Air Seychelles Limited

Financial statements

31st December 2017

Registered office: P O Box 386 | Creole Spirit Building | Pointe Larue | Mahé | Seychelles

Air Seychelles Limited

Financial statements
31st December 2017

Directors' Report

The Directors are pleased to submit their report together with the audited financial statements of Air Seychelles Limited ("the Company") for the year ended 31 December 2017.

1. Principal activities

The principal activities of the Company are to provide commercial air transportation which includes passenger and cargo services on scheduled and charter basis. The Company also provides handling and lounge services to other carriers at the Seychelles International Airport in Mahé and Praslin Domestic Airport.

2. Equity

On 15 March 2012 the Government of Seychelles ('GOS') and Etihad Airways PJSC ('Etihad') signed an investment agreement for Etihad to acquire a 40% equity stake in the Company for consideration of USD 20 million. As part of this agreement Etihad also committed to provide a shareholder loan facility of USD 25 million to the Company for managing its working capital and the GOS agreed to settle certain liabilities existing prior to the date of this agreement.

3. Results

Net profit

Net loss of the Company for the year ended 31 December 2017 amounted to USD 14.3 million *(year ended 31 December 2016: net profit of USD 0.4 million).*

4. Dividends

The Directors did not recommend any dividends for the year under review.

5. Directors

The Directors of the Company since the date of the last report and the date of this report are:

Minister Joel Morgan (until 3 November 2016) - Outgoing chairman
Jean Weeling-Lee (appointed chairman as from 3 November 2016) - Chairman
Bruno Matheu (as from 04 March 2015, resigned on 29 June 2017)- Vice Chairman
Maurice Loustau-Lalanne (as from 15 March 2012, resigned on 11 May 2017)
Jean-Paul Adam (as from 1 February 2016, resigned on 3 November 2016)
Ulf Huettmeyer (as from 04 March 2015, resigned on 11 May 2017)
Bassam A Al Mosa (as from 15 March 2012)
Sitna Cesar (as from 3 November 2016)
John Esther (as from 3 November 2016)
Marie-Louise Potter (as from 11 May 2017)
Abdulmoshen Alsayegh (as from 29 June 2017, resigned on 14 June 2018
Christopher Youlten (as from 29 June 2017)
Robin Kamark (as from 14 June 2018)
None of the Directors has any direct or indirect interest in the shares of the Company.

6. Statement of Directors' responsibilities

The Directors are responsible for the overall management of the affairs of the Company including the operations of the Company and making investment decisions.

Directors' Report *(continued)*

The Board is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and in compliance with the Companies ordinance, 1972 (as amended). This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. The Directors have the general responsibility of safeguarding the assets, both owned by the Company and those that are held in trust and used by the Company.

The Directors consider they have met their aforesaid responsibilities.

7. Auditors

Independent auditors of the Company for the year ending 31 December 2018 have not yet been appointed.

8. By order of the Board

Approved by the Board of Directors on 5th September 2018.

and signed by:

Jean Weeling-Lee
Chairman

Robin Kamark
Vice- Chairman

Bassam A Al Mosa
Board Member

John Esther
Board Member

Sitna Cesar
Board Member

Marie louise Potter
Board Member

Christopher Youlten
Board Member

KPMG

KPMG Lower Gulf Limited
Level 19, Nation Tower 2
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Independent Auditors' Report

To the Shareholders of Air Seychelles Limited

Independent Auditors' Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Air Seychelles Limited ("the Company"), which comprise the statement of financial position as at 31 December 2017, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at 31 December 2017, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

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 *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with International Ethics Standards Board for Accountants Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our ethical responsibilities in accordance with the IESBA Code together with the ethical requirements that are relevant to our audit of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of matter

Without modifying our opinion, we draw attention to the accounting policy applied by the Company with respect to the grants received from the Government as described in note 3(b) and waiver of certain liabilities as described in note 3(g) (ii). The recognition of income from such transactions requires the exercise of significant judgment, as described in note 5(d), 5(e) and 5(f). The total income recognized from such transactions is summarized in note 7, 8 and 9 to the financial statements.

Other Information

Management is responsible for the other information. The other information comprises the Directors' report as set out on pages 3 and 4.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information 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. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the 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 management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with Governance are responsible for overseeing the Company's financial reporting process.

Auditors' 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 auditors' 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 judgment and maintain professional skepticism 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.

Auditors' Responsibilities for the Audit of the Financial Statements (continued)

- 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 Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's 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 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 auditors' 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 auditors' report. However, future events or conditions may cause the 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.

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.

Report on Other Legal and Regulatory Requirements

As required by the Companies Ordinance, 1972 and Public Enterprise Monitoring Commission Act, 2013 of Seychelles, we further confirm that we have no relationship with or interests in the Company, other than in our capacity as auditors, we have obtained all information and explanations necessary for our audit and proper financial records have been kept by the Company as it appears from our examination of reports.

KPMG

KPMG Lower Gulf Limited

Abu Dhabi, United Arab Emirates

Date: 5 September 2018

Air Seychelles Limited

Statement of profit or loss and other comprehensive income

for the year ended 31st December 2017

in thousands of USD	**Note**	**2017**	**2016**
Revenue	6	127,285	121,697
Other income	7	3,760	10,164
Direct operating costs	8	(135,748)	(113,720)
Administrative and marketing expenses	9	(3,511)	(11,512)
Operating profit		(8,214)	6,629
Finance income	11	435	30
Finance costs	11	(6,508)	(6,234)
Net finance costs		(6,073)	(6,204)
Profit		(14,287)	425
Other comprehensive income			
Items that are or may be reclassified subsequently to profit or loss			
Available-for-sale financial assets - net change in fair value	18	-	53
Available-for-sale financial assets - reclassified to profit or loss		-	(53)
Other comprehensive income		-	-
Total comprehensive income		(14,287)	425

The notes set out on pages 13 to 37 form an integral part of these financial statements.

The independent auditors' report is set out on pages 5 to 7.

Air Seychelles Limited

Statement of financial position

as at 31st December 2017

in thousands of USD	*Note*	2017	2016
Assets			
Non-current assets			
Property and equipment	12	44,162	41,191
Intangible assets	13	14,009	15,709
Deposits	14	8,638	6,620
Long Term Receivables from related parties - GOS		5,743	
Available-for-sale financial asset	18	-	-
Total non-current assets		72,552	63,520
Current assets			
Inventories	15	8,979	8,512
Trade and other receivables	16	35,392	48,465
Amounts due from related parties	17	3,460	11,503
Cash and cash equivalents	19	26,174	41,042
Assets held for sale	20	378	485
Total current assets		74,383	110,007
Total assets		146,935	173,527
Equity and liabilities			
Equity			
Share capital	23	72,617	72,617
Accumulated losses		(75,703)	(61,416)
Fair value reserves		-	-
Total equity		(3,086)	11,201
Liabilities			
Non-current liabilities			
Trade and other payables	21	3,153	2,826
Loans and borrowings	22	83,679	84,910
Total non-current liabilities		86,832	87,736
Current liabilities			
Trade and other payables	21	26,774	38,729
Loans and borrowings	22	-	1,670
Amounts due to related parties	17	22,360	19,494
Unearned revenue		14,055	14,697
Total current liabilities		63,189	74,590
Total liabilities		150,021	162,326
Total equity and liabilities		146,935	173,527

The notes set out on pages 13 to 37 form an integral part of these financial statements.
The independent auditors' report is set out on pages 5 to 7.

These financial statements were approved and authorised for issue by Board of Directors on 5th September 2018 and signed on their behalf by:

Jean Weeling-Lee
Chairman

Robin Kamark
Vice- Chairman

Bassam A Al Mosa
Board Member

John Esther
Board Member

Sitna Cesar
Board Member

Marie louise Potter
Board Member

Christopher Youlten
Board Member

Air Seychelles Limited

Statement of changes in equity

for the year ended 31st December 2017

in thousands of USD

	Share capital	Accumulated losses	Fair value reserves	Total equity
At 1 January 2016	**72,617**	**(61,841)**	**656**	**11,432**
Total comprehensive income:				
Profit for the year	**-**	**425**	**-**	**425**
Other comprehensive income	**-**	**-**	**53**	**53**
Total comprehensive income for the year	**-**	**425**	**53**	**478**
Available-for-sale financial asset - reclassified to profit or loss	**-**	**-**	**(709)**	**(709)**
At 31 December 2016	**72,617**	**(61,416)**	**-**	**11,201**
At 1 January 2017	**72,617**	**(61,416)**	**-**	**11,201**
Total comprehensive income:	**-**			
Profit for the year	**-**	**(14,287)**	**-**	**(14,287)**
Other comprehensive income		**-**	**-**	
Total comprehensive income for the year		**(14,287)**	**-**	**(14,287)**
At 31 December 2017	**72,617**	**(75,703)**	**-**	**(3,086)**

Air Seychelles Limited

Statement of cash flows

for the year ended 31st December 2017

in thousands of USD	*Note*	2017	2016
Cash flows from operating activities			
Net profit		(14,287)	425
Adjustments for:			
-Depreciation	*12*	2,585	1,876
-Amortisation	*13*	1,794	963
Loss / (Gain) on disposal of property and equipment	*12*	190	(1,600)
-Available-for-sale financial asset - reclassified to profit or loss		-	(53)
-Provision for impairment of trade receivables	*16*	-	(170)
-Staff terminal benefits during the year - charge	*21*	970	949
-Finance costs	*11*	6,508	6,234
-Finance income	*11*	(435)	(30)
-Extinguishment and reversal of payables and accruals	*17*	-	-
		(2,675)	8,594
Changes in:			
- inventories	*15*	(467)	(2,291)
- trade and other receivables	*16*	13,073	(6,691)
- amounts due from related parties	*17*	8,043	(2,474)
- trade and other payables	*21*	(11,955)	19,851
- amounts due to related parties	*17*	2,866	(22,486)
- unearned revenue		(642)	591
Cash generated from / (used in) operating activities		8,243	(4,906)
Staff terminal benefits paid	*21*	(643)	(842)
Net cash used in operating activities		7,600	(5,748)
Cash flows from investing activities			
Acquisition of property and equipment	*12*	(6,582)	(14,340)
Acquisition of intangible assets	*13*	(94)	(1,213)
Proceeds from disposal of property and equipment		943	3,389
Proceeds from disposal of available-for-sale financial asset		-	709
Interest received		435	30
Net cash used in investing activities		(5,299)	(11,425)

Air Seychelles Limited

Statement of cash flows *(continued)*

for the year ended 31st December 2017

in thousands of USD		2017	2016
Cash flows from financing activities			
Proceeds from loans and borrowings - net		(8,644)	49,894
Deposits		(2,018)	(3,494)
Interest paid - net		(6,508)	(5,147)
Net cash from / (used in) financing activities		(17,170)	41,253
Net increase / (decrease) in cash and cash equivalents		(14,868)	24,080
Cash and cash equivalents at 1 January	*19*	41,042	17,525
Effect of movements in exchange rates on cash held			(563)
Cash and cash equivalents at 31 December	*19*	26,174	41,042

The notes set out on pages 13 to 37 form an integral part of these financial statements.

The independent auditors' report is set out on pages 5 to 7.

Notes to the financial statements

1. Legal status and principal activities

Air Seychelles Limited (the "Company") is a limited liability company, incorporated and domiciled in the Republic of Seychelles. The registered office of the Company is located at "The Creole Spirit" building, Point Larue, Mahé, Seychelles. The Company was first established on 15 September 1977, following the merger of Air Mahé and Inter-Island Airways and was registered as Seychelles Airlines under the Seychelles Companies Ordinance, 1972 (as amended). The present title was adopted in September 1978. The Company's share capital is held by the Government of Seychelles (60%) and EAG Investment Holding Company Limited (EAGIHC) (40%), a Company incorporated under the laws of the United Arab Emirates. The other activities have remained unchanged during the year.

The principal activities of the Company are to provide commercial air transportation which includes passenger and cargo services on scheduled and charter basis. The Company also provides handling and lounge services to other carriers at the Seychelles International Airport in Mahé and Praslin Domestic Airport.

2. Basis of preparation

(a) Going concern

These financial statements have been prepared on a going concern basis, which assumes that the Company will continue to operate, notwithstanding that as at 31 December 2017, the Company had accumulated losses of USD 75,703 thousand (31 December 2016: USD 61,416 thousand) and had net current assets amounting to USD 11,194 thousand (31 December 2016: net current assets USD 35,417 thousand). The shareholders have committed to provide the Company with such financial support as may be required to meet its liabilities as and when they fall due. The Company's restructuring plan was approved by the Board of Directors pursuant to the Investment agreement, which entitled the Company to draw down for USD 25 million as shareholders loan. Based on review and approval of the future cash flow forecasts the directors are satisfied that the Company has access to sufficient cash facilities to meet its obligations for the foreseeable future, and for a period of at least 12 months from the date of approval of these financial statements. Accordingly, the financial statements have been prepared on the going concern basis.

(b) Statement of compliance

The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs"), and comply where appropriate, with the applicable provisions of the Seychelles Companies Ordinance 1972 *(as amended)* .

(c) Basis of measurement

The financial statements have been prepared on the historical cost basis, except for available-for-sale financial assets, which are measured at fair value.

(d) Use of estimates and judgments

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

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

Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have a significant effect on the amounts recognised in the financial statements are described in note 5.

Notes to the financial statements

3. Significant accounting policies

The Company has consistently applied the following accounting policies to all periods presented in these financial statements except for the new standards and interpretations that became applicable and were adopted during the year.

New standards and interpretations adopted:

During the year new standards, amendments to standards and interpretations have become effective for the period and have been applied in preparing these financial statements. These amendments are listed below:

- Clarification of acceptable methods of depreciation and amortisation (amendments to IAS 16 and IAS 38)
- Annual improvements to IFRSs 2012-2014 cycle – various standards
- Disclosure initiative (amendments to IAS 1)

Adoption of these amendments does not have a material impact on the financial statements of the Company.

(a) Revenue and other income

Passenger and cargo sales including charter are recognised as revenue when the transportation service is provided. Passenger tickets and cargo airway bills sold but unused are classified in the statement of financial position under current liabilities as unearned revenue. Unused coupons are recognised as revenue based on the terms and conditions of the ticket.

Revenue from ground handling services is recognised when the services are rendered in accordance with the terms of agreement.

Income from liquidated damages is recognised in profit or loss when a contractual entitlement exists, amounts can be reliably measured and receipt is virtually certain. When such claims do not relate to a compensation for loss of income or towards incremental operating costs, the amounts are taken to the statement of financial position and recorded as a reduction in the cost of the related asset.

Please refer note 3 (c) for accounting policy on finance income.

Commission costs are recognised in the same period as the revenue to which they relate is recognised, and are included in direct operating costs.

(b) Government grants

Grants that are receivable for compensation of expenses or losses already incurred, or for the purpose of giving immediate financial support to the Company with no future related costs, are recognised in profit and loss in the period in which reasonable assurance is established that the entity will comply with the conditions attached to the grant and that the grant will be received.

Grants that compensate the Company for expenses to be incurred are initially recognised in the statement of financial position as a deferred income. Subsequent to initial recognition, such grants are released to profit or loss on a systematic basis over the period in which the related expenses are recognised.

(c) Finance income and finance costs

Finance income mainly comprises interest on term deposits and dividend income. Interest income is recognised in profit or loss as it accrues, using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated stream of future cash payments or receipts, without consideration of future credit losses, over the expected life of the financial instrument to the carrying amount of financial asset or financial liability on initial recognition.

Finance costs comprise interest expense on loans and borrowings and are recognized in profit or loss using the effective interest method.

Foreign currency gains and losses are reported on a net basis separately within finance income / costs, either as exchange gains or losses depending on whether foreign currency movements are in a net gain or net loss position.

Notes to the financial statements

3. Significant accounting policies *(continued)*

(d) Leases

Determining whether an arrangement contains a lease

At inception of an arrangement, the Company determines whether the arrangement is or contains a lease.

At inception or on reassessment of an arrangement that contains a lease, the Company separates payments and other consideration required by the arrangement into those for the lease and those for other elements on the basis of their relative fair values. If the Company concludes for a finance lease that it is impracticable to separate the payments reliably, then an asset and a liability are recognised at an amount equal to the fair value of the underlying asset; subsequently, the liability is reduced as payments are made and an imputed finance cost on the liability is recognised using the Company's incremental borrowing rate.

Leased assets

Leases of property and equipment that transfer to the Company substantially all of the risks and rewards of ownership are classified as finance leases. The leased assets are measured initially at an amount equal to the lower of their fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the assets are accounted for in accordance with the accounting policy applicable to that asset.

Assets held under other leases are classified as operating leases and are not recognised in the Company's statement of financial position.

Lease payments

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

(e) Property and equipment

Recognition and measurement

Items of property and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment. The cost of self constructed assets includes the following:
- the cost of materials and direct labour;
- any other costs directly attributable to bringing the assets to a working condition for their intended use; and
- when the Company has an obligation to remove the asset or restore the site, an estimate of the costs of dismantling and removing

When parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

Any gain or loss on disposal of an item of property and equipment (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised in profit or loss within other income.

Subsequent costs

Subsequent expenditure is capitalised only when it is probable that the future economic benefits associated with the expenditure will flow to the Company. Ongoing repairs and maintenance are expensed as incurred.

Notes to the financial statements

3. Significant accounting policies *(continued)*

(e) Property and equipment *(continued)*

Depreciation

Items of property and equipment are depreciated on a straight-line basis in profit or loss over the estimated useful lives of each component. Leased assets are depreciated over the shorter of the leased term and useful lives unless it is reasonably certain that the Company will obtain ownership by the end of the lease term. Land is not depreciated.

Items of property and equipment are depreciated from the date that they are installed and are ready for use, or in respect of internally constructed assets, from the date that the asset is completed and ready for use.

The Company has re-assessed the useful lives of certain items of property and equipment and the changes have been applied prospectively as from 1 January 2016.
The estimated useful lives for items of property and equipment in the current year and comparatives periods are as follows:

	Life in years	
Buildings and leasehold improvements	20	
Aircraft and accessories	30	(2015: 20 years)
Aircraft engines	5	
Technical spares	10	
Operating equipment	5 - 10	
Motor vehicles	4	

The impact of above mentioned revision in useful lives on depreciation expense in the next 2 years is as follows:

in thousands of USD	**2018**	**2019**
Decrease in depreciation expense	628	628

Major modifications and improvements to property and equipment are capitalised and depreciated over the remaining useful life of the asset. Subsequent major overhaul expenditure is amortised over the period to the next major overhaul.

The estimated useful lives, residual values and depreciation method are reviewed at the end of each annual reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Capital projects

Expenditures incurred on property and equipment, which are not complete and ready for use at the reporting date are treated as capital projects. Once the asset is ready for use, the cost of such asset together with the cost directly attributable to bringing the asset ready for intended use, including borrowing cost , are transferred to the respective class of assets. No depreiation is charged on capital projects.

(f) Intangible assets

Recognition and measurement

Intangible assets that are acquired by the Company and have finite useful lives are measured at cost less accumulated amortisation and accumulated impairment losses, if any.

Subsequent expenditure

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognised in profit or loss when incurred.

Notes to the financial statements

3. Significant accounting policies *(continued)*

(f) Intangible assets *(continued)*

Amortisation

Intangible assets are amortised on a straight-line basis in profit or loss over their estimated useful lives, from the date that they are available for use. The estimated useful life of software for the current and comparative periods was 5 to 10 years. Intangible assets' residual value, useful life and amortisation methods are reviewed and adjusted if appropriate, at the end of each reporting period.

(g) Financial assets and liabilities

(i) Non-derivative financial assets

The Company initially recognises loans and receivables on the date that they are originated. All other financial assets are recognised initially on the trade date, which is the date that the Company becomes a party to the contractual provisions of the instrument.

The Company derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Company is recognised as a separate asset or liability.

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

The non-derivative financial assets of the Company include loans and receivables and available-for-sale financial assets.

Loans and receivables

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

Loans and receivables comprise of trade and other receivables, amounts due from related parties and cash and cash equivalents.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available for sale or are not classified in any of the other categories of financial assets. Available-for-sale financial assets are initially recognised at fair value plus any directly attributable transaction costs.

Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses (refer Note 3(h)), are recognised in other comprehensive income and presented in fair value reserves within equity. When these assets are derecognised, the gain or loss accumulated in equity is reclassified to profit or loss.

(ii) Non-derivative financial liabilities

The Company initially recognises subordinated liabilities on the date that they are originated. All other financial liabilities are recognised initially on the trade date, which is the date that the Company becomes a party to the contractual provisions of the

The Company derecognises a financial liability when its contractual obligations are discharged, cancelled, expire or the Company is legally released from the primary responsibility for the liability either by the process of law or by the creditor.

The Company classifies all its financial liabilities into the other financial liabilities category. Such financial liabilities are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortised cost using the effective interest method. Other financial liabilities of the Company comprise loans and borrowings, payables and accruals and amounts due to related parties.

Notes to the financial statements

3. Significant accounting policies *(continued)*

(h) Impairment

(i) Non-derivative financial assets

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset, and that the loss event had an impact on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired includes default or delinquency by a debtor, restructuring of an amount due to the Company on terms that the Company would not consider otherwise, indications that a debtor will enter bankruptcy or adverse changes in the payment status of the debtor, economic conditions that correlate with defaults or the disappearance of an active market for a security. In addition for an investment in equity security, a significant or prolonged decline in its fair value below cost is objective evidence of impairment.

Loans and receivables

The Company considers evidence of impairment for loans and receivables at both a specific asset and collective level. All individually significant receivables are assessed for specific impairment. All individually significant loans and receivables found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Loans and receivables that are not individually significant are collectively assessed for impairment by grouping together loans and receivables with similar risk characteristics.

In assessing collective impairment the Company uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against receivables. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Available-for-sale financial assets

Impairment losses on available-for-sale financial assets are recognised by reclassifying the losses accumulated in fair value reserves in equity to profit or loss. The cumulative loss that is reclassified from equity to profit or loss is the difference between the acquisition cost and the current fair value, less any impairment loss recognised previously in profit or loss. Changes in cumulative impairment losses attributable to the application of effective interest method are reflected as a component of net finance costs. Any subsequent recovery in fair value of an impaired available-for-sale equity security is recognised in other comprehensive income.

(ii) Non-financial assets

The carrying amounts of the Company's non-financial assets, other than inventories, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. The recoverable value of an asset is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated cash flows, discounted to their present value using a discount rate that reflects current market assessment of the time value of money and the risk specific to the asset.

An impairment loss is recognised if the carrying amount of an asset exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss.

Notes to the financial statements

3. Significant accounting policies *(continued)*

(i) Foreign currency transactions

Transactions in foreign currencies are translated to USD at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to USD at the exchange rate at that date. Foreign currency gains or losses on monetary items are the differences between the amortised cost in USD at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the year.

Non-monetary assets and liabilities in foreign currencies that are measured in terms of historical cost are translated using the exchange rate at the date of the transaction. Foreign currency differences arising on the translation are recognised in profit or loss. However, foreign exchange difference arising from translation of the available-for-sale financial assets are recognised in other comprehensive income.

(j) Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is determined using the first in first out method, with the exception of aircraft related consumables, which are measured using specific-identification method. Cost includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. Allowance for obsolete and slow moving items is made to reduce the carrying value of these items to their net realisable value. Net realisable value is the estimated selling price, in the ordinary course of business, less estimated selling expenses.

(k) Provisions

A provision is recognised if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably and it is probable that an outflow of economic benefits will be required to settle the obligation.

A provision for onerous contracts is recognised when the expected benefits to be derived by the Company from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Company recognises any impairment loss on the assets associated with that contract.

(l) Employee benefits

Defined contribution plans

A defined contribution plan is a post employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution plans are recognised as an employee benefit expense in profit or loss in the periods during which services are rendered by employees.

Monthly pension contributions are made in respect of Seychellois employees, who are covered by the Seychelles Pension Fund Act No. 8 of 2005. The pension fund is administered by the Government of Seychelles.

Defined benefit plans

A defined benefit plan is a post employment benefit other than a defined contribution plan. The Company currently operates an unfunded scheme for employees' end of service benefits that follows relevant local regulations and is based on periods of cumulative service and levels of employees' final basic salaries. The liability for staff terminal benefits is determined as the liability that would arise if employment of all staff was to be terminated at reporting date.

An actuarial valuation is not performed on post employment and other benefits as the net impact of the discount rate and future salary and benefits level on the present value of the benefits obligation is not expected by management to be significant.

Notes to the financial statements

3. Significant accounting policies *(continued)*

(l) Employee benefits *(continued)*

Short-term employee benefits

Short term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus if the Company has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

(m) Taxation

Income tax expense comprises current tax. Current tax is recognised in profit or loss except to the extent that it relates to items recognised directly in equity or in other comprehensive income. Current tax is the expected tax payable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

(n) Assets held for sale

Non-current assets, or disposal groups comprising assets and liabilities, are classified as held for sale if it is highly probable that they will be recovered primarily through sale rather than through continuing use.

Such assets, or disposal groups, are generally measured at the lower of their carrying amount and fair value less costs to sell. Any impairment loss on a disposal group is allocated first to goodwill, and then to the remaining assets and liabilities on a pro rata basis, except that no loss is allocated to inventories, financial assets, deferred tax assets, employee benefit assets, investment property or biological assets, which continue to be measured in accordance with the Company's other accounting policies. Impairment losses on initial classification as held-for-sale or held for distribution and subsequent gains and losses on remeasurement are recognised in statement of profit or loss and other comprehensive income.

Once classified as held-for-sale, property and equipment are no longer depreciated.

(o) New standards and interpretations not yet adopted

A number of new standards and amendments to standards are effective for annual periods beginning after 1 January 2016 and earlier application is permitted; however, the Company has not early adopted the following new or amended standards in preparing these financial statements.

(i) Disclosure Initiative (Amendments to IAS 7)

The amendments require disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes. The amendments are effective for annual periods beginning on or after 1 January 2017, with early adoption permitted.

Notes to the financial statements

3. Significant accounting policies *(continued)*

(o) New standards and interpretations not yet adopted *(continued)*

(iii) IFRS-9 Financial instruments

The International Accounting Standards Board has decided to replace IAS 39 Financial Instruments over a period of time and in three phases:

- Phase 1: Classification and measurement of financial assets and financial liabilities.
- Phase 2: Impairment methodology.
- Phase 3: Hedge accounting.

Recognition and measurement:

The early adoption of the standard continues to be permitted. Given the nature of the Company's operations, this standard is not expected to have a significant impact on the Company's financial statement.

IFRS 9 (2009) introduces new requirements for the classification and measurement of financial assets. IFRS 9 (2010) introduces additions relating to financial liabilities. IFRS 9 (2013) introduces new requirements for hedge accounting. IFRS 9 (2014) introduces a new expected credit loss model for calculating impairment on financial assets.

IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted.

(iv) IFRS 16 Leases

IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are optional exemptions for short-term leases and leases of low value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases.

IFRS 16 replaces existing leases guidance including IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases—Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease.

The standard is effective for annual periods beginning on or after 1 January 2019. Early adoption is permitted for entities that apply IFRS 15 Revenue from Contracts with Customers at or before the date of initial application of IFRS 16.

(v) Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28).

The Company is currently assessing the impact from the adoption of the above new and amended standards on its financial position and performance.

Notes to the financial statements

4. Financial risk management

Overview

The Company has exposure to the following risks from its use of financial instruments:

(a) Credit risk
(b) Liquidity risk
(c) Market risk

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital. Further quantitative disclosures are included throughout these financial statements.

Risk management framework

The Board of Directors (the "Board") has overall responsibility for the establishment, oversight and monitoring of the Company's risk management framework and is assisted by the senior management. Senior management is responsible for designing, developing and monitoring the Company's risk management policies, which are approved by the Board. Senior management reports regularly to the Board and committees of the shareholders on its risk management activities.

The Company's risk management policies are established to identify and analyse the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities. The Company, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

(a) Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's receivables from customers, deposits , cash at banks and other receivables.

Trade and other receivables

The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, management also considers the demographics of the Company's customer base, including the default risk of the industry and countries in which customers operate, as these factors may have an influence on credit risk. Although geographically there is no significant concentration of risk, at the reporting date, majority of the Company's trade receivables from customers were domiciled domestically.

The Company has policies in place to ensure that sale of tickets and freight on credit are made to customers who are members of an industry accredited clearing house, which in turn has adequate securities in place. Where customers are not members of the clearing house adequate credit review procedures are undertaken for the appropriate level of commercial activity. Sales to retail customers are made only on prepayment basis.

The Company establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified. The collective loss allowance is determined based on historical data of payment statistics for similar financial assets.

Notes to the financial statements

4. Financial risk management *(continued)*

(b) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

The Treasury department of the Company ensures that sufficient cash is available based on rolling short-term forecasts of expected cash flows. Additionally management also ensures the availability of funding through an adequate amount of committed credit facilities. Pursuant to the Investment Agreement entered by the Company, the Government of Seychelles and Etihad Airways PJSC, the Company received cash flows in the form of grants during the year.

(c) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and commodity prices will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

Currency risk

The Company operates internationally and is exposed to currency risk arising from various currency exposures that are denominated in currencies other than the functional currency. The currencies in which these transactions are primarily denominated are Euro ("EUR"), South African Rand ("ZAR") and Seychelles Rupee ("SCR"). The Company aims to aggregate a net position for each currency so that natural hedging can be achieved.

Commodity price risk

The Company's commodity price risk relates to the purchase price of its jet fuel.

Interest rate risk

The Company's cash flow exposure to interest rate risk arises primarily from long-term borrowings at floating rates. Market risks are thoroughly discussed in monthly management meetings. The Planning department carries out regular reviews of the market outlook for fuel prices and interest rates to analyse possible risk exposures to the Company and plan for appropriate courses of action. Market risks and strategies to combat these risks are also discussed by members at the Board of Directors' meetings.

Capital management

The Board's policy is to maintain a strong capital base designed to provide sufficient liquidity to the business, maximise shareholder value, maintain market confidence and sustain future growth of the business. The Company's main objectives when managing capital are:

- to ensure that the Company has access to capital to fund contractual obligations as they become due;
- to maintain flexibility to pursue strategic business opportunities and ensure adequate liquidity to withstand weakening economic conditions; and
- to maintain an appropriate balance between debt financing vis-a-vis shareholder capital as measured by gearing ratio.

The Board regularly review the Company's capital structure and makes adjustments to reflect future capital commitments, business strategies and economic conditions. The Company is not subject to any externally imposed capital requirements. There were no changes in the Company's approach to capital management during the year.

in thousands of USD	**2017 December**	**2016 December**
Loans and borrowings	**83,679**	**86,580**
Less: Cash and cash equivalents	**(26,174)**	**(41,042)**
Net debts	**57,505**	**45,538**
Total capital	**72,617**	**72,617**
Total capital and net debt	**130,122**	**118,155**

Notes to the financial statements

5. Significant accounting estimates and judgements

In the process of applying the Company's accounting policies, which are detailed in Note 3, management has made the following judgements that have the most significant effect on the amounts of assets and liabilities recognised in the financial statements. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

(a) Impairment losses on receivables

The Company reviews its receivables to assess adequacy of allowance for impairment at least on an annual basis. The Company's credit risk is primarily attributable to its trade receivables. In determining whether impairment losses should be recorded in profit or loss, the Company makes judgements as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows. Accordingly, an allowance for impairment is made where there is an identified loss event or condition which, based on previous experience, is evidence of a reduction in the recoverability of the cash flows.

(b) Impairment of aircraft

A decline in the value of aircraft could have a significant effect on the amounts recognised in the financial statements. Management assesses the impairment of aircraft whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Factors that are considered important which could trigger an impairment review include the following:
(i) Significant decline in the market value beyond that which would be expected from the passage of time or normal use.
(ii) Significant changes in the technology and regulatory environments.
(iii) Evidence from internal reporting which indicates that the economic performance of the aircraft is, or will be, worse than expected.

(c) Estimated useful lives of property and equipment

Management assigns useful lives and residual values to property and equipment based on the intended use of assets and the economic lives of those assets. Subsequent changes in circumstances such as technological advances or prospective utilisation of the assets concerned could result in the actual useful lives or residual values differing from initial estimates.

(d) Government Grants

The Company receives contributions from the Government of Seychelles towards settling certain liabilities and ameliorating it against certain expenses. Significant judgment is required to determine whether these contributions are in the nature of government grants, in which case they are recognized in the profit or loss systematically in accordance with the related liability or expense, or in the form of equity, in which case they are recognized in the statement of financial position as capital contributions.

(e) Extinguishment of shareholders' liabilities

The shareholders may release and discharge the Company from all the claims which the shareholders have against the Company which arises from contractual arrangements as consummated with the respective shareholder. Significant judgement is required whether these waivers are being provided in the capacity of shareholder, in which case they are recognised in statement of financial position under equity or are in the nature of extinguishment of financial liabilities, in which case they are recognised in profit or loss under other operating income for the expenses incurred in the preceding years or against the relevant cost as expensed in the current period.

(f) Commercial incentive for marketing services

The Company engaged in a transaction with certain key suppliers of operational equipment, which involves the Company undertaking marketing and advertising activities to promote those suppliers' products and services for a consideration. Significant judgment is required to determine whether the income for these services is inherently linked to the purchase of assets by the Company from those suppliers. When such income is principally from the performance of marketing and advertising services and not directly linked to the purchase of products and services from the supplier, the related income is recognised in the profit or loss in the period in which such services are rendered.

Notes to the financial statements

6. Revenue

in thousands of USD	2017 December	2016 December
Passenger services	99,812	95,640
Cargo services	7,823	6,744
Charter services	4,236	7,115
Ground handling services	15,414	12,198
	127,285	121,697

7. Other income

in thousands of USD	2017 December	2016 December
Government grants [1]	-	1,500
Gain on sale of property and equipment	(190)	1,600
Available-for-sale financial asset - reclassified to profit or loss	-	709
Others	3,950	6,355
	3,760	10,164

[1] During the year, the Company has not received any grant from the Government of Seychelles as commercial incentive for direct flights between Seychelles and certain other routes. (*2016 : USD 1,600 thousand*)

8. Direct operating costs

in thousands of USD	2017 December	2016 December
Fuel and oil	37,712	28,674
Aircraft and engine maintenance	18,951	17,785
Aircraft and engine operating leases	7,854	12,692
Landing and parking	2,817	2,383
Overflying	6,751	5,439
Staff costs	22,141	15,036
In-flight	10,646	8,961
Handling	7,289	5,331
Crew layover	7,906	7,031
Commission and incentives	4,446	3,466
Depreciation	2,421	1,434
Aircraft insurance	471	356
Other direct operating costs	6,343	5,132
	135,748	113,720

*Extinguishment of liabilities pertaining to certain costs borne by EAGIHC of USD 18,995 thousand *(2016 : Nil)* has been netted-off against Direct operating costs.

Notes to the financial statements

9. Administrative and marketing expenses

in thousands of USD	2017 December	2016 December
Staff costs	**2,737**	**1,858**
Rent and utilities	**1,328**	**1,199**
Communications	**(11,703)**	**3,304**
Transport and vehicle	**21**	**48**
General repairs and maintenance	**608**	**563**
Legal and professional	**3,387**	**1,711**
Advertisement and promotion	**895**	**552**
Depreciation and amortisation	**2,229**	**442**
Bad and doubtful debts	**-**	**170**
Other administrative and marketing expenses	**4,010**	**1,665**
	3,512	**11,512**

*Extinguishment of liabilities pertaining to certain costs borne by EAGIHC / Etihad Airways PJSC of USD 15,000 thousand *(2016 : USD 2,436 thousand)* has been netted-off against Administrative and marketing expenses.

10. Staff related costs

in thousands of USD	2017 December	2016 December
Salaries and allowances	**15,235**	12,334
Other staff related costs	**9,642**	4,560
	24,878	**16,894**

11. Finance income and finance costs

in thousands of USD	2017 December	2016 December
Finance income	435	30
Interest expense	**6,914**	**5,147**
Net foreign exchange loss	**(406)**	**1,087**
Finance costs	6,508	6,234

12. Property and equipment

Details of property and equipment are set out in Schedule I on page 37.

Notes to the financial statements

13. Intangible assets

in thousands of USD	2017 December	2016 December
Cost		
At 1 January	16,867	654
Additions	94	16,213
At 31 December	16,961	16,867
Accumulated amortisation		
At 1 January	1,158	195
Charge for the year	1,794	963
At 31 December	2,952	1,158
Carrying amount	14,009	15,709

14. Deposits

in thousands of USD	2017 December	2016 December
Aircraft lease deposit	3,450	1,725
Deposit - loans	3,595	3,595
Deposit - others	1,593	1,300
At 31 December	8,638	6,620

As at 31 December 2017 deposits of USD 3,595 thousand *(2016: USD 3,595 thousand)* have been pledged with the Bank against loans as disclosed in note 22.

15. Inventories

in thousands of USD	2017 December	2016 December
Aircraft consumables	7,961	7,503
In-flight	744	744
Others	598	589
Less: allowance for slow-moving / obsolete inventories	(324)	(324)
	8,979	8,512

16. Trade and other receivables

in thousands of USD	2017 December	2016 December
Trade receivables [1]	15,992	33,291
Deposits and advances	4,097	2,077
Interline receivables	-	-
Accrued income		-
Other receivables	15,303	13,097
	35,392	48,465

[1] Trade receivables are stated net of allowance for impairment amounting to USD 484 thousand *(2016: USD 584 thousand).*

Notes to the financial statements

17. Related parties

Identity of related parties

The Company, in the ordinary course of business, enters into transactions, with other business enterprises or individuals that fall within the definition of related parties contained in International Accounting Standard 24. The Company has a related party relationship with the Government of Seychelles, EAG Investment Holding Company Limited, Etihad Airways PJSC, directors and executive officers (including business entities over which they can exercise significant influence or which can exercise significant

Transactions with government-owned entities

IAS 24,"Related Parties" (revised) requires Government owned entities to disclose transactions with other state / government owned entities. Most infrastructure related entities are owned by the Government of Seychelles and the Company necessarily enters into transaction with those entities in the normal course of business on an arm's length basis. The Company also transacts with these entities in respect of aviation fuel, landing and parking, overflying and lease of properties (refer Note 8). During the year, the Company procured the following services from government owned-entities based on list prices that are comparable to prices charged to non-government entities or market terms.

in thousands of USD	**2017 December**	**2016 December**
Aviation fuel	**19,063**	**11,941**
Landing and parking	**885**	**770**
Overflying	**841**	**776**
Operating lease of land and buildings	**468**	**400**

Other related party transactions

in thousands of USD	**2017 December**	**2016 December**
Government grant (reimbursements)	**-**	**1,500**
Interest expense on loan from shareholder	**971**	**719**
Operating lease expenses for the aicraft on operating lease from Etihad Airways PJSC	**7,854**	**12,692**
Extinguishment and reversal of certain expenses	**-**	

Apart from the above, all other transactions are individually or collectively immaterial.

Amounts due from related parties as at the reporting date were as follows:

in thousands of USD	**2017 December**	**2016** December
Amounts due from shareholders	**9,080**	**11,320**
Amounts due from other corporations	**123**	**183**
	9,203	**11,503**

Amounts due to related parties as at the reporting date were as follows:

in thousands of USD	**2017 December**	**2016 December**
Amounts due to shareholders	**22,012**	**18,980**
Amounts due to other corporations	**348**	**514**
	22,360	**19,494**

Notes to the financial statements

17. Related parties *(continued)*

Transactions with key management personnel

in thousands of USD	2017 December	2016 December
Short term employee benefits	1,135	1,065
Post-retirement benefits	62	54

Directors' emoluments

None of the Directors of the Company received any emoluments from the Company during the year (*2015: nil*)

18. Available-for-sale financial asset

in thousands of USD	2017 December	2016 December
Quoted securities:		
At 1 January	-	656
Unrealised gain / (loss) during the year	-	53
Disposal during the year	-	(709)
At 31 December	-	-

19. Cash and cash equivalents

in thousands of USD	2017 December	2016 December
Cash at bank		
- in call accounts	136	136
- in current accounts	25,977	40,841
Cash in hand	61	65
Cash and cash equivalents	26,174	41,042

20. Assets held for sale

As at 31 December 2017, management is committed to sell certain assets and accordingly these assets have been presented as held for sale. These transactions are expected to be finalised in the next 12 months.

21. Trade and other payables

in thousands of USD	2017 December	2016 December
Current		
Trade payables	3,269	4,443
Deferred Income	-	-
Accruals and other payables	22,734	33,672
Accruals for staff annual leave	771	614
	26,774	38,729
Non current		
Provision for staff terminal benefits	3,153	2,826
	29,927	41,555

Movement in staff terminal benefits during the year were as follows:

in thousands of USD	2017 December	2016 December
At 1 January	2,826	2,719
Charge for the year	970	949
Payments made during the year	(643)	(842)
At 31 December	3,153	2,826

Notes to the financial statements

22. Loans and borrowings

in thousands of USD	2017 December	2016 December
Loan from supplier	-	-
Loan from shareholder	12,140	13,371
Loan from EA Partners I B.V.	21,539	21,539
Loan from EA Partners II B.V.	50,000	50,000
Non-current portion of loans and borrowings	**83,679**	**84,910**
Loan from supplier	-	47
Loan from shareholder	-	1,623
Current portion of loans and borrowings	-	1,670
	83,679	86,580

The profile of loans and borrowings as at the reporting date was as follows:

1. Loan from supplier	2. Loan from shareholder
Counterparty: Viking Air Limited	Counterparty: Etihad Airways PJSC
Facility amount: CAD 412 thousand	Facility amount: USD 25,000 thousand
Date of drawdown: 1 March 2011	Date of drawdown: 27 February 2014
Final maturity date: 1 December 2017	Final maturity date: 30 October 2026
Interest: CIBC prime rate for CAD	Interest: 5% per annum
Repayment: Semi-annual	Repayment: Quarterly
Balance at reporting date: Nil (2016: 47 thousand)	Balance at reporting date: USD 12,140 (2016: 14,994 thousand)
Security: None	Security: Domestic Aircraft financed from the loans injected by Etihad Airways PJSC

Loan from EA Partners I B.V.	Loan from EA Partners II B.V.
Counterparty: EA Partners I B.V.	Counterparty: EA Partners II B.V.
Facility amount: USD 21,539 thousand	Facility amount: USD 50,000 thousand
Date of drawdown: 28 September 2015	Date of drawdown: 26 May 2016
Final maturity date: 28 September 2020	Final maturity date: 1 June 2021
Interest: 7.06% per annum	Interest: 7.06% per annum
Repayment: On maturity	Repayment: On maturity
Balance at reporting date: USD 21,539 thousand (2016: 21,539 thousand)	Balance at reporting date: USD 50,000 thousand (2016: USD 50,000 thousand)
Security: None	Security: None

23. Share capital

***(a)* Authorised and issued (2017 and 2016)**

650,000 shares of SCR 1,000 each

***(b)* Ownership:**	SCR '000	USD '000
Government of Seychelles	390,000	52,001
Etihad Airways PJSC	260,000	20,616
	650,000	72,617

Notes to the financial statements

24. Commitments

in thousands of USD	2017 December	2016 December
Capital commitments		
Not later than one year	-	17,105
Operating lease commitments		
Leases as lessee		
Not later than one year	13,553	15,725
Later than one year but not later than five years	19,601	68,602
Later than five years	-	-
	33,154	84,327
Operating lease commitments as lessee represent:		
Aircraft leases	30,110	81,319
Other leases	3,044	3,008
	33,154	84,327

25. Contingent liabilities

in thousands of USD	2017 December	2016 December
Letters of guarantee	174	100

26. Financial Instruments - fair values and risk management

(a) Credit risk

Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was as follows:

in thousands of USD	***Note***	2017 December	2016 December
Deposits (non-current)	*14*	8,638	6,620
Trade and other receivables	*16*	35,392	48,465
Amounts due from related parties	*17*	9,203	11,503
Cash at cash equivalents	*19*	26,113	40,977
		79,346	107,565

Notes to the financial statements

26. Financial Instruments - fair values and risk management *(continued)*

(a) Credit risk (continued)

The sale of passenger transportation mostly takes place through International Air Transport Association ("IATA") approved sales agents. These sale points are mostly connected to Billing Settlement Plans ("BSP") administered by IATA. The credit worthiness of the agents are reviewed by the clearing systems responsible. Due to the broad diversification, credit risk for the agencies is relatively low worldwide.

Receivables and liabilities between airlines are offset through bilateral agreements or through the IATA clearing house, insofar as the contracts underlying the services do not explicitly specify otherwise. Systematic settlement of bi-monthly receivables and liability balances significantly reduce the default risk.

Cargo sales are mostly administrated via General Sales Agents ("GSAs") contracts with cargo agents worldwide. Relationships with GSAs are closely monitored by the Accounts Receivables department. In certain cases the Company also obtains guarantees from GSAs before transacting any business with them.

The ageing of trade receivables at the reporting date was:

in thousands of USD	**31 December 2017**		**31 December 2016**	
	Gross	**Impairment**	**Gross**	**Impairment**
Not past due	**4,777**	**-**	**1,420**	-
Past due 1-30 days	**3,971**	**-**	**3,781**	-
Past due 31-60 days	**1,689**	**-**	**5,935**	-
Past due 61-90 days	**481**	**(221)**	**7,100**	**(171)**
Over 90 days	**6,751**	**705**	**15,859**	**(534)**
	17,669	**484**	**34,095**	**(705)**

An analysis of the credit quality of trade and other receivables that are neither past due nor impaired are as follows:

in thousands of USD	**2017 December**	**2016 December**
- Four or more years of trading history with the Company	**117**	**6,666**
- Less then Four years of trading history with the Company	**17,551**	**4,470**
	17,668	**11,136**

Impairment losses

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

in thousands of USD	**2017 December**	2016 December
At beginning of the year	**705**	534
Impairment loss during the year	**(221)**	**171**
At 31 December	**484**	705

Notes to the financial statements

26. Financial Instruments - fair values and risk management *(continued)*

(b) Interest rate risk

Cash flow sensitivity analysis for variable rate instruments

At the reporting date, the Company's loans and borrowings fall within the category of variable rate instruments. A change of 100 basis points in interest rates at the reporting date would have increased / (decreased) profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign exchange currency rates, remain constant.

31 December 2017	**Profit / (loss)**	
in thousands of USD	100 bp increase	100 bp decrease
Loans and borrowings	(1)	1
Cash flow sensitivity net	**(1)**	1

31 December 2016	**Profit / (loss)**	
in thousands of USD	100 bp increase	100 bp decrease
Loans and borrowings	(1)	1
Cash flow sensitivity net	(1)	1

(c) Liquidity risk

Following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements:

31 December 2017 in thousands of USD	Carrying amount	Contractual cash flows	1 year or less	2 - 5 years	More than 5 years
Loans and borrowings	**83,679**	**(105,385)**	**(5,658)**	**(85,159)**	**(14,568)**
Trade and other payables	**26,774**	**(26,774)**	**(26,774)**	**-**	**-**
Amounts due to related parties	**22,360**	**(22,360)**	**(22,360)**	**-**	**-**
	132,813	**(154,519)**	**(54,792)**	**(85,159)**	**(14,568)**

31 December 2016 in thousands of USD	Carrying amount	Contractual cash flows	1 year or less	2 - 5 years	More than 5 years
Loans and borrowings	86,580	(108,620)	(7,725)	(91,380)	(9,515)
Trade and other payables	38,729	(38,729)	(38,729)	-	-
Amounts due to related parties	19,494	(19,494)	(19,494)	-	-
	144,803	(166,843)	(65,948)	(91,380)	(9,515)

Notes to the financial statements

26. Financial Instruments - fair values and risk management *(continued)*

(d) Currency risk

Exposure to currency risk

The Company's exposure to currency risk for major items denominated in SCR, ZAR and EUR at the reporting date was as follows:

	31 December 2017			31 December 2016		
in thousands of currency units	SCR	ZAR	EUR	SCR	ZAR	EUR
Trade receivables	**93,662**	**23,604**	**7,268**	108,166	26,899	12,172
Cash and cash equivalents	**570**	**9,551**	**4,324**	8,556	1,339	15,267
Trade payables	**(5,651)**	**(343)**	**(424)**	(17,586)	(515)	(720)
Gross statement of financial position exposure	**88,581**	**32,813**	**11,168**	99,136	27,723	26,719
In USD	**6,633**	**2,650**	**13,319**	7,397	1,967	28,291

The following significant exchange rates applied during the year:

USD	Average rates		Reporting date spot	
	2017 December	2016 December	**2017 December**	2016 December
SCR 1	**0.075**	0.073	**0.075**	0.075
EUR 1	**1.126**	1.074	**1.193**	1.059
ZAR 1	**0.076**	0.067	**0.081**	0.071

Sensitivity analysis

A strengthening (weakening) of USD against SCR,EUR and ZAR at 31 December would have (decreased) / increased profit or loss by the amounts shown below. This analysis is based on foreign currency exchange rate variances that the Company considered to be reasonably possible at the reporting date and considers the gross statement of financial position exposure shown above. The analysis assumes that all other variables, in particular interest rates, remain constant and ignores any impact of forecasted sales and purchases. The analysis is performed on the same basis for December 2016.

Sensitivity analysis

Effect on profit or loss in thousands of USD	Strengthening	Weakening
31 December 2017		
SCR (1% movement)	**(66)**	**66**
EUR (1% movement)	**(133)**	**133**
ZAR (1% movement)	**(26)**	**26**
31 December 2016		
SCR (1% movement)	(74)	74
EUR (1% movement)	(283)	283
ZAR (1% movement)	(20)	20

Notes to the financial statements

26. Financial Instruments - fair values and risk management *(continued)*

(e) Accounting classifications and fair values

The fair values of financial assets and liabilities are not materially different from the carrying amounts shown in the statement of financial position.

The following table shows the carrying amounts and fair values of financial assets and financial liabilities, including their levels in the fair value hierarchy. It does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

in thousands of USD

31 December 2017	Carrying amount				Fair value			
	Available for sale financial assets	Loans and Receivables	Other financial liabilities	Total	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value								
Available for sale financial assets	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-
Financial assets not measured at fair value								
Amounts due from related parties	-	9,203	-	9,203	-	9,203	-	9,203
Trade and other receivables	-	35,392	-	35,392	-	35,392	-	35,392
Cash and cash equivalents	-	26,174	-	26,174	-	26,174	-	26,174
	-	70,769	-	70,769	-	70,769	-	70,769
Financial liabilities not measured at fair value								
Amounts due to related parties	-	-	22,360	22,360	-	22,360	-	22,360
Trade and other payables	-	-	26,774	26,774	-	26,774	-	26,774
Loans and borrowings	-	-	83,679	83,679	-	83,679	-	83,679
	-	-	132,813	132,813	-	132,813	-	132,813

in thousands of USD

31 December 2016	Carrying amount				Fair value			
	Available for sale financial assets	Loans and Receivables	Other financial liabilities	Total	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value								
Available for sale financial assets	-	-	-	-	-	-	-	-
	-	-	-	-	-	-	-	-
Financial assets not measured at fair value								
Amounts due from related parties	-	11,503	-	11,503	-	11,503	-	11,503
Trade and other receivables	-	48,465	-	48,465	-	48,465	-	48,465
Cash and cash equivalents	-	41,042	-	41,042	-	41,042	-	41,042
	-	101,010	-	101,010	-	101,010	-	101,010
Financial liabilities not measured at fair value								
Amounts due to related parties	-	-	19,494	19,494	-	19,494	-	19,494
Trade and other payables	-	-	38,729	38,729	-	38,729	-	38,729
Loans and borrowings	-	-	86,580	86,580	-	86,580	-	86,580
	-	-	144,803	144,803	-	144,803	-	144,803

Notes to the financial statements

26. Financial Instruments - fair values and risk management *(continued)*

(e) Accounting classifications and fair values *(continued)*

Fair value hierarchy

The different levels of valuation for financial instruments carried at fair value have been defined as follows:
Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e. derived from prices); and
Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

27. Taxation

In accordance with Schedule II, article 26, of the Seychelles Business Tax Act of 30 December 2009, the Company is exempt from corporate tax on its income.

28. Comparative numbers

Certain comparative amounts have been reclassified to conform to the current year's presentation.

Notes to the financial statements

in thousands of USD

Schedule I - Property and equipment

	Land and buildings	Aircraft, engines , accessories and technical spares	Aircraft and engine overhaul	Operating equipment	Furniture and fittings	Computers and office equipment	Motor vehicles	Capital work in progress	Total
Cost									
At 1 January 2016	6,590	36,645	2,040	6,624	1,663	2,231	1,318	522	57,633
Additions	15	937	513	315	15	222	-	12,323	14,340
Transfers to intangibles	-	-	-	-	-	-	-	(280)	(280)
Transferred to assets held for sale	-	(3,018)	-	-	-	-	-	-	(3,018)
Other transfers	-	-	-	(703)	728	(25)	-	-	-
Disposals / write-offs	-	(3,606)	(416)	(422)	-	(231)	(122)	-	(4,797)
At 31 December 2016	6,605	30,958	2,137	5,814	2,406	2,197	1,196	12,565	63,878
At 1 January 2017	6,605	30,958	2,137	5,814	2,406	2,197	1,196	12,565	63,878
Opening Bal adj	- 45	(212)	260	(43)	21	(1)	(15)	(242)	(277)
Additions	0	1,070	522	680	9	976	346	3,256	6,859
Transfers from predelivery	-	15,138	-	-	22	-	-	(15,160)	0
Transferred to to intangibles	-	-	-	-	-	-	-	(95)	(95)
Adj	-		-	-	-	-	-	-	-
Disposals / write-offs	- -	1,631 -	1,697 -	196	- -	18 -	223	-	(3,765)
At 31 December 2017	6,560	45,323	1,222	6,255	2,458	3,154	1,304	324	66,600
Accumulated depreciation									
At 1 January 2016	4,299	8,571	1,233	5,383	1,569	1,992	1,310	-	24,357
Charge for the year	123	1,131	259	20	227	114	2	-	1,876
Transferred to assets held for sale	-	(2,118)	-	-	-	-	-	-	(2,118)
Other transfers	-	-	-	(507)	531	(24)	-	-	-
Disposals / write-offs	-	(2,173)	(118)	(376)	-	(219)	(122)	-	(3,008)
At 31 December 2016	4,422	5,411	1,374	4,520	2,327	1,863	1,190	-	21,107
At 1 January 2017	4,422	5,411	1,374	4,520	2,327	1,863	1,190	-	21,107
Opening Bal adj	(22)	267	50	(592)	47	(9)	(12)		(271)
Charge for the year	77	1,788	295	306	32	319	39	-	2,856
Transfers from predelivery	-	-	-	-	-	-	-	-	0
Transferred to to intangibles	0	(10)	0	0	0	0	0	0	(10)
Disposals / write-offs	-	(1,248)	(1,120)	(139)	0	(18)	(223)	0	(2,747)
At 31 December 2017	4,477	6,208	599	4,095	2,406	2,155	994	-	20,935
Accumulated impairment losses									
At 1 January 2016	23	1,438	-	119	-	-	-	-	1,580
Charge for the year	-	-	-		-	-	-	-	-
At 31 December 2016	23	1,438	-	119	-	-	-	-	1,580
At 1 January 2017	23	1,438	-	119	-	-	-	-	1,580
Opening Bal adj	-	6						-	6
Charge for the year	- -	69	-		-	-	-	- -	69
At 31 December 2017	23	1,363	-	119	-	-	-	-	1,503
Carrying amounts									
At 31 December 2016	2,160	24,109	763	1,175	79	334	6	12,565	41,191
At 31 December 2017	2,060	37,752	623	2,041	52	999	309	324	44,162