9 aircraft throughout FY2019;
- Expansion of the network through maximisation of frequency on existing routes, re-introduction of certain routes or introduction of specific new routes;
- Revenue management strategy based on dynamic optimisation of the network;
- Revised customer centric sales approach focusing on sales through different channels;
- Unbundling of the product with focus on sales of ancillary products or services;
- Rightsizing the Airline's number of employees through the implementation of voluntary/early retirement schemes;
- Managing the entity's payroll cost base through renegotiated collective agreements and revised work practices.

Accordingly, this revised Business Plan following the possible achievement of break-even financial results projects profitability throughout the 3 year explicit period FY2019 – FY2021. Net operating cash inflows are expected throughout the explicit 3 year period.

The Airline's projected financial position and cash flow position as at 31 March 2018 is such that total liabilities exceed total assets and current liabilities exceed current assets. The revised Business Plan contemplates the following measures to address the Airline's financial position:

- The sale of certain landing rights or slots to another AOC and AOL licensed company owned and controlled by the Government at arm's length consideration;
- The long-term lease back of the abovementioned slots by the Airline at commercial terms and conditions;
- Utilisation of the net proceeds from the disposal of slots referred to above to meet obligations in respect of repayment of borrowings and certain other liabilities, thus funding losses incurred up to FY2017, and to meet the costs of implementing voluntary/early retirement schemes.

The Government, as principal shareholder, has taken cognisance of and has approved the assumptions within the revised Business Plan. The principal shareholder has communicated to the Board of Directors that it will ensure that the Board is in a position to implement these initiatives. The shareholder has also intimated that it will provide all the necessary backing and support to the Board and to the Airline's management in this respect, as allowed by European legislation. The principal shareholder has informed the Board that it considers it essential to ensure that all requirements regarding both the form and substance of the implementation of the Business Plan are fulfilled.

Directors' report - continued

Restructuring process - continued

The Government, as Air Malta's principal shareholder, has approved the FY2019 – FY2021 Business Plan and the implied strategic moves representing the key assumptions, and accordingly has given the Board the mandate to proceed with the implementation of the Plan.

The main shareholder would like to protect its interest in certain assets of the Company, including specific landing rights or slots held by the Company. The discussions on this matter between the Government and the Board of directors of the Company have resulted in a proposed arrangement whereby the Company will transfer certain slots to another company owned and controlled by the main shareholder, at arm's length consideration. This transaction has been agreed upon in principle by both parties based on a recent valuation carried out by an independent valuer. This is intended to protect this asset in the event of any future strategic partner or any other partnership arrangement with the Company.

The Company's directors have considered, and are in agreement with, the proposed arrangement by the main shareholder, to transfer certain airport slots to another company as noted above owned by the main shareholder.

As a condition of this transfer, in order to protect the Company's operations, a long-term lease agreement, providing for the lease of the slots from the transferee to the Company, would also be simultaneously entered into. The proposed terms of the long-term slot lease agreement have been agreed to in principle by both parties. All transactions, including the transfer of ownership of the slots and the lease of such slots, would be effected on commercial terms.

The Board has been informed that the intended actions, highlighted above, have been approved by the main shareholder. The Board has been informed by the main shareholder that, based on legal advice obtained, it is highly likely that the respective slot coordinators will not object to the transactions referred to above and would consider the proposed arrangement as acceptable in practice once detailed disclosure to the slot coordinator of the genuine and arm's length basis of the transaction has been effected. The Board has also been informed by the main shareholder that, based on legal advice obtained, taking into account the arm's length terms and conditions of the proposed transactions, it is deemed that the proposed arrangements will not give rise to any form of state aid.

After having considered the transactions proposed, as well as the mechanics of the transfer of such slots, including the continued right of the Company to continue benefitting from the use of the slots through the long-lease agreement, the directors are of the view that the proposed transaction is in the best interest of the Company and accordingly are in agreement with the proposed arrangement; with the proposed transactions approved in principle by the Board of directors of the Company.

Directors' report - continued

Financing commitments

The main steps in the financing process reflected within the Restructuring Plan and executed in prior financial years were the following:

- Disposal of the principal property owned by the Group for an amount of €66.2 million to Government;
- Disposal process of the parent Company's subsidiaries and other strategic investments which had been earmarked for sale;
- Granting of a commercial loan of €52 million by Government to the Group which had been converted into equity;
- Allocation of €78 million of fresh equity to Government.

The adverse financial results for FY2016 and FY2017 have modified the Group's financing requirements emanating from the Restructuring Plan. The funding plan implied within the 3 year Business Plan FY2018 – FY2020 had been formally approved and supported by the Government, as the Group's principal shareholder. In this respect, during FY2017 the Government had committed to inject additional equity into the Group throughout FY2018, reflecting the maximum additional financing requirement emanating from the FY2018 – FY2020 Business Plan.

No injections equity or otherwise have been considered necessary and neither have been effected to date in view of the developments highlighted above..

The most recent FY2019 – FY2021 Business Plan, approved by the Board subsequent to the end of FY2017, is projected to generate operating net cash inflows throughout the 3 year explicit period as highlighted previously. This is attributable to a revised business plan which is driven by projected revenue growth, as approved by the main shareholder, hence reflecting a modified stance by the Board of directors and the Company's main shareholder. However, the forecast shortfall in funding as at 31 March 2018, representing the projected financing requirement at that point in time principally as a result of the losses registered in financial years up to FY2017, will be mainly met through the proposed transactions reflected within the revised Business Plan. These proposed transactions comprise the transfer of landing rights to an AOC and AOL licensed company owned by the main shareholder, which arrangement has been approved in principle by both parties to the arrangement.

Key risks and material uncertainties

Whilst the Directors express their confidence in the ability to return the Group to positive financial results, this depends on the successful implementation of the revenue enhancement and cost management initiatives highlighted as key assumptions to the Business Plan FY2019 – FY2021. The ability to implement this revised business plan also depends on the outcome of the interaction with the respective slot coordinators and with other stakeholders, such that the Government, as the principal shareholder, executes the proposed arrangement in respect of the transfer of landing rights to meet the funding requirements of the Airline to be able to achieve the implementation of the Business Plan.

The Company's Board of directors has been informed by the main shareholder that, based on legal advice obtained, it is highly likely that the respective slot coordinators will not object to the proposed slot transactions referred to above and would consider the proposed arrangement as acceptable in practice. The Board has also been informed by the main shareholder that, based on legal advice obtained, taking into account the commercial terms and conditions of the proposed transactions, it is deemed that the proposed arrangements will not give rise to any form of state aid. Whilst there can be no assurance on the outcome of the process referred to previously, the Government, as principal shareholder, has given the Board the mandate to proceed with the implementation of the revised business plan. Without the implementation of all the facets of the revised business plan, material uncertainty will exist whether the Group can continue operating as a going concern.

Directors' report - continued

Key risks and material uncertainties - continued

Therefore, on the basis of the following considerations:

(i) the level of commitment demonstrated by the Government of Malta, as the Airline's main shareholder, by reference to the approval of the revised Business Plan FY2019 – FY2021, including approval of the implied transactions supporting the funding requirements to implement the Business Plan;
(ii) the confidence that the Government of Malta has expressed, on the basis of the legal advice obtained, in that the proposed arrangements in respect of the slots would be deemed as acceptable in practice by the respective slot coordinators and that the proposed arrangement do not give rise to any form of state aid and that the European Commission will continue to support the Group's restructuring process; and
(iii) the underlying assumption that the revised Business Plan FY2019 – FY2021 can be successfully implemented within the envisaged timeframes and in accordance with its terms,

it is the view of the Directors that there is a reasonable expectation that the Company and the Group are able to continue in operational existence for a period of at least 12 months from the end of the reporting period. Accordingly, the Directors continue to adopt the going concern basis in preparing the financial statements.

Dividends

The Directors do not recommend the payment of a dividend.

Directors

The Directors of the Company who held office during the year under review and during the period until the date of authorisation for issue of the audited financial statements are:

Carmel Mangion – appointed as Chairman on 12 July 2017
Maria Micallef – resigned as Director and Chairman on 12 July 2017
Ray Sladden – appointed as Deputy Chairman on 12 July 2017
Katrina Borg Cardona – appointed 12 July 2017
Tania Brown – appointed 12 July 2017
Joseph A. Gasan
Rita Sammut – appointed 12 July 2017
Jonathan Scerri – appointed 12 July 2017
Alexander Sciberras – appointed 12 July 2017
Joseph Borg – resigned 12 July 2017
Francis Cassar – resigned 22 March 2017
Eric. P. Fenech Pace- resigned 12 July 2017
Christopher Grech – resigned 12 July 2017
George Micallef – resigned 12 July 2017
Norman Spiteri – resigned 12 July 2017

Directors' report - continued

Statement of Directors' responsibilities for the financial statements

The Directors are required by the Maltese Companies Act (Cap. 386) to prepare financial statements which give a true and fair view of the state of affairs of the Group and the parent Company as at the end of each reporting period and of the profit or loss for that period.

In preparing the financial statements, the Directors are responsible for:

- ensuring that the financial statements have been drawn up in accordance with International Financial Reporting Standards as adopted by the EU;
- selecting and applying appropriate accounting policies;
- making accounting estimates that are reasonable in the circumstances;
- ensuring that the financial statements are prepared on the going concern basis unless it is inappropriate to presume that the Group and the parent Company will continue in business as a going concern.

The Directors are also responsible for designing, implementing and maintaining internal control relevant to the preparation and the fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error, and that comply with the Maltese Companies Act (Cap. 386). They are also responsible for safeguarding the assets of the Group and parent Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The financial statements of Air Malta p.l.c. for the year ended 31 March 2017 are included in the Annual Report and Consolidated Financial Statements 2017, which is published in hard-copy printed form and made available on the Company's website. The Directors are responsible for the maintenance and integrity of the Annual Report on the website in view of their responsibility for the controls over, and the security of, the website. Access to information published on the Company's website is available in other countries and jurisdictions, where legislation governing the preparation and dissemination of financial statements may differ from requirements or practice in Malta.

Auditors

PricewaterhouseCoopers have indicated their willingness to continue in office and a resolution for their re-appointment will be proposed at the Annual General Meeting.

On behalf of the Board

Carmel Mangion
Chairman

Ray Sladden
Deputy Chairman

2 December 2017

Registered office
Sky Parks Business Centre, Level 2,
Malta International Airport,
Luqa LQA4000,
Malta

Corporate governance statement

Corporate Governance is concerned with how companies are directed and controlled. Good governance ensures that the Board of Directors monitors managerial performance effectively to achieve a fair return for the shareholders whilst upholding the values of fairness, transparency, accountability and responsibility towards all stakeholders.

The Group's supreme decision-making body is the General Meeting of Shareholders of Air Malta p.l.c. The Group's parent company is Air Malta p.l.c. which is responsible for the Group's management, accounting and financing, strategic planning, personnel management, communications and corporate governance.

The Group is committed to high standards of Corporate Governance. The Board of Directors of Air Malta p.l.c. believes that the current set up of the Company and the Group enables them to operate in a proper and efficient manner and provides adequate safeguards for good Corporate Governance.

The Board

Pursuant to the Company's Articles of Association, the administration and management of the Company is conducted by a Board of Directors consisting of not less than five and not more than ten Directors. The Directors of the Company are appointed by the Shareholders as nearly as may be in proportion to the shares held by such Shareholder. All Directors may be removed from their post by the shareholder appointing them, by means of a letter addressed to the Company. Unless otherwise specified in their letter of appointment, Directors hold office for a period of one year. Directors are eligible for reappointment upon the lapse of the period stated in their letter of appointment.

The Board comprises of seven non-executive Directors and a non-executive Chairman. The Directors are considered independent and no one individual or one grouping exerts an undue influence on others. All Directors, in the furtherance of their duties, have access to take independent professional advice on any matter at the Company's expense. The Directors are conscious that their primary responsibility is always to act in the interest of the Company and its shareholders as a whole, irrespective of who appointed them on the Board. The personal interest of a Director does not take precedence over those of the Company and its shareholders. Should a conflict arise, the Director discloses the conflict in full and abstains from taking part in the discussion and refrains from voting on the matter.

The Board convenes at least fortnightly and all Directors receive written reports prior to each Board meeting which enables them to make an informed decision on the corporate and business issues under consideration. The Chairman ensures that all relevant issues are on the agenda and facilitates and encourages the presentation of views pertinent to the subject matter. After each Board meeting, minutes that faithfully record attendance and decisions taken are made available to all Directors prior to the subsequent Board meeting.

The roles of Chairman and Chief Executive Officer (CEO) are separate roles which are undertaken by separate individuals. The Chairman is responsible for leading the Board, facilitating Board discussions and managing the Board's relationship with the shareholder and senior management. The CEO ensures that management and employees receive adequate and relevant training so that the Company remains competitive. The CEO together with the Chief Officers are responsible for implementing the Company's strategies and policies.

The Directors believe that the Company has in place the appropriate structures, including an adequate system of controls, in order to achieve an adequate level of good Corporate Governance.

During the financial year ended 31 March 2017 the Board of Directors met 21 times.

Corporate Governance Statement - continued

Responsibilities of the Board

The Board exercises leadership, enterprise, integrity and judgement in directing the Company so as to safeguard and improve its economic and commercial prosperity. The key responsibilities of the Board in fulfilling its mandate are to:

- establish sound Corporate Governance Standards;
- establish a clear internal and external reporting system so that the Board has continuous access to accurate, relevant and timely information such that the Board can discharge its duties, exercise objective judgement on corporate affairs and take pertinent decisions to ensure that an informed assessment can be made of all issues facing the Board;
- define the Company's objectives, goals and general strategic direction for management;
- contribute to, approve and monitor, strategy, financial and performance objectives developed by management;
- continuously assess and monitor the Company's present and future operations, opportunities, threats and risks in the external environment and current and future strengths and weaknesses;
- ensure that appropriate policies and procedures are in place to manage risks and internal control;
- seek to establish an effective decision-making process in order to develop the Company's business efficiently;
- ensure compliance with applicable laws, regulations and best industry practices;
- appoint the Company's Chief Executive Officer, participate in the appointment of senior management and establish a succession plan for senior management; and
- exercise accountability to shareholders and be responsible to relevant stakeholders.

The items that are reserved for approval by the Board of Directors are the business plan, the annual budget, the network, the procurement of fixed assets and services and the issuance of loans above established thresholds and the performance review including related performance bonus payments to senior management.

In addition, the Board sets the Company's values and standards, including matters relating to corporate social responsibility and ensures that its obligations to its shareholders and other stakeholders are understood and satisfied.

Relations with Shareholders

Apart from the Annual General Meeting, the Company communicates with its shareholders by way of the Annual Report and Financial Statements, and by means of other Company announcements made to the public in general during the year.

Relations with Stakeholders – Works Council

The main objective of the Works Council is to promote dialogue through the sharing of information and exchange of ideas in a collaborative, participative and open manner, between the Company's senior management team and its employees represented by the Central Representative Council (CRC). The CRC is given the responsibility by the Trade Unions and other non-unionised categories of staff for the development of industrial democracy in Air Malta p.l.c. Eligibility for membership to the CRC is confined to full time employees of the Company.

The Works Council is composed of the CRC and the Company Delegates representing management. The Company Delegates comprise the Chairman, the CEO, and any other Chief Officer, Head or employee as required depending on the agenda to be discussed. The Works Council meetings are ex-officio chaired by the Company's Chairman.

Corporate Governance Statement - continued

Committees established by the Board

The Board has constituted the following Committees to further enhance and enable the promulgation of good corporate governance practices throughout the Company. The Board may add new Committees or remove existing Committees as it deems fit in the fulfilment of its primary responsibilities. Each Committee is governed by a written charter approved by the Board. The Board is responsible for the appointment of Committee members and Committee Chairman according to criteria that it determines to be in the best interest of the Company.

1) Board Committees

Audit Committee

The Audit Committee meets twice every quarter and has clear terms of reference, as approved by the Board of Directors, in relation to its authority and duties. The Audit Committee reports directly to the Board of Directors. The ultimate responsibility for delegated functions rests with the Board. The Audit Committee is composed of three non-executive board members, one of which acts as the Chairman of the committee.

The Chairman of the Company, any Director, the CEO, the external auditors, any member of the Senior Management Team or any other employee of the Company may be requested to attend part of or all of an Audit Committee meeting as may be decided by the Audit Committee. The Audit Committee primarily assists the Board in fulfilling its fiduciary responsibilities to provide oversight with respect to:

- the integrity of the Company's financial statements,
- review of Company policy with respect to risk assessment and risk management, compliance with legal requirements and Company policies regarding ethical conduct,
- the Company's system of internal controls, and
- the performance and engagement of the Company's internal and external auditors.

The Audit Committee met 5 times in the financial year ending 31 March 2017.

Remuneration Committee

A Remuneration Committee is chaired by the Chairman, and its other member is a non-executive Director. The role of the Remuneration Committee is to advise the Board on the remuneration packages for the Chief Executive Officer, the members of the Senior Management and Consultants. The Committee further advises on issues related to the internal mangement structure including recruitment, promotions and industrial relations. The Remuneration Committee did not formally convene during the financial year ending 31 March 2016 as matters related to remuneration, recruitment and industrial relations were referred to and discussed directly at Board of Directors level.

Corporate Governance Statement – continued

1) **Board Committees** - continued

Risk Committee

The Board has overall responsibility and ultimate accountability for risk management and has entrusted the Risk Committee to ensure that the risk management process within the company is effective. The Risk Committee assists the Board in fulfilling its risk management responsibilities, by assessing and providing oversight of the Company's risk management processes and its identification, evaluation and treatment of major strategic, financial, operational and regulatory risks and such other risks as necessary to fulfil the Committee's duties. The Risk Committee is chaired by a non-executive Director and comprises the Chief Executive Officer, the Chief Financial Officer (CFO) and two other non-executive Directors. The Risk Committee meets as frequently as may be required and reports its actions and recommendations to the Board at least on an annual basis. The Risk Committee collaborates with other Committees in terms of providing assurance on the effectiveness of the Company's risk management structures and reviewing disclosures regarding risk contained in the Company's Annual Report. The Risk Committee did not formally convene during the financial year ending 31 March 2017 as matters related to strategic, operational and regulatory risk were referred to and discussed directly at Board of Directors level in the light of prospects of entering into a strategic partnership.

2) **Management Committees**

On the 01 August 2016 Mr Joseph Galea was appointed as the new Acting CEO of the company, following the contractual expiration of Mr Philip Micallef's term of office.

Senior Management Team

During the year ended 31 March 2017, the A/CEO led the Senior Management Team and reported directly to the Board. The Senior Management Team is made up of the Chief Officers responsible for the Finance, Human Resources, Commercial, Flight Operations, Engineering and Information Systems departments. The Senior Management Team meeting is convened on a weekly basis and concentrated mainly on:

- implementing corporate strategy and making recommendations on significant corporate strategic initiatives;
- developing the Company's annual budget and business plan and recommending it to the Board for approval;
- managing the Company's day to day operations in accordance with the Board approved authorisations, policies, procedures, budget and business plan;
- monitoring the Company's performance and reports monthly to the Board on key performance indicators mainly through the regular updating of the corporate dashboard and the presentation of detailed management accounts; and
- organisational development issues, including directing the negotiations with unions on collective agreements and restructuring agreements, ensuring transparency and good governance are maintained in these processes.

The appointed Secretary circulates the agenda and the minutes for each meeting.

Financial Risk Committee

The Financial Risk Committee provides the framework for the management of the Company's financial risks, and provides specific guidance on the management of liquidity, interest rate, foreign exchange, commodity pricing (fuel and emissions) and credit exposures.

Corporate Governance Statement – continued

2) Management Committees - continued

The key objectives and responsibilities of the Financial Risk Committee relate to:

- developing, reviewing and maintaining a funding strategy for the Company, with a view to ensure proper funding of the Company's business activities;
- providing guidelines and ensuring control of financial risks emanating from fuel price volatility, interest rate risk and exchange rate risk;
- providing guidance on managing liquidity risk through regular review of cash flow performance;
- monitoring credit risk of existing major counterparties and extent of credit risk concentration;
- authorising the adoption and acquisition of investment instruments, risk hedging instruments and related derivatives; and
- recommending to the Board ways in which the financial position can be developed through Treasury activities. This includes ensuring that the structure of the Company's statement of financial position is appropriate in terms of funding mix and gearing, capital adequacy and financial risk management policy.

The Financial Risk Committee comprises both internal executives and external non-executive consultants with a view to reach balanced and informed decisions on the subject-matter. Meetings are held on a regular basis and are chaired by a non-executive Director. The Committee reports directly to the Board of Directors and convenes on a monthly basis.

Internal Audit

The Company promotes the independence of the function as a whole and allows internal audit to form an objective judgement. Internal audit has free and unrestricted access to management, employees, activities, physical locations and to all information considered necessary for the proper execution of the internal audit's work, at the discretion of the Internal Auditor. The Internal Auditor reports to the Audit Committee.

Internal Audit is an independent, objective assurance and consulting activity designed to add value to the Company's operations. It helps Air Malta p.l.c. and the Audit Committee in accomplishing its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

During the year Internal Audit carried out a number of audit reviews in accordance with the Internal Audit Plan approved by the Audit Committee.

External Audit

The Audit Committee makes recommendations to the Board in relation to the appointment of the external auditor, the audit fee, the terms of engagement and any questions of resignation or dismissal thereof. The Committee also monitors and reviews annually the external auditor's independence, objectivity and effectiveness. The Committee reviews the nature and extent of non-audit services rendered by the auditors and oversees that the provision of such services is in line with regulations and best governance practice.

The nature and scope of the audit are discussed with the Audit Committee prior to the commencement of the statutory audit. Likewise, any audit issues arising during the course of the audit are discussed by the auditors with the Audit Committee.

Corporate Governance Statement - continued

Safety Management System

The Company has in place a full Safety Management System (SMS) as mandated by the European Aviation Safety Agency, succeeding the Accident Prevention and Flight Safety Programme which was discontinued in 2014. The main objectives of the SMS are to instigate preventive and proactive systems and procedures within the Company in order to mitigate risks and reduce these to the lowest practical levels. In doing so the Company is proactively implementing and measuring the performance of measures so as to prevent accidents or incidents, specifically in relation to aircraft operations and also within the organisation. The Head of Safety and Compliance is responsible for the administration of the SMS and reports directly to the Accountable Manager.

A Safety Review Board has been established, holding high level meetings attended by the CEO and Senior Management and is chaired by the Accountable Manager. The Head of Safety and Compliance is the Secretary of the Board and ensures that meetings are held regularly and as necessary but at least once every quarter. The Safety Review Board provides direction and allocates resources, in order to meet the Company's safety objectives and ensure the adequate implementation of the SMS.

Reporting to the Safety Review Board are 5 Safety Action Groups covering the entire organisation and overseeing, Corporate Management, Flight Operations, Cabin Operations, Ground Operations, and Engineering & Maintenance. SAGs are working committees of the Safety Review Board directed towards the implementation of the mandate given to them by the SRB itself. The Head of Safety and Compliance chairs these meetings and is assisted by the respective departmental safety officers. Meetings are held at least every 6 weeks and attended by the respective Chief Officers, Nominated Persons and Managers.

During the year under review, Safety Review Board and Safety Action Groups meetings were convened as scheduled, at times meeting in more frequent intervals.

Internal Controls

The Directors acknowledge their responsibility for the Company's systems of internal control which are designated to ensure effective and efficient operations, including financial reporting and compliance with laws and regulations and for reviewing their effectiveness. In establishing and reviewing the systems, the Directors have regard to the materiality of relevant risks, the likelihood of a loss being incurred and the costs of control. It follows therefore that such systems can only provide reasonable and not absolute assurance against material misstatement or loss. The key procedures that have been established to date to provide effective internal control include:

- an independent and professional Board which meets at least on a monthly basis and has separate Chairman and CEO roles;
- weekly Senior Management meetings;
- an Audit Committee which approves audit plans and considers significant control matters raised by the internal and external auditors together with management;
- a Risk Committee that assists the Board in fulfilling its risk management responsibilities;
- a Financial Risk Management Committee that provides oversight and guidance in the financial risk identification process and ensures proper analysis, evaluation, mitigation and management reporting and monitoring of material financial risks;
- an internal audit function which reviews key financial/operational processes and controls which reports directly to the Audit Committee;
- a Flight Safety Committee that provides the framework for incident or accident prevention processes and incident investigation and reporting processes covering all areas relating to aircraft operation;
- clearly defined organisation structure and limits of authority;
- a comprehensive system of internal financial reporting which includes the preparation of detailed monthly management accounts providing financial and operational performance measure indicators to management;

Corporate Governance Statement – continued

Internal Controls - continued

- the business agenda is determined by the Business Plan which represents the operational and financial evaluation of the corporate strategy, identifying and prioritising improvement opportunities to achieve financial budgets and service standards;
- information systems are developed to support the Company's long-term objectives.

The Board confirms that the above processes were in place during the year under review or as otherwise indicated in the respective sections of the Corporate Governance Statement as a result of the restructuring process that is taking place within the Company and that the information it received was sufficient to enable it to review the effectiveness of the Company's system of internal control. The Board shall continue to monitor the appropriateness of the internal control systems in place in light of ensuring such controls to best current practice.

Independent auditor's report

To the Shareholders of Air Malta p.l.c.

Report on the audit of the financial statements

Our opinion

In our opinion:

- Air Malta p.l.c.'s Consolidated financial statements and Parent Company financial statements (the "financial statements") give a true and fair view of the Group's and the Parent Company's financial position as at 31 March 2017, and of the Group's and the Parent Company's financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the EU; and
- The financial statements have been prepared in accordance with the requirements of the Maltese Companies Act (Cap. 386).

What we have audited

Air Malta p.l.c.'s financial statements, set out on pages 20 to 87, comprise:

- the Consolidated and Parent Company statements of financial position as at 31 March 2017;
- the Consolidated and Parent Company income statements and statements of comprehensive income for the year then ended;
- the Consolidated and Parent Company statements of changes in equity for the year then ended;
- the Consolidated and Parent Company statements of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report.

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

Independence

We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements of the Accountancy Profession (Code of Ethics for Warrant Holders) Directive issued in terms of the Accountancy Profession Act (Cap. 281) that are relevant to our audit of the financial statements in Malta. We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

Independent auditor's report - continued

To the Shareholders of Air Malta p.l.c.

Material uncertainty relating to going concern

We draw attention to Note 1.1.1 – Basis of Preparation: Assessment of appropriateness of going concern assumption, which indicates the existence of a material uncertainty that may cast significant doubt about the Group's ability to continue as a going concern.

During the financial year ended 31 March 2017, the Group incurred losses after tax from continuing operations amounting to €14.4 million. The Group has net liabilities of €64.1 million as at 31 March 2017, and its current liabilities, excluding sales in advance, exceeded its current assets by €9.8 million as at that date. In the context of the significant losses registered during FY2017 and break-even financial results forecasted for FY2018, subsequent to the end of FY2017 the Airline's revised business plan for the period FY2019-FY2021, has been approved by the Board of Directors and by the Government of Malta as the principal shareholder. The proposed transactions and arrangements reflected within the revised business plan, giving rise to funding that meets the liquidity requirements emanating from the plan, have also been approved by the Government and by the Airline's Board. Accordingly, these financial statements have been prepared on a going concern basis.

Whilst the Directors express their confidence in the ability to return the Group to positive financial results, this depends on the successful implementation of the revenue enhancement and cost management initiatives highlighted as key assumptions within the revised business plan. The ability to implement this revised business plan also depends on the outcome of the interaction of the Government as principal shareholder with the appropriate stakeholders, such that it executes the proposed arrangements that meet the funding requirements of the Airline for the implementation of the plan. Whilst there can be no assurance on the outcome of the process referred to above, the Government has given the Board the mandate to proceed with the implementation of the plan. Without the implementation of all the main facets of the revised business plan, material uncertainty will exist whether the Group can continue operating as a going concern. The matters highlighted above indicate the fundamental importance of the Group's dependence on the successful implementation of the business plan and the execution of implied arrangements generating the necessary liquidity to implement the plan in its ability to continue as a going concern.

Our opinion is not modified in respect of this matter.

Independent auditor's report - continued
To the Shareholders of Air Malta p.l.c.

Other information

The directors are responsible for the other information. The other information comprises the Directors' report and the Corporate governance statement (but does not include the financial statements and our auditor's report thereon), which we obtained prior to the date of this auditor's report.

Our opinion on the financial statements does not cover the other information, including the directors' report.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

With respect to the directors' report, we also considered whether the directors' report includes the disclosures required by Article 177 of the Maltese Companies Act (Cap. 386).
Based on the work we have performed, in our opinion:

- the information given in the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the directors' report has been prepared in accordance with the Maltese Companies Act (Cap. 386).

In addition, in light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we are required to report if we have identified material misstatements in the directors' report and other information that we obtained prior to the date of this auditor's report. We have nothing to report in this regard.

Responsibilities of the directors and those charged with governance for the financial statements

The directors are responsible for the preparation of financial statements that give a true and fair view in accordance with IFRSs as adopted by the EU and the requirements of the Maltese Companies Act (Cap. 386), and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

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Independent auditor's report - *continued*

To the Shareholders of Air Malta p.l.c.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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Independent auditor's report - *continued*

To the Shareholders of Air Malta p.l.c.

Report on other legal and regulatory requirements

Other matters on which we are required to report by exception

We also have responsibilities under the Maltese Companies Act (Cap. 386) to report to you if, in our opinion:

- Adequate accounting records have not been kept, or that returns adequate for our audit have not been received from branches not visited by us.
- The financial statements are not in agreement with the accounting records and returns.
- We have not received all the information and explanations we require for our audit.
- Certain disclosures of directors' remuneration specified by law are not made in the financial statements, giving the required particulars in our report.

We have nothing to report to you in respect of these responsibilities.

PricewaterhouseCoopers
78, Mill Street
Qormi
Malta

Fabio Axisa
Partner

2 December 2017

Statements of financial position

		As at 31 March			
		2017	2016	**2017**	2016
		Group		**Company**	
	Notes	**€000**	€000	**€000**	€000
ASSETS					
Non-current assets					
Property, plant and equipment	5	**5,296**	5,536	**5,296**	5,536
Investment property	6	**-**	-	**-**	-
Intangible assets	7	**-**	678	**-**	678
Investments in subsidiaries	8	**-**	-	**-**	1,805
Available-for-sale financial assets	9	**107**	107	**107**	107
Other receivables	11	**6,948**	4,220	**6,948**	4,220
Total non-current assets		**12,351**	10,541	**12,351**	12,346
Current assets					
Inventories	12	**1,047**	1,147	**1,047**	1,147
Trade receivables	13	**22,968**	21,760	**22,968**	21,760
Amounts owed by associates		**8**	103	**8**	103
Amounts owed by related parties		**255**	89	**255**	89
Current tax assets		**135**	1,015	**135**	1,015
Other receivables	11	**2,918**	13,592	**2,628**	13,592
Prepayments and accrued income		**2,243**	3,004	**2,243**	3,004
Available-for-sale financial assets	9	**-**	2	**-**	-
Derivative financial instruments	10	**-**	4	**-**	4
Cash and cash equivalents	14	**51,146**	44,940	**51,146**	43,808
		80,720	85,656	**80,430**	84,522
Assets classified as held for sale	15.2.1	**898**	927	**73**	118
Total current assets		**81,618**	86,583	**80,503**	84,640
Total assets		**93,969**	97,124	**92,854**	96,986

Statements of financial position - continued

		As at 31 March			
		2017	2016	**2017**	2016
		Group		**Company**	
	Notes	**€000**	€000	**€000**	€000
EQUITY AND LIABILITIES					
Capital and reserves					
Share capital	16	**131,000**	131,000	**131,000**	131,000
Share premium	17	**42,762**	42,762	**42,762**	42,762
Revaluation reserve	18	**693**	693	**693**	693
Hedging reserve	19	**(17)**	(14,307)	**(17)**	(14,307)
Accumulated losses		**(239,023)**	(224,454)	**(239,671)**	(226,606)
Total equity		**(64,585)**	(64,306)	**(65,233)**	(66,458)
Non-current liabilities					
Provisions in respect of maintenance costs	22	**15,444**	8,857	**15,444**	8,857
Social security and other related dues		**7,326**	2,275	**7,326**	2,275
Total non-current liabilities		**22,770**	11,132	**22,770**	11,132
Current liabilities					
Trade payables		**23,252**	23,827	**23,252**	23,827
Amounts owed to subsidiaries		**-**	-	**-**	2,815
Amounts owed to associates		**793**	749	**793**	749
Amounts owed to related parties		**16,279**	4,191	**16,279**	4,191
Sales in advance		**43,881**	42,046	**43,881**	42,046
Other payables		**1,721**	2,343	**1,715**	2,340
Current tax liability		**-**	22	**-**	-
Indirect taxation, social security and other related dues		**4,454**	4,727	**4,454**	4,727
Accruals and deferred income		**12,804**	12,171	**12,804**	12,156
Borrowings	20	**9,941**	10,266	**9,941**	10,266
Derivative financial instruments	10	**17**	14,310	**17**	14,310
Provisions in respect of maintenance costs	22	**15,481**	28,660	**15,481**	28,660
Provision in respect of restructuring costs	24.3.2	**6,700**	5,989	**6,700**	5,989
Other provisions	23	**-**	236	**-**	236
		135,323	149,537	**135,317**	152,312
Liabilities directly associated with assets classified as held for sale	15.2.1	**461**	761	**-**	-
Total current liabilities		**135,784**	150,298	**135,317**	152,312
Total liabilities		**158,554**	161,430	**158,087**	163,444
Total equity and liabilities		**93,969**	97,124	**92,854**	96,986

The notes on pages 27 to 87 are an integral part of these consolidated financial statements.

The financial statements on pages 20 to 87 were authorised for issue by the Board on 2 December 2017 and were signed on its behalf by:

Carmel Mangion
Chairman

Ray Sladden
Deputy Chairman

Income statements

		Year ended 31 March			
		2017	2016	**2017**	2016
		Group		**Company**	
	Notes	**€000**	€000	**€000**	€000
Continuing operations:					
Revenue	24.1	**192,242**	220,519	**192,242**	220,519
Cost of sales	24.2	**(180,207)**	(202,413)	**(180,207)**	(202,506)
Gross profit		**12,035**	18,106	**12,035**	18,013
Selling and distribution costs	24.2	**(13,928)**	(15,163)	**(13,928)**	(15,163)
Administrative expenses	24.2	**(11,848)**	(8,681)	**(11,798)**	(8,853)
Gain from change in fair value of investment property	6	**-**	992	**-**	992
Operating loss		**(13,741)**	(4,746)	**(13,691)**	(5,011)
Operating loss before restructuring and other related costs		**(12,583)**	(4,230)	**(12,533)**	(4,495)
Restructuring and other related costs	24.3.1	**(1,158)**	(516)	**(1,158)**	(516)
Operating loss after restructuring and other related costs		**(13,741)**	(4,746)	**(13,691)**	(5,011)
Investment and other related income	26	**221**	955	**1,938**	955
Finance income	27	**72**	15	**72**	15
Finance costs	28	**(1,343)**	(2,892)	**(1,384)**	(2,927)
Loss before tax		**(14,791)**	(6,668)	**(13,065)**	(6,968)
Tax expense	29	**(89)**	(140)	**-**	(115)
Loss for the year from continuing operations		**(14,880)**	(6,808)	**(13,065)**	(7,083)
Discontinued operations:					
Profit for the year from discontinued operations	15.1	**311**	6,916	**-**	2,674
(Loss)/profit for the year		**(14,569)**	108	**(13,065)**	(4,409)

The notes on pages 27 to 87 are an integral part of these consolidated financial statements.

Statements of comprehensive income

		Year ended 31 March			
		2017	2016	**2017**	2016
		Group		**Company**	
	Note	**€000**	€000	**€000**	€000
(Loss)/profit for the year		**(14,569)**	108	**(13,065)**	(4,409)
Other comprehensive income:					
Items that may be subsequently reclassified to profit or loss					
Cash flow hedges, net of deferred tax	19	**14,290**	(827)	**14,290**	(827)
Currency translation differences		**-**	7	**-**	-
Other comprehensive income for the year, net of tax		**14,290**	(820)	**14,290**	(827)
Total comprehensive income for the year		**(279)**	(712)	**1,225**	(5,236)

The notes on pages 27 to 87 are an integral part of these consolidated financial statements.

Statements of changes in equity

Group

	Notes	Share capital €000	Share premium €000	Revaluation reserve €000	Hedging reserve €000	Accumulated losses €000	Total equity €000
Balance at 1 April 2015		119,016	42,762	693	(13,480)	(224,569)	(75,578)
Comprehensive income							
Profit for the year		-	-	-	-	108	108
Other comprehensive income:							
Cash flow hedges, net of deferred tax	19	-	-	-	(827)	-	(827)
Currency translation differences		-	-	-	-	7	7
Total other comprehensive income		-	-	-	(827)	7	(820)
Total comprehensive income		-	-	-	(827)	115	(712)
Transactions with owners							
Called up share capital	16	11,984	-	-	-	-	11,984
Total transactions with owners		11,984	-	-	-	-	11,984
Balance at 31 March 2016		131,000	42,762	693	(14,307)	(224,454)	(64,306)
Comprehensive income							
Loss for the year		-	-	-	-	(14,569)	(14,569)
Other comprehensive income:							
Cash flow hedges, net of deferred tax	19	-	-	-	14,290	-	14,290
Total other comprehensive income		-	-	-	14,290	-	14,290
Total comprehensive income		-	-	-	14,290	(14,569)	(279)
Balance at 31 March 2017		**131,000**	**42,762**	**693**	**(17)**	**(239,023)**	**(64,585)**

Statements of changes in equity - continued

Company

	Notes	Share capital €000	Share premium €000	Revaluation reserve €000	Hedging reserve €000	Accumulated losses €000	Total equity €000
Balance at 1 April 2015		119,016	42,762	693	(13,480)	(222,197)	(73,206)
Comprehensive income							
Loss for the year		-	-	-	-	(4,409)	(4,409)
Other comprehensive income:							
Cash flow hedges, net of deferred tax	19	-	-	-	(827)	-	(827)
Total other comprehensive income		-	-	-	(827)	-	(827)
Total comprehensive income		-	-	-	(827)	(4,409)	(5,236)
Transactions with owners							
Called up share capital	16	11,984	-	-	-	-	11,984
Total transactions with owners		11,984	-	-	-	-	11,984
Balance at 31 March 2016		131,000	42,762	693	(14,307)	(226,606)	(66,458)
Comprehensive income							
Loss for the year		-	-	-	-	(13,065)	(13,065)
Other comprehensive income:							
Cash flow hedges, net of deferred tax	19	-	-	-	14,290	-	14,290
Total other comprehensive income		-	-	-	14,290	-	14,290
Total comprehensive income		-	-	-	14,290	(13,065)	1,225
Balance at 31 March 2017		**131,000**	**42,762**	**693**	**(17)**	**(239,671)**	**(65,233)**

The notes on pages 27 to 87 are an integral part of these consolidated financial statements.

Statements of cash flows

		Year ended 31 March			
		2017	2016	**2017**	2016
		Group		**Company**	
	Notes	**€000**	€000	**€000**	€000
Cash flows from operating activities					
Cash generated from/(used in) operations	31	**7,210**	(11,694)	**8,565**	(12,031)
Dividends received from associates		**-**	955	**-**	955
Investment and other related income received		**72**	30	**72**	15
Interest paid and similar charges		**(1,343)**	(2,892)	**(1,384)**	(2,927)
Other income received		**221**	-	**-**	-
Net tax refunded/(paid)		**880**	(115)	**880**	(115)
Net cash generated from/(used in) operating activities		**7,040**	(13,716)	**8,133**	(14,103)
Cash flows from investing activities					
Purchases of tangible and intangible assets		**(853)**	(379)	**(853)**	(380)
Proceeds to Group upon acquirer taking over liabilities of subsidiary		**-**	10,910	**-**	-
Proceeds from disposal of available-for-sale financial assets		**3**	500	**-**	-
Net proceeds from sale of investment property		**-**	1,039	**-**	1,039
Loan repayment received from subsidiary		**-**	-	**-**	8,084
Loan repayment received from associate		**45**	-	**45**	-
Net cash generated from/(used in) investing activities		**(805)**	12,070	**(808)**	8,743
Cash flows from financing activities					
Repayments of bank borrowings		**-**	(2,716)	**-**	-
Repayments of related party loan		**(1,853)**	(1,766)	**(1,853)**	(1,766)
Net cash used in financing activities		**(1,853)**	(4,482)	**(1,853)**	(1,766)
Net movement in cash and cash equivalents		**4,382**	(6,128)	**5,472**	(7,126)
Cash and cash equivalents at beginning of year		**36,389**	44,304	**35,395**	44,308
Movement in provisions for impairment in respect of cash and cash equivalents	14	**91**	(448)	**91**	(448)
Exchange differences on cash and cash Equivalents		**247**	(1,339)	**247**	(1,339)
Cash and cash equivalents at end of year	14	**41,108**	36,389	**41,205**	35,395

The notes on pages 27 to 87 are an integral part of these consolidated financial statements.

Notes to the consolidated financial statements

1. Summary of significant accounting policies

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

1.1 Basis of preparation

The consolidated financial statements of Air Malta p.l.c. have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and the requirements of the Maltese Companies Act, 1995. They have been prepared under the historical cost convention, as modified by the fair valuation of the land and buildings category within property, plant and equipment, investment property, available-for-sale financial assets and derivative financial instruments.

The preparation of financial statements in conformity with IFRS as adopted by the EU requires the use of certain accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 3.

1.1.1 Assessment of appropriateness of going concern assumption

Air Malta p.l.c. has been going through a restructuring process throughout recent financial years with the intent of returning the Airline operations to positive financial results. During the financial year ended 31 March 2017, the Group incurred losses after tax from continuing operations amounting to €14.9 million (2016: €6.8 million). The Group's liabilities exceeded its assets as at 31 March 2017 by €64.6 million (2016: €64.3 million). As at 31 March 2017, the Group's current liabilities exceeded its current assets by the amount of €10.3 million (2016: €21.7 million), excluding sales in advance from the amount of current liabilities.

Restructuring process

Air Malta p.l.c. has been incurring losses on its core Airline business for several years. In order to address the Airline's commercial challenges, its Restructuring Plan was devised setting out the turnaround strategy for the five-year period FY2012 to FY2016. The Plan was drawn up following the Government's notification – and subsequent European Commission approval – of the provision of a €52 million Rescue Aid Loan to the Airline. According to the Restructuring Plan, a capital increase of €130 million was necessary to restructure the Group. The European Commission had communicated its decision confirming approval of Restructuring Aid for Air Malta p.l.c. and it resolved that a €130 million aid amount granted to the Airline for its restructuring was in line with EU state aid rules.

The Restructuring Plan was intrinsically linked to the ability of the Airline to successfully execute a range of cost and revenue initiatives. The Restructuring Plan indicated that the level of losses registered could be turned around to profitability by FY2015. However, these financial result targets have not been achieved in view of difficult market conditions in certain territories and the delayed implementation of certain cost initiatives envisaged in the Plan.

1. Summary of significant accounting policies - continued

1.1 Basis of preparation - continued

1.1.1 Assessment of appropriateness of going concern assumption - continued

In this context and taking into account the term of the Restructuring Plan, during FY2016 the Board of Directors of Air Malta p.l.c. had approved a 3 year Business Plan covering FY2016 – FY2018. According to this Business Plan the level of losses could be turned around to breakeven by FY2017 and to profitability by FY2018. The key assumptions within the Business Plan comprised:

- Fleet rationalisation geared towards operating with 8 aircraft, increasing aircraft utilisation levels, with a positive impact on the Airline's cost base;
- Revenue strategy based on increasing seat load factors but reducing yields, with a more effective distribution system;
- Cost savings in staff and related employment costs attributable to renegotiation of collective agreements and enhanced productivity measures;
- Adoption of specific mechanisms in relation to fuel price and foreign exchange rate management.

However, subsequent to the approval of the Business Plan it transpired that further losses were expected to be incurred during FY2017 and FY2018. The FY2017 financial results have been adversely impacted by a decline in revenue amounting to €28.3 million when compared to the comparative figure, which contributed in a significant manner to the increase in the Airline's operating loss from €5 million to €13.7 million. This was primarily attributable to the extremely adverse trading conditions which were entirely unforeseen and not within the Group's control, and which have caused a material delay in the implementation of the Plan. In view of these unforeseen circumstances, KM has had to continually modify and adapt its operations to mitigate – insofar as reasonably possible – the negative impact of these market conditions, while at the same time pursuing its restructuring process. This adaptation has constrained the Airline's ability to restructure within the prescribed timeframe and indeed has delayed the implementation of the Plan.

The planned revenue enhancement and cost management initiatives assumed within the plan, as highlighted above, could not be implemented as envisaged but had to be shifted to later periods. Hence, the explicit period of the approved 3 year Business Plan had been shifted to FY2018 – FY2020 with break even objective targeted for FY2019 and profitability for FY2020, as approved by the Board of Directors.

However the forecast FY2018 financial results, based on information which is available as at the date of authorisation for issue of these financial statements, now reflect the possibility of achieving break even within FY2018, one year in advance of the target established within the Business Plan referred to above. The forecast FY2018 financial results are based on actual results up to 30 September and a detailed forecast for the remaining six month period. The improved financial results, when compared to those envisaged within the Business Plan highlighted above, are attributable to increased revenues as a result of higher activity levels, reflecting market conditions as well as local economic activity, and to cost management measures, particularly in respect of fuel and other operating expenditure.

1. Summary of significant accounting policies - continued

1.1 Basis of preparation - continued

1.1.1 Assessment of appropriateness of going concern assumption - continued

In the context of these developments subsequent to the end of FY2017, the Board of Directors has approved a revised 3 year Business Plan covering FY2019 – FY2021 which is considered a revenue growth driven business plan. This business plan comprises the following strategic initiatives:

- Increase in fleet size from 8 to 9 aircraft throughout FY2019;
- Expansion of the network through maximisation of frequency on existing routes, re-introduction of certain routes or introduction of specific new routes;
- Revenue management strategy based on dynamic optimisation of the network;
- Revised customer centric sales approach focusing on sales through different channels;
- Unbundling of the product with focus on sales of ancillary products or services;
- Rightsizing the Airline's number of employees through the implementation of voluntary/early retirement schemes;
- Managing the entity's payroll cost base through renegotiated collective agreements and revised work practices.

Accordingly, this revised Business Plan following the possible achievement of break-even financial results projects profitability throughout the 3 year explicit period FY2019 – FY2021. Net operating cash inflows are expected throughout the explicit 3 year period.

The Airline's projected financial position and cash flow position as at 31 March 2018 is such that total liabilities exceed total assets and current liabilities exceed current assets. The revised Business Plan contemplates the following measures to address the Airline's financial position:

- The sale of certain landing rights or slots to another AOC and AOL licensed company owned and controlled by the Government at arm's length consideration;
- The long-term lease of the abovementioned slots by the Airline at commercial terms and conditions;
- Utilisation of the net proceeds from the disposal of slots referred to above to meet obligations in respect of repayment of borrowings and certain other liabilities, thus funding losses incurred up to FY2017, and to meet the costs of implementing voluntary/early retirement schemes.

The Government, as principal shareholder, has taken cognisance of and has approved the assumptions within the revised Business Plan. The principal shareholder has communicated to the Board of Directors that it will ensure that the Board is in a position to implement these initiatives. The shareholder has also intimated that it will provide all the necessary backing and support to the Board and to the Airline's management in this respect, as allowed by European legislation. The principal shareholder has informed the Board that it considers it essential to ensure that all requirements regarding both the form and substance of the implementation of the Business Plan are fulfilled.

1. **Summary of significant accounting policies** - continued

1.1 **Basis of preparation** - continued

1.1.1 **Assessment of appropriateness of going concern assumption** - continued

The Government, as Air Malta's principal shareholder, has approved the FY2019 – FY2021 Business Plan and the implied strategic moves representing the key assumptions, and accordingly has given the Board the mandate to proceed with the implementation of the Plan.

The main shareholder would like to protect its interest in certain assets of the Company, including specific landing rights or slots held by the Company. The discussions on this matter between the Government and the Board of directors of the Company have resulted in a proposed arrangement whereby the Company will transfer certain slots to another company owned and controlled by the main shareholder, at arm's length consideration. This transaction has been agreed upon in principle by both parties based on a recent valuation carried out by an independent valuer. This is intended to protect these assets in the event of any future strategic partner or any other partnership arrangement with the Company.

The Company's directors have considered, and are in agreement with, the proposed arrangement by the main shareholder, to transfer certain airport slots to another company as noted above owned by the main shareholder.

As a condition of this transfer, in order to protect the Company's operations, a long-term lease agreement, providing for the lease of the slots from the transferee to the Company, would also be simultaneously entered into. The proposed terms of the long-term slot lease agreement have been agreed to in principle by both parties. All transactions, including the transfer of ownership of the slots and the lease of such slots, would be effected on commercial terms.

The Board has been informed that the intended actions, highlighted above, have been approved by the main shareholder. The Board has been informed by the main shareholder that, based on legal advice obtained, it is highly likely that the respective slot coordinators will not object to the transactions referred to above and would consider the proposed arrangement as acceptable in practice once detailed disclosure to the slot coordinator of the genuine and arm's length basis of the transaction has been effected. The Board has also been informed by the main shareholder that, based on legal advice obtained, taking into account the terms and conditions of the proposed transactions, it is deemed that the proposed arrangements will not give rise to any form of state aid.

After having considered the transactions proposed, as well as the mechanics of the transfer of such slots, including the continued right of the Company to continue benefitting from the use of the slots through the long-lease agreement, the directors are of the view that the proposed transaction is in the best interest of the Company and accordingly are in agreement with the proposed arrangement; with the proposed transactions approved in principle by the Board of directors of the Company.

1. **Summary of significant accounting policies** - continued

1.1 Basis of preparation - continued

1.1.1 Assessment of appropriateness of going concern assumption - continued

Financing commitments

The main steps in the financing process reflected within the Restructuring Plan and executed in prior financial years were the following:

- Disposal of the principal property owned by the Group for an amount of €66.2 million to Government;
- Disposal process of the parent Company's subsidiaries and other strategic investments which had been earmarked for sale;
- Granting of a commercial loan of €52 million by Government to the Group which had been converted into equity;
- Allocation of €78 million of fresh equity to Government.

The adverse financial results for FY2016 and FY2017 have modified the Group's financing requirements emanating from the Restructuring Plan. The funding plan implied within the 3 year Business Plan FY2018 – FY2020 had been formally approved and supported by the Government, as the Group's principal shareholder. In this respect, during FY2017 the Government had committed to inject additional equity into the Group throughout FY2018, reflecting the maximum additional financing requirement emanating from the FY2018 – FY2020 Business Plan. No injections equity or otherwise have been considered necessary and neither have been effected to date in view of the developments highlighted above.

The most recent FY2019 – FY2021 Business Plan, approved by the Board subsequent to the end of FY2017, is projected to generate operating net cash inflows throughout the 3 year explicit period as highlighted previously. This is attributable to a revised business plan which is driven by projected revenue growth, as approved by the main shareholder, hence reflecting a modified stance by the Board of directors and the Company's main shareholder. However, the forecast shortfall in funding as at 31 March 2018, representing the projected financing requirement at that point in time principally as a result of the losses registered in financial years up to FY2017, will be mainly met through the proposed transactions reflected within the revised Business Plan. These proposed transactions comprise the transfer of landing rights to an AOC and AOL licensed company owned by the main shareholder, which arrangement has been approved in principle by both parties to the arrangement.

Key risks and material uncertainties

Whilst the Directors express their confidence in the ability to return the Group to positive financial results, this depends on the successful implementation of the revenue enhancement and cost management initiatives highlighted as key assumptions to the Business Plan FY2019 – FY2021. The ability to implement this revised business plan also depends on the outcome of the interaction with the respective slot coordinators and with other stakeholders, such that the Government, as the principal shareholder, executes the proposed arrangement in respect of the transfer of landing rights to meet the funding requirements of the Airline to be able to achieve the implementation of the Business Plan.

1. Summary of significant accounting policies - continued

1.1 Basis of preparation - continued

1.1.1 Assessment of appropriateness of going concern assumption - continued

The Company's Board of directors has been informed by the main shareholder that, based on legal advice obtained, it is highly likely that the respective slot coordinators will not object to the proposed slot transactions referred to above and would consider the proposed arrangement as acceptable in practice. The Board has also been informed by the main shareholder that, based on legal advice obtained, taking into account the commercial terms and conditions of the proposed transactions, it is deemed that the proposed arrangements will not give rise to any form of state aid. Whilst there can be no assurance on the outcome of the process referred to previously, the Government, as principal shareholder, has given the Board the mandate to proceed with the implementation of the revised business plan. Without the implementation of all the facets of the revised business plan, material uncertainty will exist whether the Group can continue operating as a going concern.

Therefore, on the basis of the following considerations:

(i) the level of commitment demonstrated by the Government of Malta, as the Airline's main shareholder, by reference to the approval of the revised Business Plan FY2019 – FY2021, including approval of the implied transactions supporting the funding requirements to implement the Business Plan;
(ii) the confidence that the Government of Malta has expressed, on the basis of the legal advice obtained, in that the proposed arrangements in respect of the slots would be deemed as acceptable in practice by the respective slot coordinators and that the proposed arrangements do not give rise to any form of state aid; and
(iii) the underlying assumption that the revised Business Plan FY2019 – FY2021 can be successfully implemented within the envisaged timeframes and in accordance with its terms,

it is the view of the Directors that there is a reasonable expectation that the Company and the Group are able to continue in operational existence for a period of at least 12 months from the end of the reporting period. Accordingly, the Directors continue to adopt the going concern basis in preparing the financial statements.

1.1.2 Changes in accounting policy and disclosures

(a) Standards, interpretations and amendments to published standards effective during the current financial year

During the current financial year the Group adopted new standards, amendments and interpretations to existing standards that are mandatory for the Group's accounting period beginning on 1 April 2016. The adoption of these revisions to the requirements of IFRSs as adopted by the EU did not result in substantial changes to the Group's accounting policies impacting the Group's financial performance and position.

(b) New standards, amendments and interpretations issued but not yet effective

Certain new standards, amendments and interpretations to existing standards have been published by the date of authorisation for issue of these financial statements but are mandatory for accounting periods beginning after 1 April 2016. The Group has not early adopted these revisions to the requirements of IFRSs as adopted by the EU and the company's Directors are of the opinion that there are no requirements that will have a possible significant impact on the Group's financial statements in the period of initial application, except for IFRS 9 'Financial instruments', IFRS 15 'Revenue from contracts with customers' and IFRS 16 'Leases'.

1. **Summary of significant accounting policies** - continued

1.1 **Basis of preparation** - continued

1.1.2 **Changes in accounting policy and disclosures** - continued

IFRS 9, 'Financial instruments', addresses the classification and measurement of financial assets, and replaces the multiple classification and measurement models in IAS 39 with a single model that has only three classification categories: amortised cost, fair value through Other Comprehensive Income ('OCI') and fair value through profit or loss. Classification under IFRS 9 is driven by the reporting entity's business model for managing the financial assets and the contractual characteristics of the financial assets. There is now a new expected credit losses model that replaces the incurred loss impairment model used in IAS 39. IFRS 9, 'Financial instruments', also addresses the classification and measurement of financial liabilities, and retains the majority of the requirements in IAS 39 in relation to financial liabilities. The standard is effective for accounting periods beginning on or after 1 January 2018, although early adoption is permitted. The Group is yet to assess IFRS 9's full impact.

IFRS 15, 'Revenue from contracts with customers' deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18 'Revenue' and IAS 11 'Construction contracts' and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2018 and earlier application is permitted. The Group is assessing the impact of IFRS 15.

Under IFRS 16, 'Leases', a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. IFRS 16 requires lessees to recognise a lease liability reflecting future lease payments and a 'right-of-use asset' for virtually all lease contracts; an optional exemption is available for certain short-term leases and leases of low-value assets. The standard is effective for annual periods beginning on or after 1 January 2019 and earlier application is permitted and subject to the Group also adopting IFRS 15. The Group is assessing the impact of IFRS 16.

1.2 **Consolidation**

(a) Subsidiaries

Subsidiaries are all entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the recognised amounts of acquiree's identifiable net assets.

1. Summary of significant accounting policies - continued

1.2 Consolidation - continued

(a) Subsidiaries - continued

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognised in profit or loss.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with IAS 39 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not re-measured, and its subsequent settlement is accounted for within equity.

Goodwill is initially measured as the excess of the aggregate of the consideration transferred and the fair value of non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss.

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

In the company's separate financial statements, investments in subsidiaries are accounted for by the cost method of accounting i.e. at cost less impairment. Provisions are recorded where, in the opinion of the Directors, there is an impairment in value. Where there has been an impairment in the value of an investment, it is recognised as an expense in the period in which the diminution is identified. The results of subsidiaries are reflected in the company's separate financial statements only to the extent of dividends receivable. On disposal of an investment, the difference between the net disposal proceeds and the carrying amount is charged or credited to profit or loss.

A listing of the Group's principal subsidiaries is set out in Note 36 to these financial statements.

(b) Transactions with non-controlling interests

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

(c) Disposal of subsidiaries

When the Group ceases to have control any retained interest in the entity is remeasured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

1. **Summary of significant accounting policies** - continued

1.2 Consolidation - continued

(d) Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. The Group's investment in associates includes goodwill identified on acquisition.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is reclassified to profit or loss where appropriate.

The Group's share of post-acquisition profit or loss is recognised in the income statement, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount adjacent to 'share of profit/(loss) of associates in the income statement.

Profits and losses resulting from upstream and downstream transactions between the Group and its associate are recognised in the Group's financial statements only to the extent of unrelated investor's interests in the associates. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

Dilution gains and losses arising in investments in associates are recognised in the income statement.

In the company's separate financial statements, investments in associates are accounted for by the cost method of accounting i.e. at cost less impairment. Provisions are recorded where, in the opinion of the Directors, there is an impairment in value. Where there has been an impairment in the value of an investment, it is recognised as an expense in the period in which the diminution is identified. The results of associates are reflected in the company's separate financial statements only to the extent of dividends receivable. On disposal of an investment, the difference between the net disposal proceeds and the carrying amount is charged or credited to profit or loss.

A listing of the Group's principal associates is set out in Note 36 to these financial statements.

1. Summary of significant accounting policies - continued

1.3 Foreign currencies

(a) Functional and presentation currency

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

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in other comprehensive income as qualifying cash flow hedges and qualifying net investment hedges.

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

(c) Group companies

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

(i) assets and liabilities for each statement of financial position presented are translated at the closing rate at the end of the reporting period;
(ii) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
(iii) all resulting exchange differences are recognised in other comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Exchange differences arising are recognised in other comprehensive income.

1. **Summary of significant accounting policies** - continued

1.4 Property, plant and equipment

Property, plant and equipment comprising office property and other assets, are initially recorded at historical cost. Land and buildings, are subsequently shown at fair value, based on periodic valuations by professional valuers, less subsequent depreciation for buildings. Valuations are performed with sufficient regularity to ensure that the fair value of a revalued asset does not differ materially from its carrying amount. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset, and the net amount is restated to the revalued amount of the asset. All other property, plant and equipment is subsequently stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Borrowing costs which are incurred for the purpose of acquiring or constructing a qualifying asset are capitalised as part of its cost. Borrowing costs are capitalised while acquisition or construction is actively underway. Capitalisation of borrowing costs is ceased once the asset is substantially complete and is suspended if the development of the asset is suspended.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. Major modifications and improvements to fixed assets are capitalised and depreciated over their estimated useful economic lives. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Increases in the carrying amount arising on revaluation of land and buildings are credited to other comprehensive income and shown as a revaluation reserve in shareholders' equity. Decreases that offset previous increases of the same asset are charged in other comprehensive income and debited against the revaluation reserve directly in equity; all other decreases are charged to the income statement. Each year the difference between depreciation based on the revalued carrying amount of the asset charged to profit or loss and depreciation based on the asset's original cost is transferred from the revaluation reserve to retained earnings.

Depreciation is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful operational lives, as follows:

- Buildings held on a freehold basis are depreciated at 1% per annum. Freehold land is not depreciated as it is deemed to have an indefinite economic life. Properties held on long-term leases are amortised over the period of the respective leases. Leasehold improvements (categorised within 'other assets') are depreciated over the term of the lease arrangement.

- In the case of aircrafts, the related rotables, engines and major spares, which are used for the Group's own flight operations, are depreciated on two, three and twelve years respectively.

- Aircraft and flight equipment in respect of leased out assets are depreciated over their estimated operational lives of 20 years, with residual values being taken as 10%.

- The estimated useful lives of equipment, motor vehicles and other assets, held at hotels and otherwise, vary from 3 to 20 years, depending on their nature.

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

1. Summary of significant accounting policies - continued

1.4 Property, plant and equipment - continued

Property, plant and equipment is reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are Grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Property, plant and equipment that suffered an impairment is reviewed for possible reversal of the impairment at the end of each reporting period.

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

1.5 Investment property

Property that is held for long-term rental yields or for capital appreciation or both, and that is not occupied by the Group is classified as investment property. Investment property also includes property that is being constructed or developed for future use as investment property, when such identification is made. Investment property principally comprises land and buildings.

Investment property is measured initially at its historical cost, including related transaction costs and borrowing costs. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Borrowing costs which are incurred for the purpose of acquiring or constructing a qualifying investment property are capitalised as part of its cost. Borrowing costs are capitalised while acquisition or construction is actively underway. Capitalisation of borrowing costs is ceased once the asset is substantially complete and is suspended if the development of the asset is suspended. After initial recognition, investment property is carried at fair value, representing open market value determined annually. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. If this information is not available, the Group uses alternative valuation methods such as recent prices on less active markets or discounted cash flow projections.

These valuations are reviewed annually by a professional valuer. Investment property that is being redeveloped for continuing use as investment property or for which the market has become less active continues to be measured at fair value. Fair value measurement on property under construction is only applied if the fair value is considered to be reliably measurable. The fair value of investment property reflects, among other things, rental income from current leases and assumptions about rental income from future leases in the light of current market conditions. The fair value also reflects, on a similar basis, any cash outflows that could be expected in respect of the property.

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

1. Summary of significant accounting policies - continued

1.5 Investment property - continued

The fair value of investment property does not reflect future capital expenditure that will improve or enhance the property and does not reflect the related future benefits from this future expenditure other than those a rational market participant would take into account when determining the value of the property.

Changes in fair values are recognised in the income statement. Investment properties are derecognised either when they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal.

If an investment property becomes owner-occupied, it is reclassified as property, plant and equipment. Its fair value at the date of the reclassification becomes its cost for subsequent accounting purposes. When the Group decides to dispose of an investment property without development, the Group continues to treat the property as an investment property. Similarly, if the Group begins to redevelop an existing investment property for continued future use as investment property, it remains an investment property during the redevelopment.

If an item of property, plant and equipment becomes an investment property because its use has changed, any difference resulting between the carrying amount and the fair value of this item at the date of transfer is treated in the same way as a revaluation under IAS 16. Any resulting increase in the carrying amount of the property is recognised in the income statement to the extent that it reverses a previous impairment loss; with any remaining increase recognised in other comprehensive income, directly to revaluation surplus within equity. Any resulting decrease in the carrying amount of the property is initially charged to other comprehensive income against any previously recognised revaluation surplus; with any remaining decrease charged to the income statement. Upon the disposal of such investment property, any surplus previously recorded in equity is transferred to retained earnings; the transfer is not made through the income statement.

Where an investment property undergoes a change in use, evidenced by commencement of development with a view to sale, the property is transferred to inventories. A property's deemed cost for subsequent accounting as inventories is its fair value at the date of change in use.

1.6 Intangible assets

Emission rights

Emission rights represent the right of the operator of one or more aircraft to emit greenhouse gases, more specifically carbon dioxide, in the course of its operations. Emission rights are allocated by the competent authority to the Group for no consideration in accordance with the European Community Greenhouse Gas Emissions Trading Scheme for Aviation Regulations, 2010.

The Group recognises the emission rights granted by the competent authority as an intangible asset measured at fair value as at the date of the grant based on quoted market prices. These grants measured at fair value are presented in the statement of financial position as deferred income and are recognised in profit or loss on a systematic basis over the period in which the entity recognises as expenses the related costs for which the grants are intended to compensate, i.e. over the compliance period for which the allowances were issued.

Emissions surpassing the allotment by the competent authority have to be covered by the purchase of additional greenhouse gas emission rights. Purchased emission allowances are recognised at cost.

1. **Summary of significant accounting policies** - continued

1.6 Intangible assets - continued

Emission rights - continued

Emission allowances are not amortised taking cognisance of the residual value, based on quoted prices. These rights are not revalued but tested for impairment whenever indicators exist that the carrying amount may not be recoverable.

The Group is responsible for determining and reporting the amount of greenhouse gas emissions produced by the aircraft it operates in the calendar year. As emissions are produced, a liability is recognised for the obligation to deliver allowances equal to emissions that have been produced. This liability is measured at the best estimate of the expenditure required to settle the present obligation at the end of the reporting period.

1.7 Impairment of non-financial assets

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

1.8 Non-current assets held for sale

Non-current assets are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. They are stated at the lower of carrying amount and fair value less costs to sell.

1.9 Financial assets

Classification

The Group classifies its financial assets, other than derivatives, in the following categories: loans and receivables and available-for-sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(a) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than twelve months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise 'trade and other receivables' and 'cash and cash equivalents' in the statement of financial position (Notes 1.13 and 1.14).

1. **Summary of significant accounting policies** - continued

1.9 Financial assets - continued

Classification - continued

(b) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. Investments intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices are classified as available-for-sale assets. They are included in non-current assets unless the asset matures or management intends to dispose of it within twelve months from the end of the reporting period.

Recognition and measurement

The Group recognises a financial asset in its statement of financial position when it becomes a party to the contractual provisions of the instrument. Regular way purchases and sales of financial assets are recognised on settlement date, which is the date on which an asset is delivered to or by the Group. Any change in fair value for the asset to be received is recognised between the trade date and settlement date in respect of assets which are carried at fair value in accordance with the measurement rules applicable to the respective financial assets.

Financial assets are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss.

Available-for-sale financial assets are subsequently carried at fair value. Loans and receivables are subsequently carried at amortised cost using the effective interest method. Amortised cost is the initial measurement amount adjusted for the amortisation of any difference between the initial and maturity amounts using the effective interest method.

Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership or has not retained control of the asset.

Changes in the fair value of monetary securities denominated in a foreign currency and classified as available-for-sale are analysed between translation differences resulting from changes in amortised cost of the asset and other changes in the carrying amount of the asset. The translation differences on monetary assets are recognised in the income statement, and translation difference on non-monetary assets are recognised in other comprehensive income. The other changes in the fair value of monetary and non-monetary assets classified as available-for-sale are recognised in other comprehensive income.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques, in most cases by reference to the net asset backing of the investee.

When assets classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the income statement within 'Investment and other related income'. Dividends on available-for-sale equity instruments are recognised in the income statement within 'Investment and other related income' when the Group's right to receive payment is established.

1. Summary of significant accounting policies - continued

1.9 Financial assets - continued

Impairment

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or Group of financial assets is impaired. A financial asset or a Group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or Group of financial assets that can be reliably estimated. The Group first assesses whether objective evidence of impairment exists. The criteria that the Group uses to determine that there is objective evidence of an impairment loss include:

- significant financial difficulty of the issuer or obligor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becomes probable that the borrower will enter bankruptcy or other financial reorganisation.

(a) Assets carried at amortised cost

For financial assets carried at amortised cost, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The asset's carrying amount is reduced and the amount of the loss is recognised in the income statement. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the income statement.

(b) Assets classified as available-for-sale

In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator that the assets are impaired. If objective evidence of impairment exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the income statement – is reclassified from equity to the income statement as a reclassification adjustment. Impairment losses recognised in profit or loss on equity instruments are not reversed through the income statement.

1.10 Leased assets

Where a Group is the lessee and assumes substantially all the benefits and risks of ownership, leases of property, plant and equipment are classified as finance leases. Finance leases are capitalised at the estimated present value of the underlying lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in other long-term payables. The interest element of the finance charge is charged to profit or loss over the lease period. The property, plant and equipment acquired under finance leasing contracts is depreciated over the useful life of the asset.

Leases of assets under which all the risks and benefits of ownership are effectively retained by the lessor are classified as operating leases. Payments made under operating leases are charged to profit or loss on a straight line basis over the period of the lease.

1. Summary of significant accounting policies - continued

1.11 Maintenance of aircraft

Costs for routine aircraft maintenance as well as repair costs are charged to the income statement.

In relation to leased aircraft governed by an operating lease agreement which states that the onus of major non-routine maintenance during the life of the lease rests with the lessee together with strict re-delivery conditions, the Company has a legal obligation to carry out maintenance on these aircraft. Maintenance provisions are therefore set up for major non-routine maintenance and overhauls as well as costs estimated to be incurred on re-delivery of the aircraft to the lessor. These costs are reviewed on an annual basis to ensure they reflect the estimated aircraft maintenance programme and are charged over the unexpired term of the lease.

1.12 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined by the weighted average method. Cost is the invoiced value of goods and in general includes transport and handling costs. Rotables, engines and major spares are accounted for as fixed assets and are depreciated on the same basis as the aircraft to which they relate. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

1.13 Trade and other receivables

Trade receivables comprise amounts due from customers for services performed in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment (Note 1.9). The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement. When a receivable is uncollectible, it is written off against the allowance account for trade and other receivables. Subsequent recoveries of amounts previously written off are credited against the income statement.

1.14 Cash and cash equivalents

Cash and cash equivalents are carried in the statement of financial position at face value. In the statement of cash flows, cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term deposits with maturities of three months or less from the end of the reporting period and bank overdrafts. The bank overdrafts are shown within borrowings in current liabilities in the statement of financial position.

1.15 Financial liabilities

The Group recognises a financial liability in its statement of financial position when it becomes a party to the contractual provisions of the instrument. The Group's financial liabilities, other than derivatives, are classified as financial liabilities which are not at fair value through profit or loss (classified as 'other liabilities') under IAS 39. Financial liabilities not at fair value through profit or loss are recognised initially at fair value, being the fair value of consideration received, net of transaction costs that are directly attributable to the acquisition or the issue of the financial liability. These liabilities are subsequently measured at amortised cost. The Group derecognises a financial liability from its statement of financial position when the obligation specified in the contract or arrangement is discharged, is cancelled or expires.

1. Summary of significant accounting policies - continued

1.16 Trade and other payables

Trade payables comprise obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

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

1.17 Borrowings

Borrowings are recognised initially at the fair value of proceeds received, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least twelve months after the end of the reporting period.

1.18 Deferred taxation

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill; the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

The principal temporary differences arise from depreciation on property, plant and equipment, revaluations of derivative contracts, provisions and tax losses carried forward; and in relation to acquisitions, on the difference between the fair values of the net assets acquired and their tax base.

Deferred tax assets relating to the carry forward of trading losses are recognised to the extent that it is probable that future taxable profit will be available against which the unused tax losses can be utilised. Deferred tax assets relating to capital losses on investments in subsidiaries and associates are only recognised to the extent to which they are offset by deferred tax liabilities of a capital nature or to the extent to which they can be expected to materialise in the foreseeable future.

1.19 Employee benefits

Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to a termination when, and only when, the entity has a detailed formal plan to terminate the employment of current employees without the possibility of withdrawal. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to their present value.

1. **Summary of significant accounting policies** - continued

1.20 Provisions

Provisions are recognised when the Group has 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 has been reliably estimated.

Where the Group expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

The Group recognises a provision for onerous contracts when the expected benefits to be derived from a contract are less than the unavoidable costs of meeting the obligations under the contract.

1.21 Revenue recognition

Revenue is based on the invoiced value of carriage uplifted, aircraft leasing income, goods sold and services rendered, net of discounts, and exclusive of passenger and indirect taxes. Revenue is recognised when the service has been provided or when the risk has passed to the customer. Ticket sales are included under current liabilities as sales in advance until recognised as revenue once a passenger coupon or airfreight document has been used. The gross sales value of any tickets remaining unused is taken to profit or loss as residual revenue to the extent to which no liability is expected to arise in relation thereto.

Proceeds arising from the sale of fixed assets, including aircraft, are not included with revenue. Other revenues earned by the Group are recognised on the following bases:

- Interest income – Interest income is recognised in the income statement for all interest-bearing instruments as it accrues, on a time-proportion basis using the effective interest method, unless collectability is in doubt.
- Dividend income – Dividend income is recognised when the right to receive payment is established.

1.22 Obligations under bonus mile programmes

Calculation of the obligations arising from bonus miles programmes is based on several estimates and assumptions. Accumulated but as yet unused bonus miles are deferred using the deferred revenue method to the extent that they are likely to be used on the Group's flights. The fair value of miles accumulated on the Group's own flights is recognised under deferred revenue. Fair value is determined as the value for which the miles could be sold separately, i.e. the average yield, taking booking class and traffic region into account. No provisions are recognised for miles that are expected to lapse. The quota of miles that have been allowed to lapse in the past is used to estimate the number of miles that will probably lapse subject to current expiry rules.

1.23 Derivative financial instruments and hedging

Derivative financial instruments including forward foreign exchange contracts, commodity options (combined written and purchased options together with other options), commodity swaps and other derivative financial instruments, are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

1. **Summary of significant accounting policies** - continued

1.23 Derivative financial instruments and hedging - continued

All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative. The full fair value of hedging derivatives is classified as a non-current asset or liability if the remaining maturity of the hedged item is more than twelve months, and as a current asset or liability if the remaining maturity of the hedged item is less than twelve months. Trading derivatives are classified as a current asset or liability.

On the date a derivative contract is entered into, the Group designates certain derivatives as a hedge of a future cash flow attributable to a recognised asset or liability or a forecast transaction (cash flow hedge). Hedge accounting is used for derivatives designated in this way provided certain criteria are met. Under the requirements of IAS 39, the criteria for a derivative instrument to be accounted for as a cash flow hedge include:

- formal documentation of the hedging instrument, hedging item, hedging objective, strategy and relationship is prepared before hedge accounting is applied;
- the hedge is documented showing that it is expected to be highly effective in offsetting the risk in the hedged item throughout the reporting period; and
- the hedge is effective on an ongoing basis.

Accordingly, the Group documents at the inception of the transaction, the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. This process includes linking all derivatives designated as hedges to specific assets and liabilities or to specific forecast transactions. The Group also documents its assessment, both at the hedge inception and on an on-going basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in cash flows of hedged items.

Changes in the fair value of derivatives that are designated and qualify as cash flow hedges and that prove to be highly effective in relation to the hedged risk, are recognised in the hedging reserve in equity. In respect of option contracts, designated as hedging instruments, the Group splits fair value into the intrinsic value and time value components. Changes in the intrinsic value of options are designated as the hedging instrument, while the remaining component of the option (its time value) is excluded from the hedging relationship. Accordingly, changes in the time value would be accounted for in the income statement.

Where the forecast transaction results in the recognition of a non-financial asset or of a non-financial liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability. Otherwise amounts deferred in equity are transferred to the income statement and classified as revenue or expense in the periods during which the hedged forecast transaction affects the income statement.

Certain derivative transactions, while providing effective economic hedges under the Group's risk management policies, do not qualify for hedge accounting under the specific rules in IAS 39 and are therefore treated as derivatives held for trading. Changes in the fair value of any derivative instruments that do not qualify for hedge accounting under IAS 39 are recognised immediately in profit or loss.

1. Summary of significant accounting policies - continued

1.23 Derivative financial instruments and hedging - continued

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting under IAS 39, any cumulative gain or loss existing in equity at that time remains in equity and is recognised in profit or loss when the hedged forecast transaction affects profit or loss. However, if a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

The fair values of derivative instruments held for trading and hedging purposes are disclosed in Note 10 to the financial statements.

1.24 Non-current assets (or disposal Groups) held for sale and discontinued operations

Non-current assets (or disposal Groups) are classified as assets held for sale and stated at the lower of carrying amount and fair value less costs to sell if their carrying amount is to be recovered principally through a sale transaction rather than through a continuing use, and a sale is considered highly probable. These assets may be a component of the entity, a disposal Group or an individual non-current asset.

A discontinued operation is a component of an entity that either has been disposed of, or that is classified as held for sale, and:

(a) represents a separate major line of business or geographical area of operations;
(b) is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations; or
(c) is a subsidiary acquired exclusively with a view to resale.

2. Financial risk management

2.1 Financial risk factors

As an Airline operating internationally, the Group's activities potentially expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management, covering risk exposures for all Group undertakings, focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Company's Board of Directors provides principles for overall Group risk management, as well as policies covering risks referred to above and specific areas such as investment of excess liquidity.

In order to manage exposures to risks arising from fluctuations in currency exchange rates and fluctuations in prices on the crude oil and fuel products markets, the Group makes use of derivative financial instruments. These instruments mainly comprise foreign currency forward contracts and options together with fuel hedging instruments.

The general hedging policy guidelines regarding currency and fuel price risks are set by the Board and the Company's finance department is responsible for implementation of these hedging policies. The respective derivative transactions are concluded only with first rate counterparties.

2. **Financial risk management**- continued

2.1 **Financial risk factors** - continued

(a) Market risk

(i) Foreign exchange risk

Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities which are denominated in a currency that is not the respective entity's functional currency. The Group is exposed to foreign exchange arising from various currency exposures, primarily with respect to the US dollar and UK sterling. With respect to the US dollar, the Group is in a net payer position from its operating business particularly in view of a significant portion of purchases denominated in this currency, including fuel, operating leases, maintenance and other related costs. In relation to other currencies, the Group is intrinsically in a net surplus position which is attributable to a portion of Group's revenue which is denominated in these currencies. UK sterling is considered to be the main risk exposure in this respect.

The expected future cash flows in individual major currencies usually over the coming 18 months are budgeted and analysed, and the Group hedges the respective net currency exposure in major currencies, within certain pre-established parameters, by entering into forward foreign exchange contracts. These contracts represent commitments to purchase foreign currency amounts covering the net exposure at a pre-established exchange rate. The Company also utilises foreign currency options when deemed necessary. In accordance with the requirements of IAS 39, the Group designates forecast transactions amounting to the net exposure in individual currencies as hedged items. These forecast transactions, qualifying as highly probable, would typically include the Group's purchases of fuel, lease expenditure and other aircraft related operating costs. These expenses are routinely denominated in US dollar, which currency accounts for a relatively minor portion of the Group's revenues. Forecast transactions designated as hedged items also include revenues denominated in UK sterling.

As at 31 March 2017, the Group forecasts net receipts denominated in UK sterling amounting to €22.8 million (2016: €21.4 million) for the twelve months immediately after the end of the reporting period. The Group also forecasts net payments denominated in US dollar amounting to €73.3 million (2016: €68.2 million) for the twelve months immediately after the end of the reporting period. These exposures were partially hedged as at the end of the reporting period, in accordance with the policy parameters referred to previously, through the use of derivative contracts having a notional amount of €10 million (2016: €31.6 million) covering US dollar exposures. There were no derivative contracts covering UK sterling exposures as at 31 March 2017 and 2016.

The Group's main on balance sheet risk exposures reflecting the net carrying amount of receivables and payables denominated in foreign currencies at the end of the reporting periods were as follows:

	Group and Company	
	2017	2016
	€000	€000
Net UK sterling asset position	**4,342**	5,406
Net US dollar liability position	**(10,695)**	(1,851)

2. Financial risk management - continued

2.1 Financial risk factors - continued

(a) Market risk - continued

(i) Foreign exchange risk - continued

If as at the end of the reporting period the euro had strengthened/weakened by 10% against the UK sterling and US dollar with all other variables held constant, pre-tax loss for the year would (increase)/decrease as follows:

	Group and Company	
	(+) 10% €000	(-) 10% €000
UK sterling		
At 31 March 2017	**(395)**	**482**
At 31 March 2016	(491)	601
US dollar		
At 31 March 2017	**972**	**(1,188)**
At 31 March 2016	168	(206)

If the euro had strengthened/weakened by 10% against the US dollar with all other variables held constant, equity (prior to tax effects) with respect to changes in the fair values of hedging derivative financial instruments as at the end of the reporting period would change as follows:

	Group and Company	
	(+) 10% €000	(-) 10% €000
At 31 March 2017	**(941)**	**1,075**
At 31 March 2016	(2,876)	2,792

(ii) Cash flow and fair value interest rate risk

The Group's interest rate risk principally arises from borrowings issued at variable rates (Note 20) which expose the Group to cash flow interest rate risk. The Group's borrowings mainly consist of facilities subject to variable interest rates which are principally based on reference rates. Management monitors the impact of changes in market interest rates on amounts reported in the income statement in respect of these instruments. Based on this analysis, management considers the potential impact on profit or loss of a defined interest rate shift that is reasonably possible at the end of the reporting period to be immaterial and accordingly the level of interest rate risk is contained. The Group's operating cash flows are substantially independent of changes in market interest rates.

2. Financial risk management - continued

2.1 Financial risk factors - continued

(a) Market risk - continued

(iii) Price risk

During the financial year ended 31 March 2017, fuel expenses amounted to €44 million (2016: €54 million) as disclosed in Note 24.2 to the financial statements and accounted for approximately 21% (2016: 24%) of the total operating expenses of the Group from continuing operations. Fluctuations in crude oil, jet fuel and other fuel product prices may have a significant effect on the Group's results. Different hedging instruments with regards to the crude oil and fuel product markets are used to limit fuel price risk. The Group's policy during the current and preceding years was aimed at hedging, in normal circumstances, a minimum of 40% of the expected fuel expenditure of the ensuing twenty-four months. During the course of the year, as a result of favourable oil prices, the Company did not enter into any new hedging agreements. Subsequent to year-end, so as to partially mitigate its fuel price risk, the Company entered into an agreement with a related party to purchase around 35% of the Company's annual fuel uplift at a pre-determined price, thereby mitigating the impact of any short-term price fluctuations. The Company's and Group's hedging exposure shall continue to be monitored and adjusted as deemed necessary by the Financial Risk Management Committee. As at 31 March 2017, there were no outstanding hedging instruments with regard to crude oil and fuel products (2016: the notional amounts of the hedging derivatives outstanding amounted to approximately €29.8 million in view of the prevailing market and trading conditions – refer to Note 10).

If as at 31 March 2016 the price of fuel products had strengthened/weakened by 10% with all other variables held constant, equity (prior to tax effects) as at the end of the reporting period would change as outlined below.

	Group and Company	
	(+) 10%	(-) 10%
	€000	€000
At 31 March 2016	1,623	(1,623)

(b) Credit risk

Credit risk principally arises from cash and cash equivalents and credit exposures to customers, including outstanding debtors and committed transactions. The Group's exposures to credit risk as at the end of the reporting periods are analysed as follows:

	Group		**Company**	
	2017	2016	**2017**	2016
Continuing operations:	**€000**	€000	**€000**	€000
Loans and receivables category:				
Cash and cash equivalents (Note 14)	**51,146**	44,940	**51,146**	43,808
Trade and related receivables	**23,231**	21,952	**23,231**	21,952
Other receivables (Note 11)	**9,866**	17,812	**9,576**	17,812
	84,243	84,704	**83,953**	83,572
Financial instruments held for hedging:				
Derivative financial instruments (Note 10)	-	4	-	4
	84,243	84,708	**83,953**	83,576

2. Financial risk management - continued

2.1 Financial risk factors - continued

(b) *Credit risk* - continued

	Group		Company	
	2017	2016	**2017**	2016
Discontinued operations:	**€000**	€000	**€000**	€000
Loans and receivables category:				
Cash and cash equivalents (Note 15.2.1)	**77**	76	**-**	-
Trade and other receivables (Note 15.2.1)	**179**	164	**-**	-
Loans to associates (Note 15.2.2)	**61**	106	**61**	106
	317	346	**61**	106

The maximum exposure to credit risk at the end of the reporting period in respect of the financial assets mentioned above is equivalent to their carrying amount as disclosed in the respective notes to the financial statements. The Group has no significant past due or impaired financial assets with the exception of the amounts disclosed in respect of trade and other receivables and only holds collateral in respect of exposures relating to trade and other receivables.

Cash and cash equivalents and term placements with banks

Group undertakings principally bank with local and foreign financial institutions which have high quality credit standing or rating. The main foreign bank counterparties as at the end of the reporting periods have a satisfactory external credit rating, as determined by major rating agencies such as Fitch. The Company's exposures to foreign banking institutions as at 31 March 2017 amounted to approximately €6.2 million (2016: €5.9 million).

Trade and other receivables

The sale of passage and freight documents is largely processed through agencies that are usually linked to country specific clearing systems for the settlement of passage and freight sales. Other individual agents are checked for creditworthiness and where necessary special collateral is provided for in the respective service contract. The respective credit risk concerning sales agents is relatively low because of the broad distribution.

Receivables and liabilities between airlines, unless otherwise stipulated in the respective agreements, are settled on a bilateral basis or through a clearing house of the International Air Transport Association (IATA). All receivables and liabilities are set-off against one another at monthly intervals, which leads to a considerable reduction in the default risk. In individual cases, special collateral is provided for in the respective service contract.

For all other service relationships, additional collateral is requested depending on the type and extent of the services rendered. Credit references or historical data from a previous relationship, in particular referring to payment behaviour, are utilised to avoid non-performance.

2. Financial risk management - continued

2.1 Financial risk factors - continued

(b) Credit risk - continued

The Group manages credit limits and exposures actively in a practicable manner such that past due amounts receivable from customers are within controlled parameters. The credit quality of the Group's trade and other receivables, which are not impaired or past due financial assets, reflects the nature of these assets which are principally debts in respect of transactions with customers for whom there is no recent history of default. Management does not expect any losses from non-performance by these customers. As at 31 March 2017, the Group holds collateral in the form of bank guarantees for the amount of €3,024,000 (2016: €1,561,000) as security in respect of trade receivables.

The Group's and Company's debtors include amounts due from subsidiaries, associates and related parties that are owned or controlled by the Government of Malta. The Group's credit control function monitors intra-Group credit and related party exposures at individual entity level on a regular basis and ensures timely performance of these assets in the context of overall Group liquidity management. The Group assesses the credit quality of these related parties taking into account financial position, performance and other factors and management does not expect any losses from non-performance or default, other than losses reflected within provisions for impairment.

As at 31 March 2017, the Group's and Company's trade receivables amounting to €2,663,000 (2016: €2,806,000) were impaired and the figures of the provisions in this respect are equivalent to these amounts. The individually impaired receivables mainly relate to a number of independent customers which are in unexpectedly difficult economic situations and which are accordingly not meeting repayment obligations. The Group does not hold any significant collateral as security in respect of the impaired assets.

The movement in provisions for impairment of trade receivables is analysed as follows:

	Group		Company	
	2017	2016	**2017**	2016
Continuing operations:	**€000**	€000	**€000**	€000
At beginning of year	**2,806**	2,440	**2,806**	2,440
Reversal of provisions which are no longer required	**(410)**	-	**(410)**	-
Increase in provisions	**237**	366	**237**	366
At end of year	**2,633**	2,806	**2,633**	2,806
Discontinued operations:				
At beginning of year	**237**	237	**-**	-
Reversal of provisions which are no longer required	**(237)**	-	**-**	-
At end of year	**-**	237	**-**	-
Total	**2,633**	3,043	**2,633**	2,806

Reversals of provisions for impairment arise in those situations where customers recover from unfavourable circumstances and accordingly start meeting repayment obligations. The movements in these provisions are disclosed in Note 24.2 and are included in 'Administrative expenses' in the Group's income statement.

2. Financial risk management - continued

2.1 Financial risk factors - continued

(b) Credit risk - continued

As at 31 March 2017, trade receivables amounting to €2,342,000 (2016: €1,449,000) were past due but not impaired. These relate to a number of customers for whom there is no recent history of default and in respect of which the Group has obtained no significant collateral. Categorisation of receivables as past due is determined by the Group on the basis of the nature of the credit terms in place and credit arrangements actually utilised in managing exposures with customers.

The aging analysis of the past due trade receivables is as follows:

	2017	2016
	€000	€000
Up to 60 days	**2,342**	635
60 to 120 days	-	705
Over 120 days	-	109
	2,342	1,449

As at 31 March 2017, the Group and Company also had amounts receivable from associates amounting to €6,000 (2016: €95,000) which were past due but not impaired. Such amounts were mainly past due for less than one year.

As at 31 March 2017, the Company had amounts receivable from subsidiaries amounting to €568,000 (2016: €485,000) which were impaired. Such amounts were mainly past due. At 31 March 2017, the Group and Company also had amounts receivable from related parties amounting to €234,000 (2016: €22,000) which were impaired. These amounts were past due.

The Group's other receivables principally comprise security deposits effected and payments on account. Credit risk in this respect is managed accordingly, taking cognisance of the Group's operational arrangements with such contracting parties.

Loans to subsidiaries and associates

The Group's and Company's loans referred to within Note 2.1(b) Credit Risk 'Discontinued operations' consist of advances to subsidiaries and associates. The Group's credit control function monitors intra-Group credit exposures and ensures timely performance in the context of overall Group liquidity management. Management does not expect any losses from non-performance or default, except as disclosed below. The impaired assets consisted of loans to entities which were in adverse trading and operational circumstances.

The movements in the provisions for impairment of loans to subsidiaries are analysed as follows:

	Company	
	2017	2016
	€000	€000
Provisions on loans to subsidiaries		
At beginning of year	-	2,891
Amounts written off	-	(2,891)
At end of year	-	-

2. **Financial risk management** - continued

2.1 **Financial risk factors** - continued

(b) Credit risk - continued

Derivative financial instruments

Credit risk arising from derivative financial instruments lies in the insolvency of the contracting party and as a consequence, in the amount of the sum, on balance, of positive market values vis-à-vis the respective derivative counterparties. Foreign exchange derivative transactions are concluded with first rate local banking institutions only, while fuel derivative contracts are entered into with foreign financial institutions which have high quality credit standing or rating. The Group's main foreign derivative counterparties as at the end of the reporting periods have a satisfactory external credit rating, as determined by major rating agencies such as Fitch.

(c) Liquidity risk

The Group is exposed to liquidity risk in relation to meeting future obligations associated with its financial liabilities, which comprise principally borrowings (Note 20) and payables. Prudent liquidity risk management includes maintaining sufficient cash and committed credit lines to ensure the availability of an adequate amount of funding to meet the Group's obligations. Management monitors liquidity risk by reviewing expected Group cash flows, and ensures that liquid resources and facilities that are expected to be required over the coming year are in place.

Based on the results of the Group's budgeting process, management usually prepares a liquidity plan covering the subsequent twelve month period that reflects the anticipated liquidity position over the period and ensures that pre-established net liquidity levels are met at all times during the period under review. This process is performed and monitored by a central treasury function and the plan is reviewed on an on-going basis.

The overall liquidity requirements of the Group involve maintaining available net liquidity equivalent to a number of weeks' cash outflows from operations depending on seasonality and expected volatility. The risk is actively managed by taking cognisance of the matching of operational cash inflows and outflows including those arising from expected maturities of financial instruments, the Group's committed bank borrowing facilities and other financing that it can access. The Group's current year adverse financial results and those registered in prior financial years, have significantly influenced the ability of the Group and Company to be in a position to generate operating net cash inflows. As a result the Airline's liquidity management process is an important factor impacting the Company's Restructuring process as referred to in Note 1.1.1. In view of the shortfalls in cash flows generated through the Group's and Company's operating and financial performance, specific arrangements were deemed necessary to address the forecasted financial position as at 31 March 2018. The most recent FY2019 – FY2021 Business Plan, approved by the Board subsequent to the end of FY2017, is projected to generate operating net cash inflows throughout the 3 year explicit period. This is attributable to a modified stance by the Board of directors and the Company's main shareholder. However, the forecast shortfall in funding as at 31 March 2018, representing the projected financing requirement at that point in time principally as a result of the losses registered up to FY2017, will be mainly met through specific proposed transactions reflected within the revised Business Plan. These proposed transactions comprise the transfer of landing rights to another AOC and AOL licensed company owned by the main shareholder, which arrangement has been approved in principle by both parties to the arrangement.

2. Financial risk management - continued

2.1 Financial risk factors - continued

(c) Liquidity risk - continued

The funding requirements and the arrangements necessary to put the funding at the disposal of the Company have been approved by the principal shareholder as outlined above. The Group expects to meet the contractual cash outflows arising from financial liabilities disclosed below, extending beyond the subsequent twelve month period, through operating cash flows and in particular financing cash inflows as referred to previously.

The tables below present the cash flows payable by the Group and the Company under non-derivative financial liabilities by remaining contractual maturities at the end of the reporting period. Non-financial liabilities are not reflected. The amounts disclosed in the tables are the contractual undiscounted cash flows. Balances due within twelve months equal their carrying balances, as the impact of discounting is not significant.

Group

	Within 3 months €000	3 - 6 Months €000	6 - 12 months €000	1 - 2 years €000	2 - 5 years €000	Over 5 years €000	Total €000
At 31 March 2017							
Continuing operations:							
Bank borrowings	9,941	-	-	-	-	-	9,941
Trade and other payables	39,749	-	15,100	-	-	-	54,849
	49,690	-	15,100	-	-	-	64,790
Discontinued operations:							
Bank borrowings	13	13	26	99	48	-	199
Trade and other payables	287	-	-	-	-	-	287
	300	13	26	99	48	-	486
Total	**49,990**	**13**	**15,126**	**99**	**48**	**-**	**65,276**
At 31 March 2016							
Continuing operations:							
Bank borrowings	8,413	-	-	-	-	-	8,413
Loan from related party	477	477	949	-	-	-	1,903
Trade and other payables	43,281	-	-	-	-	-	43,281
	52,171	477	949	-	-	-	53,597
Discontinued operations:							
Bank borrowings	12	12	24	47	138	-	233
Trade and other payables	547	-	-	-	-	-	547
	559	12	24	47	138	-	780
Total	52,730	488	973	47	138	-	54,377

2. Financial risk management - continued

2.1 Financial risk factors – continued

(c) Liquidity risk - continued

Company

	Within 3 months €000	3 - 6 months €000	6 - 12 months €000	1 - 2 years €000	2 - 5 years €000	Over 5 years €000	Total €000
At 31 March 2017							
Bank borrowings	9,941	-	-	-	-	-	9,941
Trade and other payables	40,243	-	15,100	-	-	-	55,343
	50,184	**-**	**15,100**	**-**	**-**	**-**	**65,284**
At 31 March 2016							
Bank borrowings	8,413	-	-	-	-	-	8,413
Loan from related party	477	477	949	-	-	-	1,903
Trade and other payables	46,078	-	-	-	-	-	46,078
	54,968	477	949	-	-	-	56,394

The Group's derivatives that will be settled on a gross basis consist principally of forward foreign exchange contracts (Note 10). The table below analyses the Group's derivative financial liabilities that will be settled on a gross basis into relevant maturity Groupings based on the remaining period at the end of the reporting period to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

Group and Company

	Within 3 months €000	3 - 6 months €000	6 - 12 months €000	More than 12 months €000	Total €000
At 31 March 2017					
Foreign exchange derivatives:					
- Outflows	(5,000)	(5,000)	-	-	(10,000)
- Inflows	4,992	4,991	-	-	9,983
	(8)	**(9)**	**-**	**-**	**(17)**
At 31 March 2016					
Foreign exchange derivatives:					
- Outflows	(3,000)	(9,000)	(20,000)	-	(32,000)
- Inflows	2,987	8,981	19,671	-	31,639
	(13)	(19)	(329)	-	(361)

The contractual undiscounted cash flows in respect of the Group's derivative financial liabilities as at 31 March 2016, which were settled on a net basis and which comprise fuel swap arrangements, were not deemed significantly different from carrying amounts for the purpose of disclosure.

2. Financial risk management - continued

2.2 Capital risk management

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

Consistent with others in the industry, the Group usually monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (as shown in the consolidated statement of financial position) less cash and cash equivalents. Total capital is calculated as equity as shown in the consolidated statement of financial position plus net debt. In view of the fact that the Group has negative equity or net liability position as at 31 March 2017, the Group's gearing ratio is not currently deemed to be a relevant benchmark for capital management. The current and prior year adverse financial results have impacted the financial position of the Group, in particular the equity level.

As outlined in Note 1.1.1, the Company's Restructuring Plan set out the turnaround strategy for Air Malta p.l.c. for the five-year period FY2012 to FY2016. However, these financial result targets have not been achieved in view of difficult market conditions in certain territories and the delayed implementation of certain cost initiatives envisaged in the Plan.

Adverse financial results registered during FY2017 and prior financial years have impacted the financial position of the Group with a net liabilities position as at 31 March 2017 amounting to €64.1 million. This is primarily attributable to the extremely adverse trading conditions which were entirely unforeseen and not within the Group's control, and which have caused a material delay in the implementation of the Restructuring Plan. The most recent FY2019 – FY2021 Business Plan, approved by the Board subsequent to the end of FY2017, is projected to generate profitability and operating net cash inflows throughout the 3 year explicit period. However, the forecast net liability position as at 31 March 2018, taking into account forecasted break-even financial results for FY2018, principally arising as a result of the losses up to FY2017, will be mainly met through the proposed transactions reflected within the revised Business Plan. These proposed transactions comprise the transfer of landing rights to another AOC and AOL licensed company owned by the main shareholder, which arrangement has been approved in principle by both parties to the arrangement. These transactions or arrangements will also strengthen the equity base of the Group and Company in a significant manner, as well as improve management of liquidity as reflected under the Liquidity risk management section above. The net liabilities position is expected to be addressed, to a large extent, through the transactions and arrangements referred to above.

2.3 Fair values of financial instruments

At 31 March 2017 and 2016 the carrying amounts of cash at bank, receivables, payables, accrued expenses and short-term borrowings reflected in the financial statements are reasonable estimates of fair value in view of the nature of these instruments or the relatively short period of time between the origination of the instruments and their expected realisation.

The fair value of non-current financial instruments for disclosure purposes are estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

The carrying amount of the Group's non-current fixed interest borrowings fairly approximates the estimated fair values of these assets based on discounted cashflows. The fair of the Group's non-current floating interest rate borrowings as at the end of the reporting periods is not significantly different from the carrying amounts.

2. Financial risk management - continued

2.3 Fair values of financial instruments - continued

The fair value of derivative financial instruments is determined in accordance with the Group's accounting policy disclosed in Note 1.23. Fair values are determined using forward exchange market rates at the end of the reporting period for forward foreign exchange contracts and using dealer quotes from counterparties or valuation techniques, including discounted cash flow models, for other derivative contracts (see Notes 10 and 19). The valuation techniques used are supported by observable market prices or rates since their variables include only data from observable markets.

Disclosure of fair value measurements by level of the following fair value measurement hierarchy is required in accordance with the requirements of IFRSs as adopted by the EU:

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

At 31 March 2017 and 2016, all the Group's derivative financial instruments disclosed in Note 10 are categorised as Level 2 instruments, since these contracts are fair valued through valuation techniques utilising data solely from observable markets.

3. Critical accounting estimates and judgements

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

In the opinion of the Directors, the accounting estimates and judgements made in the course of preparing these financial statements are not difficult, subjective or complex to a degree which would warrant their description as critical in terms of the requirements of IAS 1.

As referred to in Notes 5 to the financial statements, the Group's land and buildings category of property, plant and equipment is fair valued on the basis of professional advice, which considers current market prices in an active market for the properties.

4. Segment reporting

Subsequent to the adoption of the requirements of IFRS 8, 'Operating segments', the Group's management reviewed the disclosures required in this respect and determined that the Group effectively has one operating segment taking cognisance of the information utilised within the Group for the purposes of assessing performance.

5. Property, plant and equipment

Group and Company

	Land, buildings and improvements €000	Aircraft and flight equipment €000	Other assets €000	Total €000
At 1 April 2015				
Cost or valuation	3,160	18,930	22,356	44,446
Accumulated depreciation and impairment losses	(434)	(18,584)	(19,169)	(38,187)
Net book amount	2,726	346	3,187	6,259
Year ended 31 March 2016				
Opening net book amount	2,726	346	3,187	6,259
Additions	-	249	130	379
Depreciation charge	(158)	(247)	(697)	(1,102)
Closing net book amount	2,568	348	2,620	5,536
At 31 March 2016				
Cost or valuation	3,160	19,179	22,486	44,825
Accumulated depreciation and impairment losses	(592)	(18,831)	(19,866)	(39,289)
Net book amount	2,568	348	2,620	5,536
Year ended 31 March 2017				
Opening net book amount	2,568	348	2,620	5,536
Additions	72	304	477	853
Depreciation charge	(172)	(312)	(609)	(1,093)
Closing net book amount	**2,468**	**340**	**2,488**	**5,296**
At 31 March 2017				
Cost or valuation	3,232	19,483	22,963	45,678
Accumulated depreciation and impairment losses	(764)	(19,143)	(20,475)	(40,382)
Net book amount	**2,468**	**340**	**2,488**	**5,296**

Fair valuation of property

The Group's land and buildings, within property, plant and equipment, were last revalued in prior years by an independent professionally qualified valuer. The book value of the property had been adjusted to the revaluation in prior years and the resultant surplus, net of applicable deferred income taxes, had been credited to the revaluation reserve in shareholders' equity (Note 18).

5. **Property, plant and equipment** - continued

Fair valuation of property - continued

Valuations were made on the basis of open market value taking cognisance of the specific location of the property, the size of the site together with its development potential, the availability of similar properties in the area, and whenever possible, having regard to recent market transactions for similar properties in the same location. The Directors have reviewed the carrying amount of the property as at 31 March 2017 and no adjustments to the carrying amount were deemed necessary as at that date.

The Group is required to analyse non-financial assets carried at fair value by level of the fair value hierarchy within which the recurring fair value measurements are categorised in their entirety (Level 1, 2 or 3). The different levels of the fair value hierarchy have been defined as fair value measurements using:

- Quoted prices (unadjusted) in active markets for identical assets (Level 1);
- Inputs other than quoted prices included within Level 1 that are observable for the asset, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2);
- Inputs for the asset that are not based on observable market data (that is, unobservable inputs) (Level 3).

The Group's land and buildings, within property, plant and equipment, consist of aircraft hangar and maintenance areas that are owned and managed by the Company. All the recurring property fair value measurements at 31 March 2017 and 2016 use significant unobservable inputs and are accordingly categorised within Level 3 of the fair valuation hierarchy.

The Group's policy is to recognise transfers into and out of fair value hierarchy levels as of the beginning of the reporting period. There were no transfers between different levels of the fair value hierarchy during the years ended 31 March 2017 and 2016.

A reconciliation from the opening balance to the closing balance of property for recurring fair value measurements categorised within Level 3 of the fair value hierarchy, is reflected in the table above.

Valuation processes

The valuations of the properties are reviewed regularly on the basis of valuation reports prepared by third party qualified valuers. These reports are based on both:

- information provided by the company which is derived from its financial systems and is subject to the company's overall control environment; and
- assumptions and valuation models used by the valuers; with assumptions being typically market related and based on professional judgement and market observation.

The information provided to the valuer, together with the assumptions and the valuation models used by the valuer, are reviewed by the Board of Directors as part of its overall responsibilities. This would include a review of any fair value movements over the period and the consideration of the valuation report itself. At the end of every reporting period, the Board assesses whether any significant changes or developments have been experienced since the last external valuation.

5. **Property, plant and equipment** - continued

Valuation techniques

The external valuations of the Level 3 property have been performed using an adjusted sales comparison approach. In view of a limited number of similar sales in the local market, the valuations have been performed using unobservable inputs. The significant input to this approach is generally sales price per square metre related to transactions in comparable properties located in proximity to the respective property, with significant adjustments for differences in the size, exact location and condition of the property.

Information about fair value measurements using significant unobservable inputs (Level 3)

Description by class based on highest and best use	Fair value at 31 March 2017 & 2016 €000	Valuation technique	Significant unobservable input	€
Redevelopment as commercial premises	2,500	Adjusted sales comparison approach	Sales price per square metre	160

The higher the sales price per square metre the higher the resultant fair valuation. The highest and best use of the Group's property differs from their current use taking cognisance of the potential redevelopment.

If the land and buildings were stated on the historical cost basis, the carrying amounts would be as follows:

	Group and Company	
	2017	2016
	€000	€000
Cost	**2,145**	2,145
Accumulated depreciation and impairment losses	**(463)**	(425)
Net book amount	**1,682**	1,720

6. **Investment property**

	Group and Company	
	2017	2016
	€000	€000
Opening carrying amount	-	47
Gain from changes in fair value	-	992
Disposal	-	(1,039)
Closing carrying amount	-	-

In 2016, the investment property was disposed for a consideration amounting to €1 million.

7. Intangible assets

	Group and Company			
Emission rights and credits for own use	**2017 In tonnes**	**2017 €000**	2016 In tonnes	2016 €000
Year ended 31 March				
Unutilised emission rights at 1 April	**97,190**	**678**	151,079	985
Emission rights and credits granted	**-**	**-**	177,402	1,322
Utilisation for the year	**(161,303)**	**(1,129)**	(231,291)	(1,629)
(Shortfall of)/unutilised emission rights at 31 March	**(64,113)**	**(451)**	97,190	678

With effect from 1 January 2012, air transport has been included in the EU's Emissions Trading Scheme and an aircraft operator is obliged to provide an emissions permit for each tonne of carbon dioxide emitted. In principle, all aircraft operators that perform flights which depart from or arrive at an airport situated in the territory of a Member State of the European Union are required to participate in the EU Emissions Trading Scheme, in respect of carbon dioxide emissions.

Every Airline participating in the emissions trading system has a limited quantity of emission allowances at its disposal for every calendar year starting as from 1 January 2012, as defined by Article 3e of Directive 2003/87/EC of the European Parliament and of the Council (2011/638/EU). The competent authority has computed the free allocation of allowances to Air Malta p.l.c. Emissions surpassing this allotment have to be covered by the purchase of additional certificates.

Under EU ETS legislation, an aircraft operator is required to surrender an amount of allowances equivalent to the quantity of actual emissions reported in the annual emission reports. Surrendering of allowances must take place by not later than 30 April each year in respect of the reported emissions of the previous year.

The balance attributable to emission rights as at 31 March 2017 is reflected within "Other payables", representing a liability as a result of the shortfall in emission rights available for utilisation. The balance at 31 March 2016 is reflected within "Intangible assets"

As at 31 March 2016, deferred income in respect of emission rights and credits granted to the Company amounted to €1,264,000.

8. Investments in subsidiaries

Company

	2017 €000	2016 €000
At 31 March		
Opening carrying amount	**1,805**	1,805
Dissolution of subsidiary (refer to note below)	**(1,805)**	-
Other adjustments to cost	**(47)**	-
Other adjustments to provisions	**47**	-
Closing carrying amount	**-**	1,805
At 31 March		
Cost	**297**	2,149
Provisions	**(297)**	(344)
Carrying amount	**-**	1,805

On 24 November 2016, the Company resolved to dissolve its subsidiary, Shield Company Limited (formerly Shield Insurance Company Limited) and as at 31 March 2017 the subsidiary distributed its surplus of funds to the parent.

9. Available-for-sale financial assets

Group

	Equity instruments €000	Quoted debt securities €000	Total €000
At 1 April 2015			
Amortised cost	1,308	515	1,823
Provisions for impairment	(1,201)	-	(1,201)
Carrying amount	107	515	622
Year ended 31 March 2016			
Opening carrying amount	107	515	622
Disposals	-	(500)	(500)
Other movements	-	(13)	(13)
Closing carrying amount	107	2	109
At 31 March 2016			
Amortised cost	1,308	2	1,310
Provisions for impairment	(1,201)	-	(1,201)
Carrying amount	107	2	109

9. Available-for-sale financial assets - continued

Group - continued

	Equity instruments €000	Quoted debt securities €000	Total €000
Year ended 31 March 2017			
Opening carrying amount	107	2	109
Disposals	-	(2)	(2)
Carrying amount	**107**	**-**	**107**
At 31 March 2017			
Amortised cost	1,308	-	1,310
Provisions for impairment	(1,201)	-	(1,201)
Closing carrying amount	**107**	**-**	**107**

Analysis of total available-for-sale financial assets:

	2017 €000	2016 €000
Non-current	**107**	107
Current	**-**	2
	107	109

The Group's non-current available-for-sale investments comprise equity instruments in unquoted companies. The Company's Directors are of the opinion that the fair value of these instruments cannot be reliably determined, in view of the absence of an active market, comparable market transactions and alternative reliable estimates of fair value.

The weighted average effective interest rates of quoted debt securities as at 31 March 2016 was 3.75%.

Company

	Equity instruments €000
Non-current	
At 31 March 2016 and 2017	
Cost	688
Provisions for impairment	(581)
Carrying amount	**107**

10. Derivative financial instruments

The fair values of derivative financial instruments held at the end of the reporting period are set out in the following table:

	Group and Company	
	Fair values	
	Assets	Liabilities
	€000	€000
At 31 March 2017		
Derivatives held for hedging (cash flow hedges)		
Current portion		
Foreign exchange derivatives		
- currency forwards	-	(17)
Total derivative liabilities	**-**	**(17)**
At 31 March 2016		
Derivatives held for hedging (cash flow hedges)		
Current portion		
Foreign exchange derivatives		
- currency forwards	4	(366)
Fuel price hedging derivatives		
- commodity swaps	-	(13,944)
	4	(14,310)
Total derivative assets/(liabilities)	4	(14,310)

The full fair value of a hedging derivative is classified as a non-current asset or liability if the remaining maturity of the hedged item is more than 12 months and as a current asset or liability if the maturity of the hedged item is less than 12 months.

The currency forward contracts outstanding as at 31 March 2017 have the following contract terms:

	Fair value - liabilities €000
Forward sale of EUR10 million against USD (at contracted rate of EUR1:USD1.0693)	(17)

These contracts mature within a period of one to 12 months from the end of the reporting period and within the same period of time the forecast transactions designated as items being hedged by these contracts are expected to affect profit or loss.

10. Derivative financial instruments - continued

The currency forward contracts outstanding as at 31 March 2016 have the following contract terms:

	Fair value - liabilities €000
Forward sale of EUR32 million against USD (at contracted rate of EUR1:USD1.2246)	(362)

As at 31 March 2017, there were no outstanding fuel price hedging derivatives. The terms and approximate notional amounts of the fuel price derivatives outstanding as at 31 March 2016 are as follows:

Commodity swap agreements:

Maturity date	**Notional Amount**	**Settlement terms**	**Fair value - liabilities €000**
Contracts expiring on 31 October 2016	USD13,017,000	Pay-fixed ($91.17 - $100.90 per barrel range), receive-floating	(6,447)
Contracts expiring on 31 October 2016	EUR6,424,000	Pay-fixed (€70.37 - €71.13 per barrel range), receive-floating	(3,099)
Contracts expiring on 31 October 2016	USD3,977,000	Pay-fixed ($91.65 - $95.97 per barrel range), receive-floating	(1,842)
Contracts expiring on 31 October 2016	EUR8,505,000	Pay-fixed (€477.10 - €485.73 per metric tonne range), receive-floating	(2,556)
			(13,944)

These fuel hedging derivative contracts would typically have monthly exercise or settlement dates and upon monthly net cash settlements, amounts recognised in equity in respect of these contracts would be released to the income statement as the forecast hedged transactions would simultaneously affect the results of the Group.

11. Other receivables

Group

	2017 €000	2016 €000
Security deposits arising from operating lease agreements	**7,372**	5,183
Indirect tax recoverable	**606**	394
Other deposits and receivables	**1,888**	12,235
	9,866	17,812
Non-current	**6,948**	4,220
Current	**2,918**	13,592
	9,866	17,812

Company

	2017 €000	2016 €000
Security deposits arising from operating lease agreements	**7,372**	5,183
Indirect tax recoverable	**606**	394
Other deposits and receivables	**1,598**	12,235
	9,576	17,812
Non-current	**6,948**	4,220
Current	**2,628**	13,592
	9,576	17,812

Security deposits amounting to €859,000 as at 31 March 2017 (2016: €1,334,000), are classified as current as these are refundable on termination of fleet and engine leases which will occur during the financial year ending 31 March 2018.

Security deposits amounting to €6,186,000 (2016: €3,458,000), are classified as non-current as these will be refunded on termination of fleet and engine leases by not later than the financial year ending 31 March 2022.

Other deposits and receivables as at 31 March 2016, classified as current, included margin call accounts amounting to €10,618,000 in respect of derivative transactions with counterparties.

Non-current other receivables are principally receivable within five years from the end of the reporting period.

12. Inventories

	Group and Company	
	2017	2016
	€000	€000
Aircraft engineering spares	**908**	1,012
Other stocks	**139**	135
	1,047	1,147

13. Trade receivables

	Group and Company	
	2017	2016
	€000	€000
Current		
Trade receivables – gross	**25,601**	24,566
Less: provisions for impairment of trade receivables	**(2,633)**	(2,806)
Trade receivables – net	**22,968**	21,760

14. Cash and cash equivalents

For the purposes of the statements of cash flows, the year-end cash and cash equivalents comprise the following:

	Group		Company	
	2017	2016	**2017**	2016
	€000	€000	**€000**	€000
Attributable to continuing operations:				
Cash at bank and in hand	**51,146**	44,940	**51,146**	43,808
Bank overdrafts (Note 20)	**(9,941)**	(8,413)	**(9,941)**	(8,413)
	41,205	36,527	**41,205**	35,395
Attributable to discontinued operations:				
Cash at bank and in hand (Note 15.2.1)	**77**	76	-	-
Bank overdrafts (Note 15.2.1)	**(174)**	(214)	-	-
	(97)	(138)	-	-
Total cash and cash equivalents	**41,108**	36,389	**41,205**	35,395

14. Cash and cash equivalents - continued

The Group's bank balances reflected in the table above are call accounts and deposits with contractual terms of three months or less. Bank and cash balances include an amount of €1,382,000 (2016: €1,088,000) that is held in overseas bank accounts subject to currency restrictions which lead to delays in remittance to Malta. As at 31 March 2017, the Group and Company have recognised provisions for impairment amounting to €357,000 (2016: €448,000) in respect of bank balances which have been deemed by the Directors as not likely to be recovered. As at 31 March 2017, bank balances amounting to €28,437,000 (2016: €28,465,000) are pledged in favour of bankers but are considered to be an integral part of the Group's cash management and accordingly treated as cash and cash equivalents.

15. Assets classified as held for sale and discontinued operations

15.1 Amounts presented in the income statements

	Group		**Company**	
	2017	2016	**2017**	2016
	€000	€000	**€000**	€000
Profit/(loss) after tax of discontinued operations (see Note 15.1.1)	**311**	(457)	-	-
Post-tax gain recognised on disposal of subsidiary (see Notes 15.1.2)	-	7,464	-	-
Net movement in provisions for impairment attributable to subsidiaries classified as held for sale	-	-	-	2,891
Other items	-	(91)	-	(217)
Profit for the year from discontinued operations	**311**	6,916	-	2,674

15.1.1 In prior years, the Group resolved to dispose of a number of subsidiaries, including its hotel subsidiary, Selmun Palace Hotel Company Limited and entities comprising its travel operating business. The disposal of the hotel subsidiary has been finalised during the preceding financial year. The entities referred to above have been reported in these consolidated financial statements as discontinued operations in accordance with the requirements of IFRS 5 'Non-current assets held for sale and discontinued operations'.

An analysis of the result of the discontinued operations is as follows:

	Group	
	2017	2016
	€000	€000
Administrative and other costs	311	(457)
Profit/(loss) after tax of discontinued operations	311	(457)
Operating cash flows	-	(6,879)
Investing cash flows	45	10,910
Financing cash flows	(40)	(2,716)
Total cash flows	5	1,315

15. Assets classified as held for sale and discontinued operations - continued

15.1 Amounts presented in the income statements - continued

15.1.2 On 24 March 2016, the Group disposed of its interest in Selmun Palace Hotel Company Limited, which was a subsidiary of the Group, to the Government of Malta for a nominal consideration, taking into account proceeds for taking over subsidiary's liabilities as reflected in the table below. The resulting gain on disposal is reflected in the table below:

Group

	2016
	€000
Assets attributable to disposed subsidiary	
- Non-current assets	3,444
- Trade and other receivables	10
Liabilities attributable to disposed subsidiary	
- Trade and other payables	(2,834)
	620
Proceeds to Group upon acquirer taking over liabilities of subsidiary	(8,084)
Post-tax gain on disposal of subsidiary	(7,464)

15.2 Amounts presented in the statement of financial position

15.2.1 Group

	2017	2016
	€000	€000
Assets classified as held for sale:		
Assets attributable to travel operating business		
- Property, plant and equipment	**365**	365
- Trade and other receivables	**179**	164
- Cash and bank balances	**77**	76
Investments in associate (see Note 15.2.2)	**277**	322
	898	927
Liabilities directly associated with assets classified as held for sale:		
Liabilities attributable to travel operating business		
- Bank borrowings	**174**	214
- Trade and other payables	**287**	547
	461	761

15. Assets classified as held for sale and discontinued operations - continued

15.2 Amounts presented in the statement of financial position - continued

15.2.2 Company

In previous years, the Company formulated its intentions to dispose of its investment in World Aviation Group Limited, and accordingly the investment was transferred to assets classified as held for sale. The investments reclassified comprise the Group's equity investment carried at €216,000 (2016: €216,000) (based on equity accounting up to reclassification) and loans with a carrying amount of €61,000 (2016: €106,000).

Assets classified as held for sale:

	Shares in subsidiaries €000	Loans to subsidiaries €000	Shares in associates €000	Loans to associates €000	Total €000
Year ended 31 March 2017					
Opening carrying amount	-	-	12	106	118
Repayment of loan	-	-	-	(45)	(45)
Closing carrying amount	**-**	**-**	**12**	**61**	**73**
Year ended 31 March 2016					
Opening carrying amount	-	8,084	12	106	8,202
Movement in provisions for impairment	2,763	2,891	-	-	5,654
Assets written off upon disposal	(2,763)	(2,891)	-	-	(5,654)
Repayment of loan	-	(8,084)	-	-	(8,084)
Closing carrying amount	-	-	12	106	118

Provisions for impairment reported within the carrying amounts above are analysed as follows:

	Shares in subsidiaries €000	Loans to subsidiaries €000	Total €000
Year ended 31 March 2016			
At beginning of year	(2,763)	(2,891)	(5,654)
Assets written off upon disposal	2,763	2,891	5,654
At end of year	-	-	-

At 31 March 2017 and 2016, loans to associates were unsecured, repayable on demand and subject to a weighted average effective interest rate of 3% per annum.

16. Share capital

	Group and Company	
	2017	2016
	€000	€000
Authorised		
156,000,000 (2016: 156,000,000) ordinary shares of €1 each	**156,000**	156,000
Issued and fully paid		
131,000,393 (2016: 131,000,393) ordinary shares of €1 each 100% paid up	**131,000**	1,000

17. Share premium

	Group and Company	
	2017	2016
	€000	€000
At beginning and end of year	**42,762**	42,762

18. Revaluation reserve

The reserve represents the revaluation adjustments arising from the fair valuation of the land and buildings component to property, plant and equipment. The movements in the revaluation reserve are analysed as follows:

	Group and Company	
	2017	2016
	€000	€000
At beginning and end of year	**693**	693

The revaluation reserve is non-distributable.

19. Hedging reserve

Group and Company

The fair values of cash flow hedges are recorded in the hedging reserve, in a separate category of equity, as shown below:

	Currency forwards €000	Fuel swaps €000	Total €000
At 1 April 2015			
Gross amounts of gains/(losses)	7,301	(20,781)	(13,480)
Movements in year ended 31 March 2016			
Net losses from changes in fair value	(1,009)	(11,490)	(12,499)
Reclassified to profit or loss as a reclassification adjustment	(6,654)	18,326	11,672
At 31 March 2016			
Gross amounts of losses	(362)	(13,945)	(14,307)
Movements in year ended 31 March 2017			
Net gains from changes in fair value	1,041	2,365	3,406
Reclassified to profit or loss as a reclassification adjustment	(696)	11,580	10,884
At 31 March 2017			
Gross amounts of losses	**(17)**	**-**	**(17)**

The net fair value losses as at 31 March 2017 on open forward foreign exchange contracts which hedge anticipated future foreign currency transactions will be reclassified from the hedging reserve to profit or loss as a reclassification adjustment when the forecast transactions occur, at various dates up to twelve months from the end of the reporting period.

20. Borrowings

	Group and Company	
	2017 €'000	2016 €000
Current		
Bank overdrafts	**9,941**	8,413
Borrowings from other related party	**-**	1,853
Total borrowings	**9,941**	10,266

20. Borrowings - continued

The Group's and Company's banking facilities as at 31 March 2017 amounted to €23,000,000. These facilities are mainly secured by:

(a) Airport landing and take-off rights which are also securing other facilities referred to in Note 22; and

(b) Cash balances pledged in favour of the bank as referenced in Note 14.

In prior years, the Company had entered into a borrowing arrangement with a company, which is ultimately controlled by the Government of Malta. The loan facility was principally subject to fixed interest rates, repayable through instalments until 1 March 2017 and was partly secured by a special hypothec over property, which is classified as the Company's property, plant and equipment.

The Group's bank borrowings are subject to floating rates of interest. The weighted average effective interest rates for the Group and Company borrowings at the end of the reporting period are as follows:

	Group and Company	
	2017	2016
	%	%
Bank overdrafts	**2.71**	2.53
Borrowings from other related party	**-**	5.00

21. Deferred taxation

Deferred income taxes are calculated on all temporary differences under the liability method and are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled based on tax rates (and tax laws) that have been enacted by the end of the reporting period. The principal tax rate used is 35% (2016: 35%).

Deferred tax assets are recognised to the extent that realisation of the related tax benefit through future taxable profits is probable. At 31 March 2017 and 2016, the Group had the following unutilised tax credits and deductible temporary differences in respect of which deferred taxation has not been recognised:

	Group and Company	
	2017	2016
	€000	€000
Unutilised tax credits arising from:		
Unabsorbed tax losses and capital allowances	**350,754**	335,001
Unabsorbed capital losses	**49,659**	49,659
Deductible temporary differences arising principally from non-current assets and provisions	**5,477**	6,077

Accordingly, the Group and Company has a potential deferred tax asset amounting to €142,062,000 (2016: €136,758,000) which has not been recognised in these financial statements. Whereas tax losses and capital losses have no expiry date and may be carried forward indefinitely, unabsorbed capital allowances are forfeited upon cessation of the trade. Capital losses may be offset solely against future capital gains.

22. Provisions in respect of maintenance costs

Group and Company

Provisions in respect of maintenance costs are calculated to allow for unclaimable costs expected to be incurred by the Company in maintaining aircraft under operating leases throughout the unexpired period of the lease and in providing for any compensation to meet re-delivery conditions upon termination of the lease.

The amount of the provisions at 31 March 2017 and 2016 represent the excess of amounts charged to profit or loss over the actual costs incurred.

	2017 €000	2016 €000
Year ended 31 March		
At beginning of year	**37,517**	45,895
Charged to profit or loss:		
- Additional provisions, including effects of unwinding non-current provisions	**17,160**	16,980
Used during year	**(23,752)**	(25,358)
At end of year	**30,925**	37,517

Analysis of total provisions:

	2017 €000	2016 €000
At 31 March		
Non-Current	**15,444**	8,857
Current	**15,481**	28,660
	30,925	37,517

Through its aircraft lease agreements, the Company entered into an arrangement with the lessors to pay in advance maintenance reserves so as to meet maintenance and re-delivery lease conditions. As at 31 March 2017, these reserves which are reflected in the provisions disclosed above, amounted to €59,552,000 (2016: €59,776,000). Furthermore, the Company has agreed to provide to the lessor irrevocable letters of credit as security to cover costs related to maintenance of engines. At 31 March 2017, the amounts in this respect amounted to €37,341,000 (2016: €48,269,000) (Note 33).

23. Other provisions

	Group and Company	
	2017	2016
	€000	€000
At 1 April	**236**	591
Reversal of provisions which are no longer required	**(236)**	(355)
At 31 March	**-**	236

This caption principally represents provisions in relation to potential liabilities attributable to the affairs of previously held investments and other obligations of the Group. These provisions were classified as current liabilities.

24. Information on operating results

24.1 Revenue from continuing operations

With the exception of leasing income, income from Airline activities is principally derived from flights to and from Malta. The Group's revenue from other business activities is also derived from Malta.

	Group		Company	
	2017	2016	**2017**	2016
	€000	€000	**€000**	€000
Revenue on Airline activities	**171,475**	199,124	**171,475**	199,124
Aircraft leasing revenue	**1,245**	4,911	**1,245**	4,911
Ground related and other revenue	**19,522**	16,484	**19,522**	16,484
	192,242	220,519	**192,242**	220,519

During the current financial year, the company's directors have reviewed and revised the estimate of the period of time over which the gross value of sales in respect of tickets sold remaining unused is taken to profit or loss as residual revenue, to the extent that no liability would be expected to arise in relation thereto. With effect from the current financial year, the sales value of tickets remaining unused for a period of twelve months is recognised in profit or loss as residual revenue; in prior financial periods, a period of eighteen months was utilised for recognition of residual revenues. The effect of this change in accounting estimate on the financial results of the company for the financial year under review comprised an increase in the company's revenue of €3,439,361. The resultant increased revenue has been included in the determination of the financial results for the current financial year in accordance with the requirements of IAS 8 'Accounting policies, changes in accounting estimates and errors'.

24. Information on operating results - continued

24.2 Expenses by nature

	Group		Company	
	2017	2016	**2017**	2016
	€000	€000	**€000**	€000
Aircraft fuel and oils	**44,362**	53,880	**44,362**	53,880
Aircraft operating lease rentals	**23,949**	29,427	**23,949**	29,427
Aircraft maintenance	**25,417**	27,057	**25,417**	27,057
Other flight related costs	**42,267**	48,216	**42,267**	48,216
Restructuring costs (Note 24.3.1)	**1,136**	247	**1,136**	247
Marketing, distribution and representation costs	**10,039**	10,493	**10,039**	10,493
Depreciation of property, plant and equipment (Note 5)	**1,093**	1,102	**1,093**	1,102
Employee benefit expense (Note 25)	**43,653**	39,310	**43,653**	39,310
Net movement in provisions for impairment of trade receivables (included in 'Administrative expenses')	**(173)**	366	**(173)**	366
Exchange differences	**(699)**	497	**(699)**	497
Other expenses	**14,939**	15,662	**14,899**	15,927
Total cost of sales, selling and distribution costs and administrative expenses	**205,983**	226,257	**205,933**	226,522

The amounts disclosed in the table above relate solely to continuing operations.

24.3 Restructuring and other related costs

24.3.1 Restructuring costs recognised in profit or loss

Group and Company

	Administrative expenses €000	Total €000
At 31 March 2017		
Costs related to:		
Voluntary redundancy and early retirement schemes	**1,136**	**1,136**
At 31 March 2016		
Costs related to:		
Voluntary redundancy and early retirement schemes	223	223
Professional and related fees	24	24
	247	247

During the current financial year, the provision for restructuring costs attributable to voluntary redundancy and early retirement schemes has been reviewed in view of updated estimates (refer to Note below).

24. **Information on operating results** - continued

24.3 **Restructuring and other related costs** - continued

24.3.1 Restructuring costs recognised in profit or loss - continued

In addition to costs attributable to voluntary redundancy and early retirement schemes, the amounts recognised as restructuring costs in profit or loss during the preceding financial year and reflected in the tables above comprise professional fees, service charges and other related consultancy fees incurred in the planning and implementation of projects and measures defined within the Restructuring Plan as approved by the European Commission. These projects and measures comprise a wide range of activities impacting on all the key operational aspects of the Airline and accordingly this range is reflected in the nature of expenditure presented as restructuring and related costs.

Besides expenditure disclosed in the table above, the net impact on profit or loss of leasing out aircraft not supporting the scale and scope of the Company's operations envisaged within the approved Restructuring Plan, amounting to a net charge of €22,000 (2016: €269,000), has been included in restructuring and related costs. The leasing out of the aircraft is considered a restructuring measure taking cognisance of the contents of the Restructuring Plan.

24.3.2 Provision in respect of restructuring costs

In preceding years, the Company had reflected as a provision in its statement of financial position the estimated impact of restructuring costs attributable to voluntary and early retirement schemes established as part of the Restructuring Plan.

	Group and Company	
	2017	2016
	€000	€000
Current		
At beginning of year	**5,989**	6,229
Charged to profit or loss	**1,136**	223
Utilised during the year	**(425)**	(463)
At end of year	**6,700**	5,989

The provision which is principally current in nature, covers:

- obligations under voluntary and early retirement schemes as a result of the restructuring process;
- one-time payment obligations emanating from restructuring agreements; and
- obligations to effect payments to a limited number of former staff members actually entitled to benefits under previous early retirement schemes.

During the current financial year, the provision was revised in view of the updated estimates in respect of voluntary and early retirement schemes impacting the estimated benefits attributable to employees expected to be granted entitlement to these schemes.

These obligations are intrinsically linked to the implementation of the Company's Restructuring Plan and accordingly are considered as restructuring costs. The obligations emanating from voluntary and early retirement schemes are treated as termination benefits for accounting purposes.

24. **Information on operating results** - continued

24.3 **Restructuring and other related costs** - continued

24.3.2 Provision in respect of restructuring costs - continued

In preceding financial years, the Company had effected payments amounting to €6.3 million, to a company which is controlled by the Government of Malta, in relation to the administration of the voluntary and early retirement schemes. Air Malta p.l.c. and this related party had entered into a payment services agreement whereby the related party will manage and process payments due to employees who are eligible and approved by Air Malta p.l.c. to benefit from the voluntary redundancy and early retirement schemes.

Up to 31 March 2017, 450 (2016: 450) staff members are currently being granted entitlement to the voluntary and early retirement schemes established as part of the Restructuring Plan. In preceding financial years the Company had entered into a borrowing arrangement with the payment management service provider referred to previously in respect of its obligations towards this related party under the payment services agreement, for the amount of €7.6 million.

24.4 **Auditors' fees**

Fees charged by auditors for services rendered during the financial periods ended 31 March 2017 and 2016 relate to the following:

	Group	
	2017	2016
	€000	€000
Audit services – annual statutory		
- Parent Company auditors:		
- Company	**175**	175
- subsidiaries	**9**	9
Other services		
- Parent Company auditors: Company		
- tax advisory and compliance services	**19**	27

Fees for audit services are approved by the Audit Committee, after having been reviewed. The Committee also reviews and approves the nature and extent of non-audit services to ensure that independence is maintained.

Taxation services include compliance services such as tax return preparation, along with advisory services such as consultation on tax matters, tax advice relating to transactions, and other tax planning and advice. The figures included in the table above also reflect amounts relating to the Group's discontinued operations.

25. Employee benefit expense

	Group		Company	
	2017	2016	**2017**	2016
	€000	€000	**€000**	€000
Wages and salaries	**41,779**	37,313	**41,779**	37,313
Social security costs	**1,874**	1,997	**1,874**	1,997
	43,653	39,310	**43,653**	39,310

Costs in relation to voluntary and early retirement schemes are reflected in Note 24.3 to the financial statements.

Average number of persons employed during the year:

	Group		Company	
	2017	2016	**2017**	2016
By category				
Cost of sales	**868**	863	**868**	863
Selling and distribution	**75**	80	**75**	80
Administrative	**60**	70	**60**	70
	1,003	1,013	**1,003**	1,013

26. Investment and other related income

	Group		Company	
	2017	2016	**2017**	2016
	€000	€000	**€000**	€000
Gross dividend income from investments in associates – classified as held for sale	**-**	955	**-**	955
Gain on dissolution of subsidiary	**-**	-	**1,938**	-
Other income	**221**	-	**-**	-
	221	955	**1,938**	955

27. Finance income

	Group		Company	
	2017	2016	**2017**	2016
	€000	€000	**€000**	€000
Interest income and similar income from associates	**-**	2	**-**	2
Interest income from bank deposits	**72**	13	**72**	13
	72	15	**72**	15

28. Finance costs

	Group		Company	
	2017	2016	**2017**	2016
	€000	€000	**€000**	€000
Interest expense on bank loans and overdrafts	**314**	217	**314**	217
Interest expense payable to subsidiaries	**-**	-	**-**	35
Interest expense payable to ultimate shareholder (Note 20)	**-**	639	**-**	639
Interest expense payable to related party	**187**	281	**187**	281
Bank charges and similar expenses	**842**	1,755	**883**	1,755
	1,343	2,892	**1,384**	2,927

29. Tax expense

	Group		Company	
	2017	2016	**2017**	2016
	€000	€000	**€000**	€000
Current taxation:				
Current tax expense	**89**	140	**-**	115
Attributable to:				
Continuing operations (reflected on face of income statement)	**89**	140	**-**	115

The tax on the Group's and Company's results before tax differs from the theoretical amount that would arise using the basic tax rate applicable as follows:

	Group		Company	
	2017	2016	**2017**	2016
	€000	€000	**€000**	€000
Loss before tax from continuing operations	**(14,791)**	(6,668)	**(13,065)**	(6,968)
Profit before tax from discontinued operations	**311**	6,916	**-**	2,674
(Loss)/profit before tax for the year	**(14,480)**	248	**(13,065)**	(4,294)
Tax on (loss)/profit before tax at the statutory of 35%	**(5,068)**	87	**(4,573)**	(1,503)
Tax effect of:				
Dividend and other income not subject to tax or subject to final withholding tax	**-**	(185)	**(380)**	(185)
Movement in unrecognised deferred tax assets in respect of unabsorbed tax losses and unabsorbed capital allowances arising during the current year	**5,809**	1,437	**5,605**	3,002
Unrecognised temporary differences and other movements, mainly attributable to tangible non-current assets and provisions	**(652)**	(967)	**(652)**	(967)
Application of provisions of tax legislation to sale of property	**-**	(232)	**-**	(232)
Tax charge in the accounts	**89**	140	**-**	115

30. Directors' emoluments

	Group and Company	
	2017	2016
	€000	€000
Emoluments of Directors of Air Malta p.l.c.		
Total fees and other emoluments charged in these financial statements	**53**	53

Insurance premia of €77,000 (2016: €86,000) have been paid during the year in respect of professional indemnity cover in favour of the Directors of Air Malta p.l.c. and other officers.

31. Cash generated from/(used in) operations

Reconciliation of operating (loss)/profit to cash generated from/(used in) operations:

	Group		Company	
	2017	2016	**2017**	2016
	€000	€000	**€000**	€000
Operating loss from continuing operations	**(13,741)**	(4,746)	**(13,691)**	(5,011)
Operating profit from discontinued operations (note 15)	**311**	6,916	**-**	2,674
Operating (loss)/profit for the year	**(13,430)**	2,170	**(13,691)**	(2,337)
Adjustments for:				
Depreciation and other charges in relation to property, plant and equipment	**1,093**	1,251	**1,093**	1,102
Gain from changes in fair value of investment property (Note 6)	**-**	(992)	**-**	(992)
Gain on disposal of assets classified as held for sale (Note 15.1.2)	**-**	(7,464)	**-**	-
Net movement in provisions for impairment of trade receivables	**(173)**	366	**(173)**	366
Net movement in provisions for impairment of amounts receivable from subsidiaries	**-**	-	**108**	159
Movement in provision for impairment of other financial assets	**(91)**	448	**(91)**	448
Unrealised exchange differences	**(247)**	1,339	**(247)**	1,339
Movement in provision in respect of maintenance costs (Note 22)	**17,160**	16,980	**17,160**	16,980
Movement in provision in respect of restructuring costs (Note 24.3.2)	**1,136**	223	**1,136**	223
Movement in other provisions (Note 23)	**(236)**	(355)	**(236)**	(355)
Emission rights and credits granted (Note 7)	**-**	(1,322)	**-**	(1,322)
Emission rights used (Note 7)	**1,129**	1,629	**1,129**	1,629
Changes in working capital:				
Inventories	**100**	(29)	**100**	(29)
Trade and other receivables	**7,498**	7,484	**7,784**	7,031
Trade and other payables	**17,448**	(7,601)	**18,670**	(10,452)
Provisions in respect of maintenance costs used during the year (Note 22)	**(23,752)**	(25,358)	**(23,752)**	(25,358)
Provision in respect of restructuring costs used during the year (Note 24.3.2)	**(425)**	(463)	**(425)**	(463)
Cash generated from/(used in) operations	**7,210**	(11,694)	**8,565**	(12,031)

31. **Cash used in operations** - continued

Significant non-cash transactions which occurred during the year ended 31 March 2016, mainly comprised of a capital call to the Government of Malta, in respect of the unpaid part of 130,000,000 shares issued, amounting to €11,984,000 - refer to Note 16, which was met through the conversion into equity of an equivalent amount of the Company's borrowings from the Government (Note 20).

32. **Commitments**

Capital and other commitments

	Group and Company	
	2017	2016
	€000	€000
Contractual commitments	**39,648**	54,837

Commitments arise from agreements with related and other parties entered into by the Group principally in respect of the outsourcing of the IT and other functions, together with the provision of catering services and aircraft related services.

The future expected payments under these contractual arrangements are as follows:

	Group and Company	
	2017	2016
	€000	€000
Not later than one year	**16,336**	15,258
Later than one year and not later than five years	**23,312**	39,579
	39,648	54,837

Operating lease commitments – where a Group undertaking is the lessee

The future minimum lease payment obligations under non-cancellable operating lease arrangements covering aircraft, engine and property are as follows:

	Group and Company	
	2017	2016
	€000	€000
Not later than one year	**19,874**	21,256
Later than one year and not later than five years	**20,632**	34,241
Later than five years	**264**	-
	40,770	55,497

As at 31 March 2017, the lease arrangements for aircraft and engines run for remaining fixed periods ranging from less than one year to less than 5 years.

As at 31 March 2017, the lease arrangements for property run for remaining fixed periods ranging from less than one year to later than 5 years.

32. **Commitments** - continued

Operating lease commitments – where a Group undertaking is the lessor

The future minimum lease payments receivable under non-cancellable aircraft and engine operating leases were as follows:

	Group and Company	
	2017	2016
	€000	€000
Not later than one year	**-**	899

33. **Contingencies**

The Group's contingent liabilities as at 31 March include:

	2017	2016
	€000	€000
Bank guarantees, documentary credits and other indemnities (refer to Notes 14 and 22)	**40,658**	51,201

34. **Related party transactions**

The Government of Malta ultimately controls the Company by virtue of its 99.9% shareholding and is accordingly represented on the Board of Directors. Hence, the Government of Malta, government departments, public sector corporations and other entities owned or controlled by the Government are considered by the Directors to be related parties of the Group. Furthermore, all companies forming part of the Air Malta Group are considered by the Directors to be related parties since these companies are all ultimately owned by Air Malta p.l.c.

In the ordinary course of its operations, the Group carries out business with the related parties noted above. In the opinion of the Directors, disclosure of related party transactions, which are generally carried out on commercial terms and conditions, is only necessary when the transactions effected have a material impact on the operating results and financial position of the Group. The aggregate invoiced amounts in respect of a number of transaction types carried out with related parties are not considered material and accordingly they do not have a significant effect on these financial statements.

34. Related party transactions - continued

Except for transactions disclosed or referred to in notes 15, 16, and 20, the following significant transactions, which were carried out with the respective categories of related parties, have a material effect on the operating results and financial position of the Group.

	Group and Company	
	2017	2016
	€000	€000
Government and other entities controlled by Government:		
- Sales of services	**20,230**	15,156
- Purchases of materials and services	**18,991**	22,327
	39,221	37,483
Associates		
- Sales of services	**58**	7
- Purchases of services	**2,539**	2,494
	2,597	2,501

Year-end balances with related parties, arising principally from the transactions referred to previously, are reflected in the statement of financial position and in Note 15.

Remuneration and other benefits payable to key management personnel, which comprise the Company's Directors, are disclosed in Note 30 to these financial statements.

Interest income from related parties and interest expense charged to related parties are disclosed in Notes 27 and 28 respectively.

35. Statutory information

Air Malta p.l.c. is a public limited liability company and is incorporated in Malta.

36. The Air Malta Group

Subsidiaries and associates within the Group as at 31 March 2017 and 2016 were the following:

Subsidiaries

	Group % holding 2017	Group % holding 2016	Company % holding 2017	Company % holding 2016	Country of incorporation
Holiday Malta (Russia) Limited SkyParks Business Centre, Level 2, Malta International Airport, Luqa (held by KM Holdings Limited) (in dissolution)	**100**	100	**-**	-	Malta
Holiday Malta (Italia) S.r.l. Via Giacomo Leopardi 7, 95127 Catania, Sicily (held by KM Holdings Limited) (in dissolution)	**100**	100	**-**	-	Italy
Holiday Malta (Hellas) Tourism EPE 91, Alexandras Ave, 11474 Athens (held by KM Holdings Limited) (in dissolution)	**100**	100	**-**	-	Greece
Travel 2000 S.r.l. Via Giacomo Leopardi 7, 95127 Catania, Sicily (held by Holiday Malta (Italia) S.r.l) (in dissolution)	**100**	100	**-**	-	Italy
Airport Services Company Limited SkyParks Business Centre, Level 2, Malta International Airport, Luqa (in dissolution)	**100**	100	**100**	100	Malta
Shield Company Limited (formerly Shield Insurance Company Limited) SkyParks Business Centre, Level 2, Malta International Airport, Luqa (in dissolution)	**100**	100	**100**	100	Malta
KM Holdings Limited SkyParks Business Centre, Level 2, Malta International Airport, Luqa	**100**	100	**100**	100	Malta

36. The Air Malta Group - continued

Associates

	Group % holding 2017	Group % holding 2016	**Company % holding 2017**	Company % holding 2016	**Country of incorporation**
AZZURRAair S.p.A. Viale Papa Giovanni XXIII, 48 24121 Bergamo (struck off during the year)	**-**	49	**-**	49	Italy
Cottonera Properties Co. Ltd. c/o Malta Investment Management Co. Ltd. Trade Centre, San Gwann Industrial Estate, San Gwann (in dissolution)	**49**	49	**49**	49	Malta
World Aviation Group Limited Floor 1, Aviation Centre, Luqa	**50**	50	**50**	50	Malta