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AIR MALTA p.l.c.

Annual Report and  
Consolidated Financial Statements  
31 March 2018

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## **Directors' report**

The Directors present their report and the audited financial statements of Air Malta p.l.c. for the year ended 31 March 2018, as here in after referred to as FY18.

### **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 profits for the year ended 31 March 2018 amounted to €15.7 million compared to a loss of €13.1 million the year before.

With reference to the results of the Group during financial year ended 31 March 2018, the Group's profit after tax from continuing operations amounted to €15.7 million (2017: Loss €14.9 million). The Group's liabilities exceeded its assets as at 31 March 2018 by €34 million (2017: €64.6 million).

#### **Financial Results**

The Airline's operating profit before restructuring costs and non-recurring items for the year ended 31 March 2018 amounted to €1.2 million. This result represents a net improvement of €12 million over the financial year 2017, where a loss of €10.8 million was registered.

The operating revenue for the reporting period amounted to €197.6 million compared to €192.2 million registered in the preceding financial year. The improved revenue results were mainly driven by an increase in passenger traffic of 10%.

Operating costs before restructuring decreased from the previous financial year despite contractual inflation adjustment cost which reduced the extent of the improvements. The costs of the Airline operation reduced from €202.9 million in the financial year ended 31 March 2017 to €196.4 million in the financial year under review. The decrease in the fuel costs, aircraft maintenance and rentals compensated for the increases in flight related costs, distribution channels and investment in technology.

By 31 March 2018, the Company had formally approved the terms of the voluntary and early retirement scheme and has reflected the estimated impact of €18.3 million on its financial results due to specific restructuring costs.

During the reporting period the Company recognised a non-recurring transaction reflecting the income of €33.9 million from the disposal of the summer landing rights of the London Heathrow and the London Gatwick airports.

After accounting for non-operational costs and discontinued operations, the airlines profit after tax for the financial year 2018 amounted to €15.7 million compared to a loss of €13.1 million for the financial year 2017.

## **Directors' report - continued**

### **Airline's 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. Notwithstanding a number of positive developments throughout the period covered by the Restructuring Plan, the Airline's operating results from continuing operations for FY2014 – FY2016 were worse than the projected results reflected within the Restructuring Plan.

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

This Business Plan projects profitability throughout the 3 year explicit period FY2019 – FY2021 following the achievement of in substance break-even financial results for FY2018. Net operating cash inflows are projected throughout the explicit 3 year period.

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 Government has accordingly approved the assumptions within the 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, and to ensure that all approved restructuring actions, or any amendments thereof, are pursued within the appropriate legal framework set by the European Commission.

## **Directors' report - continued**

### **Airline's financial position**

The Airline's financial position and cash flow position throughout FY2018 was such that total liabilities exceed total assets and current liabilities exceed current assets, however as at 31 March 2018 the Group's current assets exceeded current liabilities by the amount of €26 million (2017: current liabilities exceed current assets by €10 million), excluding sales in advance and deferred income attributable to exchange of landing rights from the amount of current liabilities. The Business Plan contemplated the following measures to address the Airline's financial position:

- The exchange of certain landing rights or slots belonging to the Airline effected with 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, amongst other purposes. To assist an equitable position

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 on commercial terms, the Directors were of the view that the proposed transaction is in the best interest of the Company. Hence, the exchange and long-term leaseback of the earmarked landing rights or slots has been executed, based on a recent valuation carried out by an independent valuer. The transaction in respect of the summer slots has been concluded prior to 31 March 2018 and the transaction relating to the winter slots has been concluded post 31 March 2018 (refer to Note 28).

The respective slot coordinators have not objected to the effected transactions referred to above. 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 effected transactions, it is deemed that the proposed arrangements do not give rise to any form of state aid.

As a result of the slot exchange transactions referred to above, the Company benefitted from aggregate proceeds amounting to €57 million which have partially addressed the excess of the Company's total liabilities over total assets and the excess of the Company's current liabilities over current assets. As at 31 March 2018, the Group's current assets exceeded its current liabilities in view of the proceeds from the exchange of slots. However, the proceeds from these transactions will not address fully and satisfactorily the financial position of the Airline in view of the financial results forecasted for FY2019 when compared to the results projected within the Business Plan FY2019 – FY2021.

### **Airline's financial results subsequent to 31 March 2018**

The Airline is predicting an increase in turnover for FY 2019 as compared to FY 2018. However, in view of a number of unforeseen matters, the Airline will most likely register operating losses from continuing operations (excluding the impact of non-recurring items) during FY2019 based on information available to the Company as at the date of authorisation for issue of these financial statements. This is principally attributable to start-up investment in new routes, operational disruptions emanating from industrial relation issues, market volatility in respect of fuel prices, developments in the outcome of the fleet renewal process and long outstanding technology upgrades. The Airline's forecast financial results for FY2019 are based on actual financial results registered until 30 September 2018 and the Company's best estimate in respect of forecast financial results for the residual period from 1 October 2018 to 31 March 2019.

## **Directors' report - continued**

### **Airline's financial results subsequent to 31 March 2018 - continued**

The Airline is taking a number of concrete steps to address the factors highlighted above and re-align actual financial performance to that envisaged within the Business Plan by refocusing the Company's efforts to enhance revenues and revenue growth matching the levels envisaged within the Plan. The Company is also taking steps to ensure that the risk to the Company of operational disruptions is mitigated to acceptable levels. The Board is actively reviewing the Company's fuel price management activities to effectively mitigate exposure to fuel price risk throughout the explicit period of the Business Plan. The Board is pursuing the implementation of a long-term funding strategy whereby strategic initiatives, such as network and fleet expansion, are financed through permanent or long-term means of funding in line with best practice within the airline sector. The Board is accordingly considering utilising such long-term or permanent funding sources to finance the significant initial investment required in route introduction. So far the Company has been utilising its operating cash flows for this purpose. The Board is confident that the financial results actually achieved throughout the explicit period of the Business Plan will align to those projected within the Plan

### **Financing commitments**

The 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 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, it was envisaged that the shortfall in funding as at commencement of the explicit period covered by the Business Plan, 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 Business Plan in respect of the exchange of landing rights with an AOC and AOL licensed company owned by the main shareholder. As highlighted previously, these transactions have been executed. The long-term investment in new routes, fleet renewal and technology upgrades has given rise to increased funding requirements, principally to fund the difference between the projected results for FY2019 within the Business Plan and the FY2019 results actually forecasted. In this respect the Company is planning to manage this potentially revised liquidity requirement, should the need arise, by leveraging on the Company's residual property element, which is not deemed core to its operating activities (refer to Note 5), either through a disposal or funding transaction. The Company is also taking concrete steps to improve its cash flows from operations taking into account the matters highlighted previously.

### **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 Business Plan also depends on the continued support of the Airline's restructuring process by the Government, as the principal shareholder, such that the Government executes the proposed arrangements to meet the funding requirements of the Airline to be able to achieve the implementation of the Business Plan

The Board has been informed by the main shareholder that, based on legal advice obtained, taking into account the commercial terms and conditions of the transactions referred to above, it is deemed that the arrangements do not give rise to any form of state aid. The Government, as principal shareholder, has given the Board the mandate to proceed with the implementation of the Business Plan. Without the implementation of all the facets of the 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 underlying assumption that the Business Plan FY2019 – FY2021 can be successfully implemented within reasonable timeframes and in accordance with its terms, with the effective actioning of the revenue enhancement and cost management initiatives highlighted as key assumptions within the Business Plan;
- (ii) the level of commitment demonstrated by the Government of Malta, as the Airline's main shareholder, by reference to the approval of the Business Plan FY2019 – FY2021, including approval of the transactions supporting the funding requirements to implement the Business Plan; and
- (iii) the confidence that the Government of Malta has expressed, on the basis of the legal advice obtained, that the proposed arrangements do not give rise to any form of state aid and that all approved restructuring actions, or any amendments thereof, are pursued within the appropriate legal framework set by the European Commission,

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, 1995 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, 1995. 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 2018 are included in the Annual Report and Consolidated Financial Statements 2018, 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.

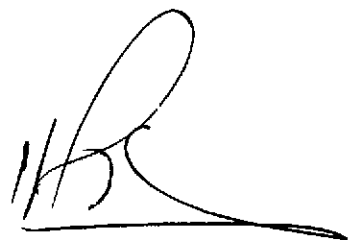
On behalf of the Board



Carmel Mangion  
Chairman

22 November 2018

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



Ray Sladden  
Deputy Chairman



## 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. The current Directors hold office for a period of one year as specified in their letter of appointment. Directors are eligible for reappointment upon the lapse of the period stated in their letter of appointment.

The Board comprises of seven Directors and a 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 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 shareholders 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 and are invited to attend Board Meetings on a regular basis to report on their respective areas.

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 2018 the Board of Directors met 25 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.

### **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 at least once 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 the Company policy with respect to risk assessment and risk management, compliance with the legal requirements and the Company's 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 4 times in the financial year ended 31 March 2018.

##### **Remuneration & Industrial Relations Committee**

The Remuneration & Industrial Relations Committee is chaired by the Chairman of the Company, and its two other members are non-executive Directors. The role of the Remuneration & Industrial Relations 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 management structure including recruitment, promotions, salary adjustments and industrial relations. The Chief Executive Officer, the Chief Financial Officer and the Chief Officer Human Resources are invited to attend the Committee meetings and other members of the Senior Executive team may be requested to attend meetings as requested. The Company Secretary acts as Secretary to the Remuneration & Industrial Relations Committee.

The Remuneration & Industrial Relations Committee met 4 times in the financial year ended 31 March 2018.

## **Corporate Governance Statement - continued**

### **1) Board Committees - continued**

#### **Operational Risk Committee**

The Board has overall responsibility and ultimate accountability for risk management and has entrusted the Operational Risk Committee to ensure that the risk management process within the company is effective. The Operational 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 Operational Risk Committee is chaired by a non-executive Director and further comprises of two other non-executive Directors, the Risk Manager and Chief Officers. The Operational 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 Operational 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 Company Secretary acts as Secretary to the Operational Risk Committee.

The Operational Risk Committee met twice in the financial year ended 31 March 2018.

### **2) Management Committees**

The employment contract of the Chief Financial Officer ("CFO") Klaus Gossler expired on 31 March 2018, and Designate CFO Omar Bonello took on the role of CFO of the Company from 1 April 2018.

#### **Senior Management Team**

During the year ended 31 March 2018, 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, Operations, Corporate Services and Information Systems departments. The Senior Management Team meeting is convened on a regular basis is 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, are chaired by a non-executive Director and attended by another non-executive Director. A designated person from within the Finance Office acts as Secretary to the Financial Risk Committee.

The Committee reports directly to the Board of Directors and generally 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 which function is being carried out by EY and 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 are 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 this 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 ("SAG") 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 meetings were convened as scheduled.

### **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 regularly on a fortnightly 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;
- an Operational 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 carried out by EY 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;

## **Corporate Governance Statement - continued**

### **Internal Controls - continued**

- 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,
- 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 an ongoing 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*

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#### *Our opinion*

In our opinion:

- Air Malta p.l.c.'s Group financial statements and Parent Company financial statements (the "financial statements") give a true and fair view of the Group and the Parent Company's financial position as at 31 March 2018, 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 19 to 88, comprise:

- the Consolidated and Parent Company statements of financial position as at 31 March 2018;
- 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 consolidated financial statements, which include a summary of significant accounting policies.

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#### *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 and the Parent Company 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 these Codes.



## *Independent auditor's report - continued*

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

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### *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.

The Group's total liabilities as at 31 March 2018 exceeded its total assets by €34 million (2017: €64.6 million). As at 31 March 2018, the Group's current assets exceeded its current liabilities by the amount of €26 million (2017: current liabilities exceeded current assets by €10 million), excluding sales in advance and deferred income attributable to exchange of landing rights from the amount of current liabilities. During the financial year ended 31 March 2018, the Group reported operating profits from continuing operations prior to restructuring costs and non-recurring items amounting to €1.2 million (2017: operating losses from continuing operations prior to restructuring costs and non-recurring items amounting to €10.8 million). The Group is forecasting that it will most likely register losses from continuing operations before non-recurring items for FY2019 in view of the market and operational matters highlighted within Note 1.1.1.3 to the financial statements. In the context of the losses registered during FY2017 and financial results actually recorded throughout FY2018, subsequent to the end of FY2017 the Airline's Business Plan for the period FY2019-FY2021 had 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 Business Plan, giving rise to funding that meets the liquidity requirements emanating from the Plan, had also been approved by the Government and the Airline's Board. The actions proposed to address the impact of the forecast FY 2019 financial results for the purposes of aligning actual financial performance to that projected within the Business Plan FY2019-FY2021 have been approved by the Government and the Airline's Board, as have the contingent funding transactions planned to potentially address further funding requirements. 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 Business Plan. The ability to implement this Business Plan also depends on the execution of the proposed arrangements that meet the funding requirements of the Airline for the implementation of the Plan. 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, and to ensure that all approved restructuring actions, or any amendments thereof, are pursued within the appropriate legal framework set by the European Commission. 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 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. We draw attention to the fact that the Board takes cognisance of the importance of the Group's dependence on the implementation of a long-term funding strategy whereby strategic initiatives, such as network and fleet expansion, are financed through permanent or long-term means of funding.

Our opinion is not modified in respect of this matter.



## *Independent auditor's report - continued*

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

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### *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).

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.

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### *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 and the Parent Company'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 the Parent Company 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.



## *Independent auditor's report - continued*

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

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### *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 and the Parent Company'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 or the Parent Company'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 or the Parent Company 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.



## *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

A handwritten signature in black ink, appearing to read 'FAxisa'.

Fabio Axisa  
Partner

22 November 2018

## Statements of financial position

		As at 31 March			
		2018	2017	2018	2017
		Group		Company	
	Notes	€000	€000	€000	€000
<b>ASSETS</b>					
<b>Non-current assets</b>					
Property, plant and equipment	5	23,260	5,296	23,260	5,296
Available-for-sale financial assets	8	107	107	107	107
Other receivables	10	3,658	6,948	3,658	6,948
Total non-current assets		27,025	12,351	27,025	12,351
<b>Current assets</b>					
Inventories	11	1,010	1,047	1,010	1,047
Trade receivables	12	27,361	22,968	27,361	22,968
Amounts owed by associates		8	8	8	8
Amounts owed by related parties		8,260	255	8,260	255
Current tax assets		-	135	-	135
Other receivables	10	6,533	2,918	6,249	2,628
Prepayments and accrued income		2,346	2,243	2,346	2,243
Derivative financial instruments	9	9	-	9	-
Cash and cash equivalents	13	84,640	51,146	84,640	51,146
		130,167	80,720	129,883	80,430
Assets classified as held for sale	14 2	898	898	42	73
Total current assets		131,065	81,618	129,925	80,503
<b>Total assets</b>		<b>158,090</b>	<b>93,969</b>	<b>156,950</b>	<b>92,854</b>

**Statements of financial position - continued**

		<b>As at 31 March</b>			
	Notes	<b>2018 Group €000</b>	<b>2017 €000</b>	<b>2018 Company €000</b>	<b>2017 €000</b>
<b>EQUITY AND LIABILITIES</b>					
<b>Capital and reserves</b>					
Share capital	15	131,000	131,000	131,000	131,000
Share premium	16	42,762	42,762	42,762	42,762
Revaluation reserve	17	16,783	693	16,783	693
Hedging reserve	18	(1,196)	(17)	(1,196)	(17)
Accumulated losses		(223,315)	(239,023)	(224,015)	(239,671)
<b>Total equity</b>		<b>(33,966)</b>	<b>(64,585)</b>	<b>(34,666)</b>	<b>(65,233)</b>
<b>Non-current liabilities</b>					
Deferred tax liabilities	20	2,040	-	2,040	-
Provisions in respect of maintenance costs	21	5,862	15,444	5,862	15,444
Social security and other related dues		6,799	7,326	6,799	7,326
<b>Total non-current liabilities</b>		<b>14,701</b>	<b>22,770</b>	<b>14,701</b>	<b>22,770</b>
<b>Current liabilities</b>					
Trade payables		25,076	23,252	25,079	23,252
Amounts owed to associates		280	793	280	793
Amounts owed to related parties		15,044	16,279	15,044	16,279
Sales in advance		49,462	43,881	49,462	43,881
Other payables		1,638	1,721	1,638	1,715
Indirect taxation, social security and other related dues		4,125	4,454	4,125	4,454
Accruals and deferred income		33,834	10,720	33,834	10,720
Borrowings	19	10,217	9,941	10,217	9,941
Derivative financial instruments	9	1,205	17	1,205	17
Provisions in respect of maintenance costs	21	13,697	15,481	13,697	15,481
Provision in respect of restructuring costs	23.3 2	22,334	8,784	22,334	8,784
		<b>176,912</b>	<b>135,323</b>	<b>176,915</b>	<b>135,317</b>
Liabilities directly associated with assets classified as held for sale	14.2	443	461	-	-
<b>Total current liabilities</b>		<b>177,355</b>	<b>135,784</b>	<b>176,915</b>	<b>135,317</b>
<b>Total liabilities</b>		<b>192,056</b>	<b>158,554</b>	<b>191,616</b>	<b>158,087</b>
<b>Total equity and liabilities</b>		<b>158,090</b>	<b>93,969</b>	<b>156,950</b>	<b>92,854</b>

The notes on pages 26 to 88 are an integral part of these consolidated financial statements.

The financial statements on pages 19 to 88 were authorised for issue by the Board on Date and were signed on its behalf by:

Carmel Mangion  
Chairman

Ray Stadden  
Deputy Chairman

## Income statements

		Year ended 31 March			
		2018	2017	2018	2017
		Group		Company	
Notes		€000	€000	€000	€000
<b>Continuing operations:</b>					
Revenue	23.1	197,569	192,242	197,569	192,242
Cost of sales	23.2	(182,290)	(180,207)	(182,290)	(180,207)
<b>Gross profit</b>		<b>15,279</b>	<b>12,035</b>	<b>15,279</b>	<b>12,035</b>
Selling and distribution costs	23.2	(15,022)	(13,928)	(15,022)	(13,928)
Administrative expenses	23.2	(17,337)	(11,848)	(17,341)	(11,798)
Gain on disposal of landing rights	28	33,880	-	33,880	-
<b>Operating profit/(loss)</b>		<b>16,800</b>	<b>(13,741)</b>	<b>16,796</b>	<b>(13,691)</b>
<i>Operating profit/(loss) before restructuring costs and non-recurring items</i>					
		<b>1,196</b>	(10,817)	<b>1,192</b>	(10,767)
Gain on disposal of landing rights	28	33,880	-	33,880	-
Restructuring costs	23.3.1	(18,276)	(2,924)	(18,276)	(2,924)
<i>Operating profit/(loss) after restructuring costs and non-recurring items</i>		<b>16,800</b>	<b>(13,741)</b>	<b>16,796</b>	<b>(13,691)</b>
Investment and other related income	25	-	221	-	1,938
Finance income	26	119	72	119	72
Finance costs	27	(1,259)	(1,343)	(1,259)	(1,384)
<b>Profit/(loss) before tax</b>		<b>15,660</b>	<b>(14,791)</b>	<b>15,656</b>	<b>(13,065)</b>
Tax expense	29	-	(89)	-	-
<b>Profit/(loss) for the year from continuing operations</b>		<b>15,660</b>	<b>(14,880)</b>	<b>15,656</b>	<b>(13,065)</b>
<b>Discontinued operations:</b>					
Profit for the year from discontinued operations	14.1	48	311	-	-
<b>Profit/(loss) for the year</b>		<b>15,708</b>	<b>(14,569)</b>	<b>15,656</b>	<b>(13,065)</b>

The notes on pages 26 to 88 are an integral part of these consolidated financial statements

## Statements of comprehensive income

		Year ended 31 March			
		Group		Company	
Notes		2018 €000	2017 €000	2018 €000	2017 €000
<b>Profit/(loss) for the year</b>		<b>15,708</b>	<b>(14,569)</b>	<b>15,656</b>	<b>(13,065)</b>
<b>Other comprehensive income:</b>					
<i>Items that may be subsequently reclassified to profit or loss</i>					
Cash flow hedges, net of deferred tax	18	<b>(1,179)</b>	14,290	<b>(1,179)</b>	14,290
<i>Items that will not be reclassified to profit or loss</i>					
Revaluation surplus on land and buildings arising during the year, net of deferred tax	17	<b>16,090</b>	-	<b>16,090</b>	-
<b>Other comprehensive income for the year, net of tax</b>		<b>14,911</b>	14,290	<b>14,911</b>	14,290
<b>Total comprehensive income for the year</b>		<b>30,619</b>	<b>(279)</b>	<b>30,567</b>	1,225

The notes on pages 26 to 88 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 2016		131,000	42,762	693	(14,307)	(224,454)	(64,306)
<b>Comprehensive income</b>							
Loss for the year		-	-	-	-	(14,569)	(14,569)
<b>Other comprehensive income:</b>							
Cash flow hedges, net of deferred tax	18	-	-	-	14,290	-	14,290
Total other comprehensive income		-	-	-	14,290	-	14,290
<b>Total comprehensive income</b>		-	-	-	14,290	(14,569)	(279)
Balance at 31 March 2017		131,000	42,762	693	(17)	(239,023)	(64,585)
<b>Comprehensive income</b>							
Profit for the year		-	-	-	-	15,708	15,708
<b>Other comprehensive income:</b>							
Cash flow hedges, net of deferred tax	18	-	-	-	(1,179)	-	(1,179)
Revaluation surplus on land and buildings arising during the year, net of deferred tax	17	-	-	16,090	-	-	16,090
Total other comprehensive income		-	-	16,090	(1,179)	-	14,911
<b>Total comprehensive income</b>		-	-	16,090	(1,179)	15,708	30,619
<b>Balance at 31 March 2018</b>		<b>131,000</b>	<b>42,762</b>	<b>16,783</b>	<b>(1,196)</b>	<b>(223,315)</b>	<b>(33,966)</b>

Exchange differences arising from the translation of the net investment in foreign Group entities were deemed immaterial and accordingly have been taken to accumulated losses.

## 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 31 March 2016		131,000	42,762	693	(14,307)	(226,606)	(66,458)
<b>Comprehensive income</b>							
Loss for the year		-	-	-	-	(13,065)	(13,065)
<b>Other comprehensive income:</b>							
Cash flow hedges, net of deferred tax	18	-	-	-	14,290	-	14,290
Total other comprehensive income		-	-	-	14,290	-	14,290
<b>Total comprehensive income</b>		-	-	-	14,290	(13,065)	1,225
Balance at 31 March 2017		131,000	42,762	693	(17)	(239,671)	(65,233)
<b>Comprehensive income</b>							
Profit for the year		-	-	-	-	15,656	15,656
<b>Other comprehensive income:</b>							
Cash flow hedges, net of deferred tax	18	-	-	-	(1,179)	-	(1,179)
Revaluation surplus on land and buildings arising during the year, net of deferred tax	17	-	-	16,090	-	-	16,090
Total other comprehensive income		-	-	16,090	(1,179)	-	14,911
<b>Total comprehensive income</b>		-	-	16,090	(1,179)	15,656	30,567
<b>Balance at 31 March 2018</b>		<b>131,000</b>	<b>42,762</b>	<b>16,783</b>	<b>(1,196)</b>	<b>(224,015)</b>	<b>(34,666)</b>

The notes on pages 27 to 88 are an integral part of these consolidated financial statements.

## Statements of cash flows

		Year ended 31 March			
		2018 Group		2018 Company	
	Notes	€000	2017 €000	€000	2017 €000
<b>Cash flows from operating activities</b>					
Cash (used in)/generated from operations	31	(10,653)	7,210	(10,723)	8,565
Investment and other related income received	26	119	72	119	72
Interest paid and similar charges	27	(1,259)	(1,343)	(1,259)	(1,384)
Other income		-	220	-	-
Tax refunded		135	880	135	880
Net cash (used in)/generated from operating activities		(11,658)	7,039	(11,728)	8,133
<b>Cash flows from investing activities</b>					
Purchases of tangible and intangible assets		(1,121)	(853)	(1,121)	(853)
Proceeds from exchange of landing rights		48,758	-	48,758	-
Proceeds from disposal of available-for-sale financial assets		-	3	-	-
Loan repayment received from subsidiary		-	-	31	-
Loan repayment received from associate		-	45	-	45
Net cash generated from/(used in) investing activities		47,637	(805)	47,668	(808)
<b>Cash flows from financing activities</b>					
Repayment of related party loan		-	(1,853)	-	(1,853)
Net cash used in financing activities		-	(1,853)	-	(1,853)
<b>Net movement in cash and cash equivalents</b>		<b>35,979</b>	<b>4,381</b>	<b>35,940</b>	<b>5,472</b>
<b>Cash and cash equivalents at beginning of year</b>		<b>41,108</b>	<b>36,389</b>	<b>41,205</b>	<b>35,395</b>
Provision for impairment in respect of cash and cash equivalents	13	48	91	48	91
Exchange differences on cash and cash equivalents		(2,770)	247	(2,770)	247
<b>Cash and cash equivalents at end of year</b>	13	<b>74,365</b>	<b>41,108</b>	<b>74,423</b>	<b>41,205</b>

The notes on pages 27 to 88 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, 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. The Group's liabilities exceeded its assets as at 31 March 2018 by €34 million (2017: €64.6 million). As at 31 March 2018, the Group's current assets exceeded its current liabilities by the amount of €26 million (2017: current liabilities exceed current assets by €10 million), excluding sales in advance and deferred income attributable to exchange of landing rights from the amount of current liabilities. During the financial year ended 31 March 2018, the Group reported marginal operating profits from continuing operations before restructuring costs and non-recurring items amounting to €1.2 million (2017: operating losses from continuing operations before restructuring costs and non-recurring items amounting to €10.8 million). However, the Airline is forecasting that it will most likely register losses from recurring operations excluding the impact of gains on exchange of slots registered within the financial year ending 31 March 2019 in view of a number of matters highlighted below (see Note 1.1.1.3).

##### 1.1.1.1 Airline's 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. Notwithstanding a number of positive developments throughout the period covered by the Restructuring Plan, the Airline's operating results from continuing operations for FY2014 – FY2016 were worse than the projected results reflected within the Restructuring 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**

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

This Business Plan projects profitability throughout the 3 year explicit period FY2019 – FY2021 following the achievement of in substance break-even financial results for FY2018. Net operating cash inflows are projected throughout the explicit 3 year period

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 Government has accordingly approved the assumptions within the 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, and to ensure that all approved restructuring actions, or any amendments thereof, are pursued within the appropriate legal framework set by the European Commission

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

**1.1 Basis of preparation - continued**

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

**1.1.1.2 Airline's financial position**

The Airline's financial position and cash flow position throughout FY2018 was such that total liabilities exceed total assets and current liabilities exceed current assets, however as at 31 March 2018, the Group's current assets exceeded current liabilities by the amount of €26 million (2017 current liabilities exceed current assets by €10 million), excluding sales in advance and deferred income attributable to exchange of landing rights from the amount of current liabilities. The Business Plan contemplated the following measures to address the Airline's financial position.

- The exchange of certain landing rights or slots belonging to the Airline effected with 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, amongst other purposes.

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 on commercial terms, the Directors were of the view that the proposed transaction is in the best interest of the Company. Hence, the exchange and long-term leaseback of the earmarked landing rights or slots has been executed, based on a recent valuation carried out by an independent valuer. The transaction in respect of the summer slots has been concluded prior to 31 March 2018 and the transaction relating to the winter slots has been concluded post 31 March 2018 (refer to Note 28).

The respective slot coordinators have not objected to the effected transactions referred to above. 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 effected transactions, it is deemed that the proposed arrangements do not give rise to any form of state aid.

As a result of the slot exchange transactions referred to above, the Company benefitted from aggregate proceeds amounting to €57 million which have partially addressed the excess of the Company's total liabilities over total assets and the excess of the Company's current liabilities over current assets. As at 31 March 2018, the Group's current assets exceeded its current liabilities in view of the proceeds from the exchange of slots. However the proceeds from these transactions will not address fully and satisfactorily the financial position of the Airline, in view of the financial results forecasted for FY2019 when compared to the results projected within the Business Plan FY2019 – FY2021.

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

**1.1 Basis of preparation - continued**

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

**1.1.1.3 Airline's financial results subsequent to 31 March 2018**

The Airline is predicting an increase in turnover for FY 2019 as compared to FY 2018. However, in view of a number of unforeseen matters, the Airline will most likely register operating losses from continuing operations (excluding the impact of non-recurring items) during FY2019 based on information available to the Company as at the date of authorisation for issue of these financial statements. This is principally attributable to start-up investment in new routes, operational disruptions emanating from industrial relation issues, market volatility in respect of fuel prices, developments in the outcome of the fleet renewal process and long outstanding technology upgrades. The Airline's forecast financial results for FY2019 are based on actual financial results registered until 30 September 2018 and the Company's best estimate in respect of forecast financial results for the residual period from 1 October 2018 to 31 March 2019. The long-term investment in new routes, fleet renewal and technology upgrades has given rise to increased funding requirements, principally to fund the difference between the projected results for FY2019 within the Business Plan and the FY2019 results actually forecasted.

The Airline is taking a number of concrete steps to address the factors highlighted above and re-align actual financial performance to that envisaged within the Business Plan by refocusing the Company's efforts to enhance revenues and revenue growth matching the levels envisaged within the Plan. The Company is also taking steps to ensure that the risk to the Company of operational disruptions is mitigated to acceptable levels. The Board is actively reviewing the Company's fuel price management activities to effectively mitigate exposure to fuel price risk throughout the explicit period of the Business Plan. The Board is pursuing the implementation of a long-term funding strategy whereby strategic initiatives, such as network and fleet expansion, are financed through permanent or long-term means of funding in line with best practice within the airline sector. The Board is accordingly considering utilising such long-term or permanent funding sources to finance the significant initial investment required in route introduction. So far the Company has been utilising its operating cash flows for this purpose. The Board is confident that the financial results actually achieved throughout the explicit period of the Business Plan will align to those projected within the Plan.

**1.1.1.4 Financing commitments**

The 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 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, it was envisaged that the shortfall in funding as at commencement of the explicit period covered by the Business Plan, 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 Business Plan in respect of the exchange of landing rights with an AOC and AOL licensed company owned by the main shareholder. As highlighted previously, these transactions have been executed.

The long-term investment in new routes, fleet renewal and technology upgrades has given rise to increased funding requirements, principally to fund the difference between the projected results for FY2019 within the Business Plan and the FY2019 results actually forecasted. In this respect the Company is planning to manage this potentially revised liquidity requirement, should the need arise, by leveraging on the Company's residual property element, which is not deemed core to its operating activities (refer to Note 5), either through a disposal or funding transaction. The Company is also taking concrete steps to improve its cash flows from operations taking into account the matters highlighted previously.

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

**1.1 Basis of preparation - continued**

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

**1.1.1.5 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 Business Plan also depends on the continued support of the Airline's restructuring process by the Government, as the principal shareholder, such that the Government executes the proposed arrangements to meet the funding requirements of the Airline to be able to achieve the implementation of the Business Plan.

The Board has been informed by the main shareholder that, based on legal advice obtained, taking into account the commercial terms and conditions of the transactions referred to above, it is deemed that the arrangements do not give rise to any form of state aid. The Government, as principal shareholder, has given the Board the mandate to proceed with the implementation of the Business Plan. Without the implementation of all the facets of the 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 underlying assumption that the Business Plan FY2019 – FY2021 can be successfully implemented within reasonable timeframes and in accordance with its terms, with the effective actioning of the revenue enhancement and cost management initiatives highlighted as key assumptions within the Business Plan,
- (ii) the level of commitment demonstrated by the Government of Malta, as the Airline's main shareholder, by reference to the approval of the Business Plan FY2019 – FY2021, including approval of the transactions supporting the funding requirements to implement the Business Plan; and
- (iii) the confidence that the Government of Malta has expressed, on the basis of the legal advice obtained, that the proposed arrangements do not give rise to any form of state aid and that all approved restructuring actions, or any amendments thereof, are pursued within the appropriate legal framework set by the European Commission,

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. Summary of significant accounting policies - continued**

**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 2017. 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 2017. 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'.

IFRS 9 'Financial instruments'

In July 2014, the IASB issued the final version of IFRS 9 Financial instruments. IFRS 9 replaces IAS 39 Financial instruments recognition and measurement, and is effective for annual periods beginning on or after 1 January 2018. The Group will apply IFRS 9 on 1 April 2018.

*Classification and measurement*

IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics.

IFRS 9 includes three principal classification categories for financial assets: amortised cost, fair value through other comprehensive income ("FVOCI") and fair value through profit or loss ("FVTPL"). It eliminates the existing IAS 39 categories of held-to-maturity, loans and receivables and available-for-sale financial assets.

Financial assets may be designated as at FVTPL if doing so eliminates an accounting mismatch. Other financial assets are measured at:

- amortised cost if they are held within a business model whose objective is to hold assets to collect contractual cash flows and their contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding; or
- FVOCI if they are held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and their contractual terms give rise on specified dates to cash flows that are SPPI on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Group may irrevocably elect to present subsequent changes in fair value in other comprehensive income. This election is made on an investment-by-investment basis.

All financial assets not classified as measured at amortised cost or FVOCI are measured at FVTPL.

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

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

The Group is still in the process of assessing and evaluating the impact of IFRS 9's new classification and measurement approach for financial assets. There will be no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for issued financial liabilities that are designated at fair value through profit or loss and the Group does not have any such liabilities. The derecognition rules have been transferred from IAS 39 and have not been changed. The adoption of IFRS 9 will accordingly have no impact on the Group's financial liabilities.

*Impairment*

IFRS 9 replaces the 'incurred loss' model in IAS 39 with a forward-looking 'expected credit loss' model. This will require considerable judgement over how changes in economic factors affect expected credit loss ("ECL") allowances, which will be determined on a probability-weighted basis.

The impairment requirements apply to financial assets measured at amortised cost and FVOCI, and certain loan commitments and financial guarantee contracts.

IFRS 9 introduces a three-stage impairment model ("the general model"). The first step of the general model is to determine which impairment 'stage' a financial asset sits within. At initial recognition, loans are generally within 'stage 1', which requires a 12-month expected credit loss to be calculated for each balance. The model then requires monitoring of the credit risk associated with the loan to consider if there has been a significant increase since initial recognition. If there has been a significant increase in credit risk the financial asset is moved to 'stage 2'. Financial assets are moved to 'stage 3' when they become credit impaired. An allowance that is reflective of lifetime expected credit loss is recognized for financial assets in stages 2 and 3.

The impairment requirements of IFRS 9 are complex and require management judgements, estimates and assumptions, particularly in assessing whether the credit risk of an instrument has increased significantly since initial recognition and the incorporation of forward-looking information into the measurement of expected credit losses.

Under IFRS 9, when determining whether the credit risk (i.e. risk of default) on a financial instrument has increased significantly since initial recognition, management needs to consider reasonable and supportable information that is relevant and available without undue cost or effort, including both quantitative and qualitative information. Where it is determined that an exposure has experienced a significant increase in credit risk, it is moved to Stage 2.

The definition of default is important since the measure used to determine the extent of any increase in credit risk since initial recognition of a financial instrument is performed by considering the change in the risk of default occurring over the remaining life of the financial instrument. IFRS 9 does not specifically define default, but requires it to be applied on a consistent basis with internal credit risk management practice for the relevant instruments, it also requires consideration of qualitative factors where appropriate.

In assessing whether a borrower is in default, management would consider indicators that are qualitative, such as breaches of covenant, as well as quantitative, such as overdue status and non-payment of another obligation of the same obligor to the Group. These indicators are based on data developed internally and obtained from external sources. Nevertheless, unless there is reasonable and supportable information to demonstrate that a more lagging criterion is more appropriate, IFRS 9 introduces a rebuttable presumption that default does not occur later than when a financial asset is 90 days past due.

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

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

The Group is in the process of determining the amount of the impairment impact which assessment is subject to further transition work including refinement of the Group's models for expected credit loss calculations

*Hedge accounting*

The general hedge accounting requirements of IFRS 9 aim to simplify hedge accounting, creating a stronger link with risk management strategy and permitting hedge accounting to be applied to a greater variety of hedging instruments and risks. As a result, IFRS 9 includes an accounting policy choice to retain IAS 39 hedge accounting.

*Disclosures*

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group's disclosures about its financial instruments particularly in the year of the adoption of the new standard.

IFRS 15, 'Revenue from contracts with customers'

IFRS 15, 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 customer obtains control of 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 the Group as from the annual period beginning on 1 April 2018, and the Directors intend to adopt the modified retrospective approach that is allowed by the standard. Under this approach, comparative information in the year of adoption will not be restated. The Group is still assessing the impact of IFRS 15.

IFRS 16, 'Leases'

Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for 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 leases whose term is of not more than one year, as well as leases of low-value assets. The standard is effective for the Group as from the annual period beginning on 1 April 2019 and although earlier application is permitted, the Group does not intend to adopt the standard earlier than its mandatory effective date. As at the reporting date, the Group has non-cancellable operating lease commitments as disclosed in Note 32 to the financial statements. However, the Group has not yet determined to what extent these commitments will result in the recognition of an asset and a liability for future payments and how this will affect the Group's results and classification of cash flows. Some of the commitments may be covered by the exception for short-term and low-value leases and some commitments may relate to arrangements that will not qualify as leases under IFRS 16. At this stage, the Group is still in the process of assessing and evaluating the impact of IFRS 16 on the Group's operating leases where a group undertaking is the lessee.

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

**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.

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 37 to these financial statements.

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

**1.2 Consolidation - continued**

*(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.

*(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.

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

**1.2 Consolidation – continued**

*(d) Associates - continued*

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 37 to these financial statements.

**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'.

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

**1.3 Foreign currencies - continued**

*(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.

**1.4 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.

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

**1.4 Property, plant and equipment - continued**

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. Collectively these amounts are presented as 'Land, buildings and other improvements' in Note 5.
- 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.

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. Summary of significant accounting policies - continued**

**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 the 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 9 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 2018, the Group forecasts net receipts denominated in UK sterling amounting to €26.5 million (2017: €22.8 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 €99 million (2017: €73.3 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 €28.9 million (2017: €10 million) covering US dollar exposures and a notional amount of €18.9 million covering UK sterling exposures.

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 are reflected in the table below. The US dollar position at year end comprises surplus funds attributable to transactions related to exchange of landing rights which temporarily gave rise to a non-recurring increase in this position amounting to €56.7 million.

	<b>Group and Company</b>	
	<b>2018</b>	<b>2017</b>
	<b>€000</b>	<b>€000</b>
Net UK sterling asset position	<b>2,137</b>	<b>4,342</b>
Net US dollar asset/(liability) position	<b>69,642</b>	<b>(10,695)</b>

## 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.

	<b>Group and Company</b>	
	(+) 10% €000	(-) 10% €000
<b>UK sterling</b>		
<b>At 31 March 2018</b>	<b>(194)</b>	<b>237</b>
At 31 March 2017	(395)	482
<b>US dollar</b>		
<b>At 31 March 2018</b>	<b>(6,325)</b>	<b>7,730</b>
At 31 March 2017	972	(1,188)

If as at the end of the reporting period 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.

	<b>Group and Company</b>	
	(+) 10% €000	(-) 10% €000
<b>At 31 March 2018</b>	<b>(871)</b>	<b>1,064</b>
At 31 March 2017	(941)	1,075

If as at the end of the reporting period the UK sterling 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:

	<b>Group and Company</b>	
	(+) 10% €000	(-) 10% €000
<b>At 31 March 2018</b>	<b>(2,853)</b>	<b>1,295</b>

## 2. Financial risk management - continued

### 2.1 Financial risk factors - continued

#### (a) Market risk - continued

#### (ii) Cash flow and fair value interest rate risk

The Group's interest rate risk principally arises from borrowings issued at variable rates (Note 19) 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.

#### (iii) Price risk

During the financial year ended 31 March 2018, fuel expenses amounted to €39 million (2017: €44 million) as disclosed in Note 23.2 to the financial statements and accounted for approximately 18% (2017: 21%) 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 current financial year, as a result of favourable oil prices, the Company entered into a supply agreement with a related party to purchase around 35% of the estimated annual fuel uplift for the current reporting year and around 15% of the estimated fuel uplift for the subsequent financial year, at pre-determined prices. Subsequent to 31 March 2018, the Company entered into fuel hedging derivative agreements to mitigate the impact of any short term fluctuations in fuel prices. 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 2018 and 31 March 2017, there were no outstanding fuel derivatives (refer to Note 9)

## 2. Financial risk management - continued

## 2.1 Financial risk factors - continued

(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	
	2018	2017	2018	2017
	€000	€000	€000	€000
<b>Continuing operations:</b>				
Loans and receivables category:				
Cash and cash equivalents (Note 13)	84,640	51,146	84,640	51,146
Trade and related receivables	35,629	23,231	35,629	23,231
Other receivables (Note 10)	10,191	9,866	9,907	9,576
	<b>130,460</b>	<b>84,243</b>	<b>130,176</b>	<b>83,953</b>
Financial instruments held for hedging:				
Derivative financial instruments (Note 9)	9	-	9	-
	<b>130,469</b>	<b>84,243</b>	<b>130,185</b>	<b>83,953</b>
	Group		Company	
	2018	2017	2018	2017
	€000	€000	€000	€000
<b>Discontinued operations:</b>				
Loans and receivables category:				
Cash and cash equivalents (Note 14 2.1)	75	77	-	-
Trade and other receivables (Note 14 2.1)	212	179	-	-
Loans to associates (Note 14 2.2)	30	61	30	61
	<b>317</b>	<b>317</b>	<b>30</b>	<b>61</b>

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 2018 amounted to approximately €4.5 million (2017: €6.2 million).

## 2. Financial risk management - continued

### 2.1 Financial risk factors - continued

#### (b) Credit risk - continued

##### *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.

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 2018, the Group holds collateral in the form of bank guarantees for the amount of €3,138,000 (2017: €3,024,000) 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 2018, the Group's and Company's trade receivables amounting to €2,083,000 (2017: €2,633,000) 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.

## 2. Financial risk management - continued

### 2.1 Financial risk factors - continued

#### (b) Credit risk - continued

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

	Group		Company	
	2018 €000	2017 €000	2018 €000	2017 €000
<b>Continuing operations:</b>				
At beginning of year	2,633	2,806	2,633	2,806
Reversal of provisions which are no longer required	(550)	(410)	(550)	(410)
Increase in provisions	-	237	-	237
At end of year	<b>2,083</b>	2,633	<b>2,083</b>	2,633

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 23.2 and are included in 'Administrative expenses' in the Group's income statement.

As at 31 March 2018, trade receivables amounting to €2,600,000 (2017: €2,342,000) 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:

	2018 €000	2017 €000
Up to 60 days	2,463	2,342
60 to 120 days	53	-
Over 120 days	84	-
	<b>2,600</b>	<b>2,342</b>

As at 31 March 2018, the Group and Company also had amounts receivable from associates amounting to €1,000 (2017: €6,000) which were past due but not impaired. Such amounts were mainly past due for less than one year.

As at 31 March 2018, the Company did not have amounts receivable from subsidiaries which were past due. As at 31 March 2017, the Company had amounts receivable from subsidiaries amounting to €568,000 which were impaired since such amounts were past due.

At 31 March 2018, the Group and Company also had amounts receivable from related parties amounting to €39,000 (2017: €234,000) which were past due but not impaired.



## 2. Financial risk management - continued

### 2.1 Financial risk factors - continued

#### (b) Credit risk - continued

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 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 consist of loans to entities which are in adverse trading and operational circumstances.

##### *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 19) 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.

## 2. Financial risk management - continued

### 2.1 Financial risk factors - continued

#### (c) Liquidity risk - continued

The Group's adverse financial results registered in prior financial years up to FY2017, 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 11.1. In view of the shortfalls in cash flows generated through the Group's and Company's operating and financial performance up to FY2017, specific arrangements were deemed necessary to address the forecasted financial position as at 31 March 2018. The FY2019 – FY2021 Business Plan, approved by the Board subsequent to the end of FY2017, was projected to generate operating net cash inflows throughout the 3 year explicit period. 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 transactions reflected within the Business Plan. These transactions comprise the transfer of landing rights to another AOC and AOL licensed company owned by the main shareholder. As highlighted previously, these transactions have been executed. The deterioration in financial results expected to be registered in respect of FY2019 has given rise to increased funding requirements, principally to fund the difference between the projected results for FY2019 within the Business Plan and the FY2019 results actually forecasted. In this respect the Company is planning to manage this potentially revised liquidity requirement, should the need arise, by leveraging on the Company's residual property element, which is not deemed core to its operating activities (refer to Note 5), either through a disposal or funding transaction. The Company is also taking concrete steps to improve its cash flows from operations.

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. 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

At 31 March 2018	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
Continuing operations							
Bank borrowings	10,217	-	-	-	-	-	10,217
Trade and other payables	55,662	132	263	526	1,579	4,695	62,857
	65,879	132	263	526	1,579	4,695	73,074
Discontinued operations							
Bank borrowings	13	13	25	82	-	-	133
Trade and other payables	310	-	-	-	-	-	310
	323	13	25	82	-	-	443
<b>Total</b>	<b>66,202</b>	<b>145</b>	<b>288</b>	<b>608</b>	<b>1,579</b>	<b>4,695</b>	<b>73,517</b>

## 2. Financial risk management - continued

### 2.1 Financial risk factors - continued

#### (c) Liquidity risk - continued

<b>Group</b>	<b>Within 3 months</b>	<b>3 - 6 months</b>	<b>6 - 12 months</b>	<b>1 - 2 years</b>	<b>2 - 5 years</b>	<b>Over 5 years</b>	<b>Total</b>
<b>At 31 March 2017</b>	<b>€000</b>	<b>€000</b>	<b>€000</b>	<b>€000</b>	<b>€000</b>	<b>€000</b>	<b>€000</b>
Continuing operations							
Bank borrowings	9,941	-	-	-	-	-	9,941
Trade and other payables	53,855	752	1,297	526	1,578	5,222	63,230
	<b>63,796</b>	<b>752</b>	<b>1,297</b>	<b>526</b>	<b>1,578</b>	<b>5,222</b>	<b>73,171</b>
Discontinued operations							
Bank borrowings	13	13	26	99	48	-	199
Trade and other payables	287	-	-	-	-	-	287
	<b>300</b>	<b>13</b>	<b>26</b>	<b>99</b>	<b>48</b>	<b>-</b>	<b>486</b>
<b>Total</b>	<b>64,096</b>	<b>765</b>	<b>1,323</b>	<b>625</b>	<b>1,626</b>	<b>5,222</b>	<b>73,657</b>

<b>Company</b>	<b>Within 3 months</b>	<b>3 - 6 months</b>	<b>6 - 12 months</b>	<b>1 - 2 years</b>	<b>2 - 5 years</b>	<b>Over 5 years</b>	<b>Total</b>
<b>At 31 March 2018</b>	<b>€000</b>	<b>€000</b>	<b>€000</b>	<b>€000</b>	<b>€000</b>	<b>€000</b>	<b>€000</b>
Bank borrowings	10,217	-	-	-	-	-	10,217
Trade and other payables	55,662	132	263	526	1,579	4,695	62,857
	<b>65,879</b>	<b>132</b>	<b>263</b>	<b>526</b>	<b>1,579</b>	<b>4,695</b>	<b>73,074</b>
<b>At 31 March 2017</b>							
Bank borrowings	9,941	-	-	-	-	-	9,941
Trade and other payables	53,855	752	1,297	526	1,578	5,222	63,230
	<b>63,796</b>	<b>752</b>	<b>1,297</b>	<b>526</b>	<b>1,578</b>	<b>5,222</b>	<b>73,171</b>

The Group's derivatives that will be settled on a gross basis consist principally of forward foreign exchange contracts (Note 9). 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

	<b>Within 3 months</b>	<b>3 - 6 months</b>	<b>6 - 12 months</b>	<b>More than 12 months</b>	<b>Total</b>
	<b>€000</b>	<b>€000</b>	<b>€000</b>	<b>€000</b>	<b>€000</b>
<b>At 31 March 2018</b>					
Foreign exchange derivatives:					
- Outflows	(7,091)	-	(23,648)	-	(30,739)
- Inflows	6,752	-	22,791	-	29,543
	<b>(339)</b>	<b>-</b>	<b>(857)</b>	<b>-</b>	<b>(1,196)</b>

## 2. Financial risk management - continued

### 2.1 Financial risk factors - continued

#### (c) Liquidity risk - continued

##### Group and Company

	Within 3 months €000	3 - 6 months €000	6 - 12 months €000	More than 12 months €000	Total €000
<b>At 31 March 2017</b>					
Foreign exchange derivatives:					
- Outflows	(5,000)	(5,000)	-	-	(10,000)
- Inflows	4,992	4,991	-	-	9,983
	<b>(8)</b>	<b>(9)</b>	<b>-</b>	<b>-</b>	<b>(17)</b>

### 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.

Airlines usually monitor 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 2018, the Group's gearing ratio is not currently deemed to be a relevant benchmark for capital management. The prior year adverse financial results have impacted the financial position of the Group in particular the equity levels.

Adverse financial results registered during FY2017 and prior financial years have impacted the financial position of the Group giving rise to the net liabilities position as at 31 March 2017. This is primarily attributable to the extremely adverse trading conditions which were entirely unforeseen and not within the Group's control. The FY2019 – FY2021 Business Plan was 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 profitability registered from continuing operations in FY2018, principally arising as a result of the losses up to FY2017, will be mainly met through the transactions reflected within the Business Plan. These transactions comprise the transfer of landing rights to another AOC and AOL licensed company owned by the main shareholder, which have been executed during the latter part of FY2018. These transactions or arrangements 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 deterioration in financial results expected to be registered in respect of FY2019 has given rise to increased funding requirements, principally to fund the difference between the projected results for FY2019 within the Business Plan and the FY2019 results actually forecasted. In this respect the Company is planning to manage this potentially revised liquidity requirement, should the need arise, by leveraging on the Company's residual property element, which is not deemed core to its operating activities (refer to Note 5), either through a disposal or funding transaction. The Airline is taking a number of concrete steps to re-align actual financial performance to that envisaged within the Business Plan by refocusing the Company's efforts to enhance revenues and revenue growth matching the levels envisaged within the Plan. The Board is pursuing the implementation of a long-term funding strategy whereby strategic initiatives, such as network and fleet expansion, are financed through permanent or long-term means of funding in line with best practice within the airline sector. The Board is accordingly considering utilising such long-term or permanent funding sources to finance the significant initial investment required in route introduction. So far the Company has been utilising its operating cash flows for this purpose. The net liabilities position is expected to be addressed, to a large extent, through the transactions and arrangements referred to above.

## **2. Financial risk management - continued**

### **2.3 Fair values of financial instruments**

At 31 March 2018 and 2017 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 advances to related parties and of its non-current fixed interest borrowings fairly approximates the estimated fair values of these assets based on discounted cashflows. The fair value of the Group's non-current floating interest rate borrowings as at the end of the reporting periods is not significantly difference from the carrying amounts.

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 9 and 18) 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 2018 and 2017, all the Group's derivative financial instruments disclosed in Note 9 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 Note 5 to the financial statements, the Group's land and buildings category of property, plant and equipment are 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
<b>At 31 March 2016</b>				
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
<b>Year ended 31 March 2017</b>				
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
<b>At 31 March 2017</b>				
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
<b>Year ended 31 March 2018</b>				
Opening net book amount	2,468	340	2,488	5,296
Additions	179	112	543	834
Depreciation charge	(177)	(192)	(631)	(1,000)
Revaluation (Note 17)				
effect on valuation	17,801	-	-	17,801
effect on accumulated depreciation	329	-	-	329
Closing net book amount	20,600	260	2,400	23,260
<b>At 31 March 2018</b>				
Cost or valuation	21,212	19,595	23,506	64,313
Accumulated depreciation and impairment losses	(612)	(19,335)	(21,106)	(41,053)
Net book amount	20,600	260	2,400	23,260

### *Fair valuation of property*

The Group's land and buildings, within property, plant and equipment, were last revalued at 31 March 2018 by an independent professionally qualified valuer. The book value of the property was adjusted to the revaluation and the resultant surplus, net of applicable deferred income taxes, was credited to the revaluation reserve in shareholders' equity (Note 17).

## 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 2018 and an adjustment of €18 million to the carrying amount was 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, together with surrounding land, that are owned and managed by the Company. All the recurring property fair value measurements at 31 March 2018 and 2017 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 2018 and 2017

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.

The property valuation has been carried out on the assumption that the property has development potential in relation to transportation, logistics, warehousing and cargo uses. Based on the valuer's judgement, this property is located within Malta's sole aviation hub and accordingly its potential in the logistics, cargo and freight industries, and the lack of similar land for operators which need to operate as close as possible to an airport, render the subject property an attractive investment opportunity.

The absence of clear and unequivocal information regarding planning policy parameters has been considered by the valuer, and a number of assumptions had to be made in respect of such information as planning policy parameters at the date of the valuation. Changes in the local development plan and other planning policies could demonstrate further potential and would likely impact the valuation. In accordance with the valuer's premise, by allowing the current circulation spaces the built footprint can be increased to accommodate further development, subject to the submission of a masterplan proposal to the respective planning authorities.

Based on the potential uses of the site, its characteristics and available market data, the valuer deemed the comparative approach based on a rate per square metre for industrial developable land as the most appropriate method for the valuation. The valuation was hence based on market research in respect of marketed developable land, predominantly for industrial use, with adjustments for the site's unique size and location, potential and accessibility to transport networks, with an emphasis on its development potential within the aviation sector and taking into account the existing temporary emphyteusis over the property. Hence comparable market data has been adjusted for.

- Characteristics of the site including size and development limitations,
- Uncertainty inherent in the valuation, arising from planning limitations,
- Attributes of site location

The valuation is based on key policy planning frameworks, including the local plan, which stipulate permissible development. The assumptions utilised within the valuation in respect of developable area are deemed reasonable in the context of developments expected to be permitted in the location based on the valuer's experience and professional judgement, taking into account the policy regime in place on which the valuer's assumptions are based. In synthesis, the valuation has taken into account the legislative planning frameworks and policies, outlining the extent of permissible development, and accordingly the value of the land was derived on the basis of reasonable assumptions made by the valuer in this respect.



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

*Valuation techniques – continued*

*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 2018 €000	Valuation technique	Significant unobservable Input	€
Redevelopment as commercial premises	20,400	Adjusted sales comparison approach	Sales price per square metre	1,500

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	
	2018 €000	2017 €000
Cost	2,145	2,145
Accumulated depreciation and impairment losses	(501)	(463)
Net book amount	1,644	1,682

**6. Emission rights**

	Group and Company			
	2018 In tonnes	2018 €000	2017 In tonnes	2017 €000
<b>Emission rights and credits for own use</b>				
<b>Year ended 31 March</b>				
(Shortfall of)/Unutilised emission rights at 1 April	(64,113)	(451)	97,190	678
Emission rights granted	221,753	1,432	-	-
Emission rights purchased	40,000	287	-	-
Utilisation	(245,829)	(1,903)	(161,303)	(1,129)
Shortfall of emission rights at 31 March	(48,189)	(635)	(64,113)	(451)

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 and 31 March 2018 is reflected within "Other payables", reflecting a liability as a result of the shortfall in emission rights available for utilisation.

## 7. Investments in subsidiaries

### Company

	2018 €000	2017 €000
<b>At 31 March</b>		
Opening carrying amount	-	1,805
Dissolution of subsidiary (refer to note below)	-	(1,805)
Other adjustments to cost	-	(47)
Other adjustments to provisions	-	47
Closing carrying amount	-	-
<b>At 31 March</b>		
Cost	297	297
Provision	(297)	(297)
Carrying amount	-	-

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.

## 8. Available-for-sale financial assets

### Group

	Equity instruments €000	Quoted debt securities €000	Total €000
<b>At 1 April 2016</b>			
Amortised cost	1,308	2	1,310
Provisions for impairment	(1,201)	-	(1,201)
Carrying amount	107	2	109
<b>Year ended 31 March 2017</b>			
Opening carrying amount	107	2	109
Disposals	-	(2)	(2)
Carrying amount	107	-	107
<b>At 31 March 2017 and 2018</b>			
Amortised cost	1,308	-	1,308
Provisions for impairment	(1,201)	-	(1,201)
Closing carrying amount	107	-	107

**8. Available-for-sale financial assets - continued**

Analysis of total available-for-sale financial assets

	<b>2018</b> <b>€000</b>	2017 €000
Non-current	<b>107</b>	107
	<b>107</b>	107

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.

**Company**

	Equity instruments €000
<b>Non-current</b>	
<b>At 31 March 2016, 2017 and 2018</b>	
Cost	688
Provisions for impairment	(581)
Carrying amount	<b>107</b>

**9. 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

	<b>Group and Company</b>	
	Fair value - assets €000	Fair value - liabilities €000
<b>At 31 March 2018</b>		
<b>Derivatives held for hedging (cash flow hedges)</b>		
<b>Current portion</b>		
Foreign exchange derivatives - currency forwards	<b>9</b>	(1,205)
<b>Total derivatives</b>	<b>9</b>	(1,205)

**9. Derivative financial instruments - continued**

	<b>Group and Company</b>	
	Fair value - assets €000	Fair value - liabilities €000
<b>At 31 March 2017</b>		
<b>Derivatives held for hedging (cash flow hedges)</b>		
<b>Current portion</b>		
Foreign exchange derivatives		
- currency forwards	-	(17)
<b>Total derivatives</b>	-	(17)

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 2018 have the following contract terms:

	<b>Group and Company</b>	
	Fair value - assets €000	Fair value - liabilities €000
Forward sale of EUR10 million against USD (at contracted rate of EUR1:USD1 2048)	-	(417)
Forward sale of GBP11 million against USD (at contracted rate of GBP1:USD1 3636)	-	(788)
Forward sale of GBP5 million against USD (at contracted rate of GBP1:USD1 3636)	9	-

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

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)

As at 31 March 2018 and 31 March 2017, there were no outstanding fuel price hedging derivatives.

**10. Other receivables**

**Group**

	<b>2018</b>	2017
	<b>€000</b>	€000
Security deposits arising from operating lease agreements	7,850	7,372
Indirect tax recoverable	602	606
Other deposits and receivables	1,739	1,888
	<b>10,191</b>	9,866
Non-current	<b>3,658</b>	6,948
Current	<b>6,533</b>	2,918
	<b>10,191</b>	9,866

**Company**

	<b>2018</b>	2017
	<b>€000</b>	€000
Security deposits arising from operating lease agreements	7,850	7,372
Indirect tax recoverable	602	606
Other deposits and receivables	1,455	1,598
	<b>9,907</b>	9,576
Non-current	<b>3,658</b>	6,948
Current	<b>6,249</b>	2,628
	<b>9,907</b>	9,576

Security deposits relating to fleet and engine leases are refundable on termination of the respective leases as follows.

	<b>2018</b>	2017
	<b>€000</b>	€000
Within 1 year	4,652	859
Between 1 and 5 years	1,937	6,186
Over 5 years	958	-
	<b>7,547</b>	7,045

Security deposits relating to fleet and engine leases as of 31 March 2018, disclosed in the table above, which were refundable within one year amounting to €1,445,000 and €3,207,000, relate to lease agreements that have been renegotiated after the end of the financial reporting period with a revised termination date extended to October 2019 and March 2023 respectively

Other non-current security deposits and other receivables are principally receivable within 5 years from the end of the reporting period.

## 11. Inventories

	Group and Company	
	2018 €000	2017 €000
Aircraft engineering spares	882	908
Other stocks	128	139
	<b>1,010</b>	<b>1,047</b>

## 12. Trade receivables

	Group and Company	
	2018 €000	2017 €000
Trade receivables – gross	29,444	25,601
Less: provisions for impairment of trade receivables	(2,083)	(2,633)
Trade receivables – net	<b>27,361</b>	<b>22,968</b>

## 13. 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	
	2018 €000	2017 €000	2018 €000	2017 €000
Attributable to continuing operations:				
Cash at bank and in hand	84,640	51,146	84,640	51,146
Bank overdrafts (Note 19)	(10,217)	(9,941)	(10,217)	(9,941)
	<b>74,423</b>	<b>41,205</b>	<b>74,423</b>	<b>41,205</b>
Attributable to discontinued operations:				
Cash at bank and in hand (Note 14.2.1)	75	77	-	-
Bank overdrafts (Note 14.2.1)	(133)	(174)	-	-
	<b>(58)</b>	<b>(97)</b>	<b>-</b>	<b>-</b>
Total cash and cash equivalents	<b>74,365</b>	<b>41,108</b>	<b>74,423</b>	<b>41,205</b>

### 13. 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 €1,255,000 (2017: €1,382,000) that is held in overseas bank accounts subject to currency restrictions which lead to delays in remittance to Malta. As at 31 March 2018, the Group and Company have recognised provisions for impairment amounting to €308,000 (2017: €357,000) in respect of bank balances which have been deemed by the Directors as not likely to be recovered. As at 31 March 2018, bank balances amounting to €47,297,000 (2017: €28,437,000) 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.

### 14. Assets classified as held for sale and discontinued operations

#### 14.1 Amounts presented in the income statements

	<b>Group</b>	
	<b>2018</b>	2017
	<b>€000</b>	€000
<i>Profit for the year from discontinued operations</i>		
Profit after tax of discontinued operations (comprises other income)	<b>48</b>	311

An analysis of the cash flows attributable to discontinued operations is as follows

Investing cash flows	-	45
Financing cash flows	<b>(41)</b>	(40)
Total cash flows	<b>(41)</b>	5

The Group had discontinued its travel operating business and had resolved to dispose of the residual assets (comprising property), net of related liabilities, attributable to the former travel operating business. Accordingly, the travel operating business has been presented as a discontinued operation and any residual income registered by the entities formerly carrying this activity is presented as profit from discontinued operations. The residual assets and any related liabilities have been presented as assets classified as held for sale and liabilities directly associated with assets classified as held for sale respectively.



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

**14.2 Amounts presented in the statement of financial position**

**14.2.1 Group**

	2018 €000	2017 €000
<b>Assets classified as held for sale:</b>		
Assets attributable to former travel operating business (see Note 14.1)		
- Property, plant and equipment	365	365
- Trade and other receivables	212	179
- Cash and bank balances	75	77
Investments in associate (see Note 14.2.2)	246	277
	<b>898</b>	<b>898</b>
<b>Liabilities directly associated with assets classified as held for sale:</b>		
Liabilities attributable to former travel operating business (see Note 14.1)		
- Bank borrowings	133	174
- Trade and other payables	310	287
	<b>443</b>	<b>461</b>

**14.2.2 Company**

The Company had 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 (based on equity accounting up to reclassification) and loans with a carrying amount of €30,000 (2017: €61,000)

**Assets classified as held for sale:**

	Shares in subsidiaries €000	Loans to subsidiaries €000	Shares in associates €000	Loans to associates €000	Total €000
<b>Year ended 31 March 2018</b>					
Opening carrying amount	-	-	12	61	73
Repayment of loan	-	-	-	(31)	(31)
Closing carrying amount	<b>-</b>	<b>-</b>	<b>12</b>	<b>30</b>	<b>42</b>
<b>Year ended 31 March 2017</b>					
Opening carrying amount	-	-	12	106	118
Repayment of loan	-	-	-	(45)	(45)
Closing carrying amount	<b>-</b>	<b>-</b>	<b>12</b>	<b>61</b>	<b>73</b>

At 31 March 2018 and 2017, loans to associates were unsecured, repayable on demand and subject to a weighted average effective interest rate of 3% per annum

**15. Share capital**

	<b>Group and Company</b>	
	<b>2018</b>	<b>2017</b>
	<b>€000</b>	<b>€000</b>
<b>Authorised</b>		
156,000,000 (2017: 156,000,000) ordinary shares of €1 each	<b>156,000</b>	156,000
<b>Issued and fully paid</b>		
131,000,393 (2017: 131,000,393) ordinary shares of €1 each 100% paid up	<b>131,000</b>	131,000

**16. Share premium**

	<b>Group and Company</b>	
	<b>2018</b>	<b>2017</b>
	<b>€000</b>	<b>€000</b>
At beginning and end of year	<b>42,762</b>	42,762

**17. 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:

	<b>Group and Company</b>	
	<b>2018</b>	<b>2017</b>
	<b>€000</b>	<b>€000</b>
<b>Year ended 31 December</b>		
At beginning of year	<b>693</b>	693
Revaluation surplus on land and buildings arising during the year (Note 5)	<b>18,130</b>	-
Deferred income tax on revaluation surplus arising during the year (Note 20)	<b>(2,040)</b>	-
<b>At end of year</b>	<b>16,783</b>	693

The revaluation reserve is non-distributable.

## 18. 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
<b>At 1 April 2016</b>			
Gross amounts of losses	(362)	(13,945)	(14,307)
<b>Movements in year ended 31 March 2017</b>			
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
<b>At 31 March 2017</b>			
Gross amounts of losses	(17)	-	(17)
<b>Movements in year ended 31 March 2018</b>			
Net gains from changes in fair value	185	-	185
Reclassified to profit or loss as a reclassification adjustment	(1,364)	-	(1,364)
<b>At 31 March 2018</b>			
Gross amounts of losses	(1,196)	-	(1,196)

The net fair value losses as at 31 March 2018 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.

## 19. Borrowings

	<b>Group and Company</b>	
	<b>2018</b>	<b>2017</b>
	<b>€'000</b>	<b>€'000</b>
<b>Current</b>		
Bank overdrafts	10,217	9,941
<b>Total borrowings</b>	<b>10,217</b>	<b>9,941</b>

The Group's and Company's banking facilities as at 31 March 2018 amounted to €10,000,000. These facilities are mainly secured by cash balances pledged in favour of the bank as referenced in Note 13

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.

	<b>Group and Company</b>	
	<b>2018</b>	<b>2017</b>
	<b>%</b>	<b>%</b>
Bank overdrafts	2.22	2.71

## 20. 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% (2017: 35%), with the exception of deferred taxation on the fair valuation of property which is computed on the basis applicable to property disposals i.e. tax effect of 10% of the transfer value.

The movement in the deferred tax account is as follows.

	<b>Group and Company</b>	
	<b>2018</b>	<b>2017</b>
	<b>€'000</b>	<b>€'000</b>
Deferred income taxes on revaluation surplus on property arising during the year (Note 17)	2,040	-
<b>At end of year</b>	<b>2,040</b>	<b>-</b>

The amount disclosed above, referred to in Note 17, have been recognised directly in equity in other comprehensive income

**20. Deferred taxation - continued**

Deferred tax assets are recognised to the extent that realisation of the related tax benefit through future taxable profits is probable. At 31 March 2018 and 2017, the Group had the following unutilised tax credits and deductible temporary differences in respect of which deferred taxation has not been recognised.

	<b>Group and Company</b>	
	<b>2018</b>	<b>2017</b>
	<b>€000</b>	<b>€000</b>
Unutilised tax credits arising from:		
Unabsorbed tax losses and capital allowances	<b>368,255</b>	351,374
Unabsorbed capital losses	<b>49,659</b>	49,659
Deductible temporary differences arising principally from non-current assets and provisions	<b>4,766</b>	5,477

Accordingly, the Group and Company has a potential deferred tax asset amounting to €147,938,000 (2017: €142,279,000) 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.

**21. 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 2018 and 2017 represent the excess of amounts charged to profit or loss over the actual costs incurred.

	<b>2018</b>	<b>2017</b>
	<b>€000</b>	<b>€000</b>
<b>Year ended 31 March</b>		
At beginning of year	<b>30,925</b>	37,517
Charged to profit or loss:		
- Additional provisions, including effects of unwinding non-current provisions	<b>11,491</b>	17,160
Used during year	<b>(22,857)</b>	(23,752)
At end of year	<b>19,559</b>	30,925

**21. Provisions in respect of maintenance costs - continued**

**Group and Company - continued**

Analysis of total provisions.

	<b>2018</b>	2017
	<b>€000</b>	€000
<b>At 31 March</b>		
Non-Current	<b>5,862</b>	15,444
Current	<b>13,697</b>	15,481
	<b>19,559</b>	30,925

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 2018, these reserves which are reflected in the provisions disclosed above, amounted to €58,102,000 (2017: €59,552,000). 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 2018, the amounts in this respect amounted to €21,559,000 (2017: €37,341,000) (Note 33).

**22. Other provisions**

	<b>Group and Company</b>	
	<b>2018</b>	2017
	<b>€000</b>	€000
At 1 April	-	236
Reversal of provisions which are no longer required	-	(236)
At 31 March	-	-

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

## 23. Information on operating results

### 23.1 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.

	<b>Group and Company</b>	
	<b>2018</b>	<b>2017</b>
	<b>€000</b>	<b>€000</b>
Revenue on Airline activities	<b>177,238</b>	171,475
Aircraft leasing revenue	<b>33</b>	1,245
Ground related and other revenue	<b>20,298</b>	19,522
	<b>197,569</b>	192,242

During the preceding financial year, the Company's Directors have reviewed and revised estimates of the period 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 preceding 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 €3,166,096 (2017 €3,439,361). The resultant increased revenue is 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"

### 23.2 Expenses by nature

	<b>Group</b>		<b>Company</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
	<b>€000</b>	<b>€000</b>	<b>€000</b>	<b>€000</b>
Aircraft fuel and oils	<b>38,580</b>	44,362	<b>38,580</b>	44,362
Aircraft operating lease rentals	<b>22,272</b>	23,949	<b>22,272</b>	23,949
Aircraft maintenance	<b>19,637</b>	25,417	<b>19,637</b>	25,417
Other flight related costs	<b>44,987</b>	42,267	<b>44,987</b>	42,267
Restructuring costs (Note 23.3.1)	<b>18,276</b>	2,924	<b>18,276</b>	2,924
Marketing, distribution and representation costs	<b>11,619</b>	10,039	<b>11,619</b>	10,039
Depreciation of property, plant and equipment (Note 5)	<b>1,000</b>	1,093	<b>1,000</b>	1,093
Employee benefit expense (Note 24)	<b>40,808</b>	41,569	<b>40,808</b>	41,569
Net movement in provisions for impairment of trade receivables (included in 'Administrative expenses')	<b>(550)</b>	(173)	<b>(550)</b>	(173)
Exchange differences	<b>1,020</b>	(699)	<b>1,020</b>	(699)
Other expenses	<b>17,000</b>	15,235	<b>17,004</b>	15,185
<b>Total cost of sales, selling and distribution costs and administrative expenses</b>	<b>214,649</b>	205,983	<b>214,653</b>	205,933

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

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

**23.3 Restructuring and other related costs**

*23.3.1 Restructuring costs recognised in profit or loss*

**Group and Company**

	Cost of sales €000	Administrative expenses €000	Total €000
<b>At 31 March 2018</b>			
Costs related to:			
Voluntary redundancy and early retirement schemes	<b>8,342</b>	<b>8,259</b>	<b>16,601</b>
One-time payments to employees emanating from restructuring agreements	<b>998</b>	<b>677</b>	<b>1,675</b>
	<b>9,340</b>	<b>8,936</b>	<b>18,276</b>
<b>At 31 March 2017</b>			
Costs related to:			
Voluntary redundancy and early retirement schemes	-	840	840
One-time payments to employees emanating from restructuring agreements	1,319	765	2,084
	<b>1,319</b>	<b>1,605</b>	<b>2,924</b>

The Company has reflected the estimated impact on its financial results of specific restructuring costs, primarily in respect of voluntary and early retirement schemes including outstation restructuring, which the Company's Board of Directors approved prior to 31 March 2018 (refer to Note 1.1 1). As at 31 March 2018, the Company was subject to a restriction on its ability to withdraw the applicability of the voluntary and early retirement schemes in view of the existing circumstances, particularly the actions approved by the Board and the Company's principal shareholder. The estimated impact of the voluntary and early retirement schemes (€16.5 million) has been reflected as a current provision in the statement of financial position.

By 31 March 2018, the Board had formally approved the terms of the voluntary and early retirement schemes referred to. These terms were reflected within signed contractual arrangements entered into by 31 March 2018 with the respective unions representing the different sections of the Company's employees. The Board had agreed a detailed formal plan for the restructuring, which identified the function and approximate number of employees not exceeding 140 who will be compensated for terminating their services; the expenditures that will be undertaken, and when the plan will be implemented. The main features of this plan were announced to those affected by it through the contractual arrangements entered into with the unions by the end of the reporting period. Hence the Company raised a valid expectation in employees affected by the plan (and their representatives) in a sufficiently specific manner that it will discharge its responsibilities in carrying out the restructuring. The Company has recognised a liability and expense for termination benefits at the end of the year as it would be deemed difficult for the entity to withdraw the offer of those benefits in view of the restrictions on the entity's ability to withdraw as referred to previously.

Restructuring costs recognised in profit or loss during the current financial year comprise one-time payments to employees emanating from restructuring agreements.

During the preceding 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)



## 23. Information on operating results - continued

### 23.3 Restructuring and other related costs - continued

#### 23.3.2 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. During the current year, the Company approved further voluntary and early retirement schemes, as highlighted previously, and accordingly provisions for restructuring costs were recognised in this respect.

	<b>Group and Company</b>	
	<b>2018</b>	<b>2017</b>
	<b>€000</b>	<b>€000</b>
<b>Current</b>		
At beginning of year	<b>8,784</b>	5,989
Charged to profit or loss	<b>18,276</b>	2,924
Utilised during the year	<b>(4,726)</b>	(129)
At end of year	<b>22,334</b>	8,784

The provision which is mainly 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 pre-restructuring early retirement schemes.

During the preceding 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. Up to 31 March 2018, 450 (2017: 450) staff members are currently being granted entitlement to the voluntary and early retirement schemes established as part of the Restructuring Plan.

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.

## 23. Information on operating results - continued

### 23.4 Auditors' fees

Fees charged by auditors for services rendered during the financial periods ended 31 March 2018 and 2017 relate to the following:

	<b>Group</b>	
	<b>2018</b>	<b>2017</b>
	<b>€000</b>	<b>€000</b>
Audit services – annual statutory		
- Parent Company auditors		
- Company	<b>175</b>	<b>175</b>
- subsidiaries	<b>2</b>	<b>9</b>
Other services		
- Parent Company auditors' Company		
- tax advisory and compliance services	<b>14</b>	<b>19</b>

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.

## 24. Employee benefit expense

	<b>Group</b>		<b>Company</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
	<b>€000</b>	<b>€000</b>	<b>€000</b>	<b>€000</b>
Wages and salaries	<b>38,928</b>	<b>39,695</b>	<b>38,928</b>	<b>39,695</b>
Social security costs	<b>1,880</b>	<b>1,874</b>	<b>1,880</b>	<b>1,874</b>
	<b>40,808</b>	<b>41,569</b>	<b>40,808</b>	<b>41,569</b>

Costs in relation to voluntary and early retirement schemes are reflected in Note 23.3 to the financial statements.

Average number of persons employed during the year:

	<b>Group</b>		<b>Company</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
<b>By category</b>				
Cost of sales	<b>866</b>	<b>868</b>	<b>866</b>	<b>868</b>
Selling and distribution	<b>70</b>	<b>75</b>	<b>70</b>	<b>75</b>
Administrative	<b>55</b>	<b>60</b>	<b>55</b>	<b>60</b>
	<b>991</b>	<b>1,003</b>	<b>991</b>	<b>1,003</b>

**25. Investment and other related income**

	<b>Group</b>		<b>Company</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
	<b>€000</b>	<b>€000</b>	<b>€000</b>	<b>€000</b>
Gain on dissolution of subsidiary	-	-	-	1,938
Other income	-	221	-	-
	<b>-</b>	<b>221</b>	<b>-</b>	<b>1,938</b>

**26. Finance income**

	<b>Group</b>		<b>Company</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
	<b>€000</b>	<b>€000</b>	<b>€000</b>	<b>€000</b>
Interest income from bank deposits	<b>119</b>	<b>72</b>	<b>119</b>	<b>72</b>
	<b>119</b>	<b>72</b>	<b>119</b>	<b>72</b>

**27. Finance costs**

	<b>Group</b>		<b>Company</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
	<b>€000</b>	<b>€000</b>	<b>€000</b>	<b>€000</b>
Interest expense on bank loans and overdrafts	<b>437</b>	<b>314</b>	<b>437</b>	<b>314</b>
Interest expense payable to related party	<b>131</b>	<b>187</b>	<b>131</b>	<b>187</b>
Bank charges and similar expenses	<b>691</b>	<b>842</b>	<b>691</b>	<b>883</b>
	<b>1,259</b>	<b>1,343</b>	<b>1,259</b>	<b>1,384</b>

**28. Gain on disposal of landing rights**

On 15 March 2018, the Company entered into slot transfer and lease agreements with a related party, a company controlled by the Government of Malta, in respect of the exchange and leaseback of specific landing rights at London Heathrow and London Gatwick airports. In view of the formalities required for the exchange of airport slots, namely the authorisation by the relevant slot coordinator, the agreement is deemed to comprise an undertaking to transfer airport slots at a future date, thereby constituting a promise to transfer. The agreement contemplates two separate transfer/exchange transactions, one relating to the respective slots for the summer season and the other relating to the slots for the winter season. The two transactions occurred on two different dates and constitute separate transactions which are independent of each other.

The actual transfer of airport slots contemplated in the agreement each occurred once the relevant exchanges were approved by the slot coordinator.

**28. Gain on disposal of landing rights - continued**

The summer season slots were exchanged on 20 March 2018 and the Company recognised proceeds amounting to €33.9 million upon exchange, which amount is fully reflected as a gain in profit or loss within the financial year ended 31 March 2018 in view of the fact that the carrying amount of the slots exchanged was nil prior to the exchange.

The winter season slots were exchanged on 12 July 2018 and accordingly, after the end of the current reporting period, the Company recognised proceeds and a gain within profit or loss amounting to €22.8 million in the financial statements for the year ending 31 March 2019

**29. Tax expense**

	<b>Group</b>		<b>Company</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
	<b>€000</b>	<b>€000</b>	<b>€000</b>	<b>€000</b>
Current taxation:				
Current tax expense	-	89	-	-
Attributable to:				
Continuing operations (reflected on face of income statement)	-	89	-	-

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:

	<b>Group</b>		<b>Company</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
	<b>€000</b>	<b>€000</b>	<b>€000</b>	<b>€000</b>
Loss before tax from continuing operations	15,660	(14,791)	15,656	(13,065)
Profit before tax from discontinued operations	48	311	-	-
Profit/(loss) before tax for the year	15,708	(14,480)	15,656	(13,065)
Tax on (loss)/profit before tax at the statutory of 35%	5,498	(5,068)	5,480	(4,573)
Tax effect of:				
Dividend and other income not subject to tax or subject to final withholding tax	(87)	-	(87)	(380)
Movement in unrecognised deferred tax assets in respect of unabsorbed tax losses and unabsorbed capital allowances arising during the current year	5,908	5,605	5,908	5,605
Unrecognised temporary differences and other movements, mainly attributable to tangible non-current assets and provisions	(198)	(463)	(180)	(668)
Income from non-recurring gain exempt from tax	(11,858)	-	(11,858)	-
Expenses not deductible for tax purposes	737	16	737	16
<b>Tax charge in the accounts</b>	<b>-</b>	<b>89</b>	<b>-</b>	<b>-</b>

### 30. Directors' emoluments

	<b>Group and Company</b>	
	<b>2018</b>	<b>2017</b>
	<b>€000</b>	<b>€000</b>
<b>Emoluments of Directors of Air Malta p.l.c.</b>		
Total fees and other emoluments charged in these financial statements	<b>113</b>	<b>53</b>

Insurance premia of €80,000 (2017 €77,000) 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 (used in)/generated from operations

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

	<b>Group</b>		<b>Company</b>	
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
	<b>€000</b>	<b>€000</b>	<b>€000</b>	<b>€000</b>
Operating profit/(loss) from continuing operations	<b>16,800</b>	(13,741)	<b>16,796</b>	(13,691)
Operating profit from discontinued operations (note 14)	<b>48</b>	311	-	-
Operating profit/(loss) for the year	<b>16,848</b>	(13,430)	<b>16,796</b>	(13,691)
Adjustments for				
Depreciation and other changes in relation to property, plant and equipment (Note 5)	<b>1,000</b>	1,093	<b>1,000</b>	1,093
Net movement in provisions for impairment of trade receivables	<b>(550)</b>	(173)	<b>(550)</b>	(173)
Net movement in provisions for impairment of amounts receivable from subsidiaries	-	-	-	108
Movement in provision for impairment of other financial assets	<b>(48)</b>	(91)	<b>(48)</b>	(91)
Unrealised exchange differences	<b>2,768</b>	(247)	<b>2,770</b>	(247)
Movement in provision in respect of maintenance costs (Note 21)	<b>11,491</b>	17,160	<b>11,491</b>	17,160
Movement in provision in respect of restructuring costs (Note 23.3.2)	<b>18,276</b>	2,924	<b>18,276</b>	2,924
Movement in other provisions (Note 22)	-	(236)	-	(236)
Gain from disposal of landing rights (Note 28)	<b>(33,880)</b>	-	<b>(33,880)</b>	-
Emission rights and credits granted (Note 6)	<b>(1,432)</b>	-	<b>(1,432)</b>	-
Emission rights used (Note 6)	<b>1,903</b>	1,129	<b>1,903</b>	1,129
Changes in working capital:				
Inventories	<b>37</b>	100	<b>37</b>	100
Trade and other receivables	<b>(4,322)</b>	7,498	<b>(4,328)</b>	7,784
Trade and other payables	<b>4,839</b>	15,364	<b>4,825</b>	16,586
Provisions in respect of maintenance costs used during the year (Note 21)	<b>(22,857)</b>	(23,752)	<b>(22,857)</b>	(23,752)
Provisions in respect of restructuring costs used during the year (Note 23.3.2)	<b>(4,726)</b>	(129)	<b>(4,726)</b>	(129)
<b>Cash (used in)/ generated from operations</b>	<b>(10,653)</b>	7,210	<b>(10,723)</b>	8,565

## 32. Commitments

### *Capital and other commitments*

	<b>Group and Company</b>	
	<b>2018</b>	<b>2017</b>
	<b>€000</b>	<b>€000</b>
Contractual commitments	<b>39,574</b>	<b>39,648</b>

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:

	<b>Group and Company</b>	
	<b>2018</b>	<b>2017</b>
	<b>€000</b>	<b>€000</b>
Not later than one year	<b>13,694</b>	<b>16,336</b>
Later than one year and not later than five years	<b>21,744</b>	<b>23,312</b>
Later than five years	<b>4,136</b>	
	<b>39,574</b>	<b>39,648</b>

### *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, landing rights and property are as follows:

	<b>Group and Company</b>	
	<b>2018</b>	<b>2017</b>
	<b>€000</b>	<b>€000</b>
Not later than one year	<b>18,371</b>	<b>19,874</b>
Later than one year and not later than five years	<b>27,285</b>	<b>20,632</b>
Later than five years	<b>32,723</b>	<b>264</b>
	<b>78,379</b>	<b>40,770</b>

As at 31 March 2018, the lease arrangements for aircraft, engine and property run for remaining fixed periods not exceeding 5 years.

As at 31 March 2018, the lease arrangements for landing rights run for remaining fixed periods of 20 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:

	<b>Group and Company</b>	
	<b>2018</b>	<b>2017</b>
	<b>€000</b>	<b>€000</b>
Not later than one year	<b>4,417</b>	-
Later than one year and not later than five years	<b>19,013</b>	-
	<b>23,430</b>	-

**33. Contingencies**

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

	<b>2018</b>	<b>2017</b>
	<b>€000</b>	<b>€000</b>
Bank guarantees, documentary credits and other indemnities (refer to Notes 13 and 21)	<b>23,550</b>	40,658

**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 in respect of landing rights disclosed or referred to in note 28, 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

	<b>Group and company</b>	
	<b>2018</b>	<b>2017</b>
	<b>€000</b>	<b>€000</b>
Government and other entities controlled by Government.		
- Sales of services	<b>16,131</b>	20,230
- Sale of landing rights	<b>56,712</b>	-
- Purchases of materials and services	<b>21,047</b>	18,991
	<b>93,890</b>	39,221
Associates		
- Sales of services	<b>35</b>	58
- Purchases of services	<b>1,555</b>	2,539
	<b>1,590</b>	2,597

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 14.

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 26 and 27 respectively

**35. Statutory information**

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

**36. Comparative information**

Expenses for the year ended 31 March 2017 amounting to €1,766,000 have been presented within restructuring costs on the face of the income statement within the current year financial statements for the purpose of fairer presentation. The same amount presented within accruals and deferred income in the statements of financial position for the preceding financial year, has been reclassified to provision in respect of restructuring costs within the current year's statement of financial position.



### 37. The Air Malta Group

Subsidiaries and associates within the Group as at 31 March 2018 and 2017 were the following

#### Subsidiaries

	Group % holding		Company % holding		Country of incorporation
	2018	2017	2018	2017	
Holiday Malta (Russia) Limited SkyParks Business Centre, Level 2, Malta International Airport, Luqa (held by KM Holdings Limited) (struck off)	-	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 Insurance Company Limited SkyParks Business Centre, Level 2, Malta International Airport, Luqa (struck off)	-	100	-	100	Malta
KM Holdings Limited SkyParks Business Centre, Level 2, Malta International Airport, Luqa	100	100	100	100	Malta

**37. The Air Malta Group - continued**

**Associates**

	<b>Group % holding</b>		<b>Company % holding</b>		<b>Country of incorporation</b>
	<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>	
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