AIRLINE INVESTMENTS LIMITED
ANNUAL REPORT AND FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 MARCH 2017

Company No. 08151808

AIRLINE INVESTMENTS LIMITED

CONTENTS

AIRLINE INVESTMENTS LIMITED

STRATEGIC REPORT

FOR THE YEAR ENDED 31 MARCH 2017

The AIL Group

The AIL group comprises the two regional airlines Loganair and bmi regional, which trade as separate sister airlines with their own management teams and brand identities but taking advantage of commercial, operational and procurement synergies at a group level.

Group Results for Year Ended 31 March 2017

The group made a pre-tax loss of £4.9million. This is after charging an amount of £1.7million in respect of notional interest on loans made to the group by the principal shareholders. These shareholders have waived all interest on these loans so no interest has actually been paid or is due. With notional interest added back, the adjusted result becomes a loss of £3.2million.

A commonly used measure to compare business performance is EBITDA, being earnings before interest, tax, depreciation and amortisation. The following table shows an analysis of the EBITDA result of the group for the year.

	Loganair	bmi regional	Group Costs	AIL Consolidated
	£'000	**£'000**	**£'000**	**£'000**
Pre-tax profit/(loss) adjusted to exclude notional interest on shareholder loans	3,059	(5,777)	(490)	(3,208)
Net interest	118	(3)	(64)	51
Depreciation and amortisation	2,953	3,992	281	7,226
EBITDA	**6,130**	**(1,788)**	**(273)**	**4,069**

Business Review for Loganair

The year to 31 March 2017 saw Loganair deliver a much improved level of operational reliability but the continuing investment needed to achieve this impacted on profitability.

The percentage of flights operating on time (defined as departing within 15 minutes of schedule) was 80.0%, which is well above the UK average of 73.0%. For the year ended 31 March 2017, Loganair was the third most punctual UK airline, which is a major improvement versus the 12th place in the same league tables achieved in the previous year and underlines the successful results achieved through its investment programme.

Several of Loganair's existing Public Service Obligation (PSO) contracts were re-awarded during the year including the Orkney inter-isles service, the Dundee to London Stansted route and the Stornoway to Benbecula route.

In February 2017 Loganair commenced a new and enlarged five year contract with Royal Mail, becoming its sole aviation provider within its intra-Scotland network. Moving from two to five daily contract operations required two Saab 340 aircraft to be permanently converted to freighter configuration, expanding the fleet from two to four freighters.

Loganair's strategy to secure further long term charter opportunities continued to bear fruit with important new contracts won with several major oil and gas operators including Fairfield, Shell and Total.

The business is at the early stages of formulating a long term plan for the replacement of its aircraft fleet. An early priority is to achieve a successful disposal of the owned Dornier 328 aircraft. The Saab 2000 aircraft are now all on operating leases, giving the option to exit from this type by the first quarter of 2020. The programme to remodel the interiors of the Saab 340 passenger aircraft remains ongoing and has been well received by customers.

Business Review for bmi regional

bmi regional's focus is on providing point to point flights with the emphasis on service quality and punctuality, on both its scheduled and charter operations.

The airline faced a difficult start to the year with the tragic events in Brussels in March 2016. This severely impacted the routes operated by bmi from both the East Midlands and Newcastle into Brussels. Furthermore, bmi operate services out of Brussels for Brussels Airlines and this activity was also reduced in the aftermath of the terrorist attacks. Pleasingly volumes into Brussels have now returned to normal and the capacity provided to Brussels Airlines has increased beyond 2016 levels. However, the weakness of the pound and increasing price of jet fuel also adversely affected the results for the year ended 31 March 2017.

bmi regional continues to concentrate on its core strategy of serving niche markets which have a high proportion of business and corporate traffic, and is pleased to report further growth of both its scheduled and charter operations. New scheduled routes have been started serving Birmingham to Gothenburg, Graz and Nuremberg. The Munich hub also now serves Lublin, Norrkoping and Southampton. A new service was introduced between Newcastle and Stavanger. Following the withdrawal of Ryanair out of Derry, bmi was successful in winning a PSO tender to operate between Derry and Stansted and currently operates a twice daily weekday schedule. In terms of the charter operations, bmi is also now operating on behalf of LOT Polish Airlines, the flag carrier of Poland as well as flying a scheduled service on behalf of Loganair.

Due to this continuing growth, post year end bmi has increased its fleet by leasing two additional Embraer 145 aircraft from Hop!, the Air France subsidiary, which is the first increase in fleet since the business was bought in 2012, and brings the total number of aircraft to 20.

Key Performance Indicators

The principal key performance indicators used by the group are the overall number of passengers carried, the scheduled service capacity provided as measured in thousands of aircraft seat kilometres (ASKs'000) and the total flight hours. The relevant figures for the year and the previous year are shown below.

KPI measure	31 March 2017	31 March 2016
Number of passengers carried	1,434,358	1,261,040
ASKs '000 on scheduled services	968,224	795,357
Total flight hours	63,904	59,187

Principal Risks and Uncertainties

The management of the business and the execution of the group's strategy are subject to a number of risks as explained further below:

- **Demand for air travel**
  The group's trading business is dependent on the demand for air travel in a number of different regional markets, but is predominantly exposed to demand within the UK and Europe. The business can be affected by macro issues out of the group's control such as regional or local economic conditions, political instability, extreme weather and the willingness of customers to fly. Changes in any of these will affect the demand for airline services and could have a material effect on the financial results of the business. In order to mitigate this risk both group airlines regularly review their route networks to ensure that changes are made in line with demand.
- **Competitive forces**
  The group's business is exposed to competitive forces which can impact on the performance of its services.
- **Terrorism and catastrophic loss**
  The group's business is exposed to potential terrorist attacks. Even if the group's airlines are not a direct target, and even if an attack is not successful, there could still be negative consequences on the demand for air travel.

Principal Risks and Uncertainties (Continued)

- **Closure of airspace**
  Severe weather or other natural events have resulted in closure at short notice of airspace which can impact on the financial results of the group's airlines.
- **Brexit**
  The UK decision to leave the European Union has led to uncertainty surrounding the regulations governing air travel for UK carriers, both between the UK and Europe and also intra-European flying. This could have an adverse impact on both current routes and potential future growth opportunities.

Financial Risk Management

- **Foreign currency risk**
  The group seeks to match, as far as possible, receipts and payments in each individual currency. A substantial proportion of the group's purchases are payable in US Dollars, with little revenue generated in that currency. Furthermore, the group sells a higher proportion of Euro revenue than it pays out in that currency. Results may be significantly affected, either beneficially or adversely, by US Dollar and Euro exchange rate movements. The group enters into US Dollar and Euro forward contracts to mitigate this risk.
- **Liquidity risk**
  In order to ensure that sufficient funds are available for on-going operations and future developments the group has a mixture of cash holdings and secured loan finance. The cash levels and available facilities are monitored on a regular basis in order to ensure that the group has sufficient cash resources to meet its obligations, as and when they fall due.
- **Fuel price risk**
  Fuel is an important element of the group's cost base. The price of fuel is subject to significant volatility which is outside of the group's control. The group enters into forward contracts to mitigate this risk.
- **Credit risk**
  The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks or financial counterparties with high credit ratings assigned by international credit-rating agencies.

Loganair Own Brand Operations

Loganair operated the final flight under its franchise agreement with Flybe on 31 August 2017 and overnight successfully completed the transition to operations under its own brand from 1 September 2017. The business is most pleased with the excellent customer reception to its new product and branding within its core markets.

New systems for reservations, check-in and revenue accounting have all been implemented, alongside a new colour scheme for the Loganair fleet, new staff uniforms and branding of airport check-in areas and boarding gates. Initiatives to make travel more convenient and affordable for customers, including the abolition of credit card surcharges, earlier opening of on-line check-in and removal of ID checks at boarding gates, have been successfully introduced.

The partnership with British Airways was re-launched in August 2017, and has been expanded to include flights to and from Manchester for the first time. Loganair has also concluded arrangements with a number of other airlines to provide connecting passengers to short-haul and long-haul flights at airports throughout the UK. A new arrangement with easyJet, where Loganair's flights are now marketed through the larger airline's website, has also been introduced.

In June 2017, Flybe announced its intention to source aircraft from a new partner, Eastern Airways, to mount a competitive challenge on six routes operated by Loganair. This commenced on 1 September and will have an adverse effect on Loganair's trading results for the year ending 31 March 2018. On 8 December, Flybe announced its intention to cease services on three of the newly-launched six routes on which it competes directly with Loganair.

Loganair Own Brand Operations (Continued)

The impact of the one-off costs to establish its own brand combined with the new competitive pressures from Flybe has increased Loganair's requirement for funding. The business is pleased to have concluded discussions with Clydesdale Bank to renew facilities with them structured as a £6 million overdraft available until 31 December 2018 supported by a new £3 million subordinated loan advanced by Bond Business Services Ltd, a company controlled by Stephen Bond who is a related party to the group.

Future Developments

The group will look to optimise assets and resources within the two operating airlines. Both operating airlines will continue to identify controlled expansion both in scheduled services, in conjunction with partners where appropriate, together with fixed term contract services both domestically and internationally.

This report was approved by the Board on 29 December 2017 and signed on its behalf by:

P A Simpson

Registered Office:
Pegasus Business Park,
Herald Way,
East Midlands Airport,
DE74 2TU

AIRLINE INVESTMENTS LIMITED

FLEET SUMMARY

FOR THE YEAR ENDED 31 MARCH 2017

	Aircraft Fleet as at 31 March 2017		
	Owned	Leased	Total
Embraer 145	10	4	14
Embraer 135	4	-	4
Saab 2000	-	5	5
Saab 340 A/B	9	7	16
Dornier 328	3	-	3
DH6 Twin Otter	1	2	3
BN2 Islander	2	-	2
Total	**29**	**17**	**47**

AIRLINE INVESTMENTS LIMITED

DIRECTOR'S REPORT

FOR THE YEAR ENDED 31 MARCH 2017

The directors present their report and financial statements for the year ended 31 March 2017. Information on the performance of the business and likely future developments is included in the Strategic Report.

Principal activities

The group is principally engaged in commercial aviation, operating as scheduled service airlines, providing aircraft on charter and wet lease contracts, operating cargo and mail flights and supplying aircraft maintenance and ground handling services.

Directors

The following directors have held office during the year:

S W Bond *(Chairman)*
D A Harrison *(Vice Chairman)*
P A Simpson *(Group Chief Executive)*
P J Bond
A A Murray

Company Secretary

P J Roberts

Dividends

No dividends were paid during the year.

Auditors

Grant Thornton UK LLP offer themselves for reappointment in accordance with section 485 (4) of the Companies Act 2006, and will be deemed reappointed by the members under section 487 (2) of the Companies Act 2006.

Employee involvement

The group's policy is to consult and discuss with employees on matters likely to affect employees' interests. Information on matters of concern to employees is given through staff notices and newsletters.

Disabled persons

The group's policy is to recruit disabled workers for those vacancies that they are able to fill. All necessary assistance with initial training courses is given. Once employed, a career plan is developed so as to ensure suitable opportunities for each disabled person. Arrangements are made, wherever possible, for retraining employees who become disabled, to enable them to perform work identified as appropriate to their aptitudes and abilities.

Directors' indemnity and insurance cover

In accordance with the company's articles of association, throughout the year the directors have been, and continue to be, indemnified to the fullest extent permitted by law. Appropriate directors' and officers' liability insurance cover is arranged and maintained via the group's insurance brokers.

AIRLINE INVESTMENTS LIMITED

DIRECTOR'S REPORT (Continued)

FOR THE YEAR ENDED 31 MARCH 2017

Director's responsibilities

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable laws, including FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland"). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and company and profit or loss for the group for that period. In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group will continue in business;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the group and parent company's transactions and disclose with reasonable accuracy at any time the financial position of the group and company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the group and company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors confirm that:

- so far as each director is aware, there is no relevant audit information of which the group's auditor is unaware; and
- the directors have taken all the steps that they ought to have taken as directors in order to make themselves aware of any relevant audit information and to establish that the group's auditor is aware of that information.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

This report was approved by the Board on 29 December 2017 and signed on its behalf by:

P A Simpson

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF AIRLINE INVESTMENTS LIMITED

We have audited the financial statements of Airline Investments Limited for the year ended 31 March 2017 which comprise the consolidated profit and loss account, the consolidated statement of comprehensive income, the consolidated and parent company balance sheets, the consolidated cash flow statement, the consolidated and parent company statement of changes in equity and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 102 The Financial Reporting Standard applicable in the UK and Republic of Ireland.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor
As explained more fully in the Directors' Responsibilities Statement set out on page 6, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements
A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate.

Opinion on financial statements
In our opinion the financial statements:

- give a true and fair view of the state of the group's and of the parent company's affairs as at 31 March 2017 and of the group's loss for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matter prescribed by the Companies Act 2006
In our opinion, based on the work undertaken during the course of the audit:

- the information given in the Strategic Report and Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and Directors' Report have been prepared in accordance with applicable legal requirements.

Matter on which we are required to report under the Companies Act 2006
In the light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or Directors' Report.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF AIRLINE INVESTMENTS LIMITED

Matters on which we are required to report by exception
We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Grant Thornton UK LLP

David Munton
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
Birmingham
Date: 29 December 2017

AIRLINE INVESTMENTS LIMITED

CONSOLIDATED PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 MARCH 2017

	Notes	Total 2017 £000	Restated 2016 £000
Turnover	3	182,080	166,490
Operating expenses		(168,918)	(152,963)
Gross profit		13,162	13,527
Administrative expenses		(16,362)	(15,691)
Operating (loss)	4	(3,200)	(2,164)
Other interest receivable and similar income	7	10	25
Interest payable and similar charges	8	(1,673)	(1,731)
(Loss) on ordinary activities before taxation		(4,863)	(3,870)
Tax on (loss) on ordinary activities	9	1,583	441
(Loss) for the financial year		(3,280)	(3,429)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 MARCH 2017

	2017 £000	Restated 2016 £000
(Loss) for the financial year	(3,280)	(3,429)
Actuarial gain/(loss)	211	(430)
Deferred tax on actuarial gain/(loss)	(40)	86
Movement in fair value of cash flow hedges	2,899	(898)
Deferred tax on cash flow hedges	(453)	372
Total comprehensive (expense) for the year	(663)	(4,299)

The notes on pages 16 to 33 form part of these statements

AIRLINE INVESTMENTS LIMITED

CONSOLIDATED BALANCE SHEET
AS AT 31 MARCH 2017

	Notes	2017 £000	Restated 2016 £000
Fixed assets			
Intangible assets	10	2,653	2,991
Tangible assets	11	67,544	67,374
		70,197	70,365
Current assets			
Stocks	13	3,690	2,865
Debtors	14	27,770	17,209
Cash at bank and in hand		6,722	6,072
		38,182	26,146
Creditors: amounts falling due within one year	15	(51,599)	(43,680)
Net current (liabilities)		(13,417)	(17,534)
Total assets less current liabilities		56,780	52,831
Creditors: amounts falling due after one year	16	(35,838)	(30,250)
Provisions for liabilities and charges	17	(6,112)	(7,160)
Net assets excluding pension liability		14,830	15,421
Pension asset/(liability)			
Defined benefit scheme with net assets/(liabilities)	18	60	(551)
Net assets including pension liability		14,890	14,870
Capital and reserves			
Called up share capital	19	154	157
Share premium account	20	12,304	12,165
Cash flow hedging reserve	20	2,250	(649)
Capital redemption reserve	20	16	-
Capital contribution reserve	20	909	1,062
Profit and loss account	20	(743)	2,135
Shareholders' funds - equity interests		14,890	14,870

Company No. 08151808

The financial statements were approved by the Board on 29 December 2017 and were signed on its behalf by:

R A Simpson
Director

The notes on pages 16 to 33 form part of these statements

AIRLINE INVESTMENTS LIMITED

BALANCE SHEET
AS AT 31 MARCH 2017

	Notes	2017 £000	2016 £000
Fixed assets			
Tangible assets	11	5,876	4,940
Investment in subsidiaries	12	22,074	22,074
Current assets			
Debtors	14	13,523	6,298
Cash at bank and in hand		88	350
		13,611	6,648
Creditors: amounts falling due within one year	15	(2,382)	(213)
Net current assets		11,229	6,435
Total assets less current liabilities		39,179	33,449
Creditors: amounts falling due after one year	16	(7,692)	(2,974)
Provisions for liabilities and charges	17	(46)	(23)
Net assets		31,441	30,452
Capital and reserves			
Called up share capital	19	154	157
Share premium account	20	12,304	12,165
Capital redemption reserve	20	16	-
Capital contribution reserve	20	136	226
Profit and loss account	20	18,831	17,904
Shareholders' funds - equity interests		31,441	30,452

The profit of Airline Investments Limited amounted to £795k (2016: £7,594k).

Company No. 08151808

The financial statements were approved by the Board on 29 December 2017 and were signed on its behalf by:

P A Simpson
Director

The notes on pages 16 to 33 form part of these statements

AIRLINE INVESTMENTS LIMITED

CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 MARCH 2017

	2017 £000	Restated 2016 £000
Cash flows from operating activities		
(Loss) for the financial year	(3,280)	(3,429)
Adjustments for:		
Depreciation and amortisation	7,226	6,713
Profit on sale of tangible fixed assets	(252)	(9)
Profit on sale and leaseback	(9)	-
Interest receivable and similar income	(10)	(25)
Interest payable and similar charges	167	99
Pension scheme deficit contribution	(411)	(411)
Pre acquisition cash flow hedge gain reversal	-	2,505
Taxation	(1,583)	(441)
(Increase)/Decrease in stocks	(825)	227
(Increase) in debtors	(9,500)	(1,094)
Increase in creditors	9,711	2,432
Cash from operations	1,234	6,567
Tax paid	(48)	(370)
Net cash generated from operating activities	1,186	6,197
Cash flows from investing activities		
Cash on acquisition	-	4,360
Payments to acquire tangible and intangible fixed assets	(8,618)	(15,553)
Payments for acquisition costs capitalised as investment	-	(172)
Receipts from sale of tangible fixed assets	2,871	9
Receipts from sale and leaseback	5,883	-
Interest received	10	25
Net cash generated from/(used in) investing activities	146	(11,331)
Cash flows from financing activities		
Interest paid	(140)	(82)
Proceeds from issue of shares	240	654
Purchase of own shares	(104)	-
Increase in bank loan	-	3,500
Fair value movement in shareholder loan	547	3,200
Loan repayment	(1,000)	-
Repayment of capital element of finance leases	(74)	-
Net cash (used in)/generated from financing activities	(531)	7,272
Net increase in cash and cash equivalents	801	2,138
Foreign exchange translation adjustment	(151)	(405)
Cash and cash equivalents at the beginning of the year	6,072	4,339
Cash and cash equivalents at the end of the year	6,722	6,072

The notes on pages 16 to 33 form part of these statements

AIRLINE INVESTMENTS LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 MARCH 2017

	Called-up share capital	Share premium account	Cash flow hedging reserve	Capital redemption reserve	Capital contribution reserve	Profit and loss account	Total
	£000	£000	£000	£000	£000	£000	£000
At 1 April 2015 as previously reported	**122**	**10,200**	**249**		**-**	**6,818**	**17,389**
Prior year adjustment	-	-	-	-	-	(1,877)	(1,877)
At 1 April 2015 as restated	**122**	**10,200**	**249**	**-**	**-**	**4,941**	**15,512**
Year ended 31 March 2016 Transactions with owners:							
Issue of shares	35	1,965	-	-	-	-	2,000
Contributions by shareholders	-	-	-	-	1,657	-	1,657
Release from capital contribution	-	-	-	-	(595)	595	-
	157	12,165	249	-	1,062	5,536	19,169
Loss for the year as restated	-	-	-	-	-	(3,429)	(3,429)
Other comprehensive income	-	-	(898)	-	-	28	(870)
At 31 March 2016	**157**	**12,165**	**(649)**	**-**	**1,062**	**2,135**	**14,870**
Year ended 31 March 2017 Transactions with owners:							
Issue of shares	13	227	-	-	-	-	240
Share repurchase	(16)	(88)	-	16	-	(16)	(104)
Fair value adjustment to shareholder loans	-	-	-	-	547	-	547
Release from capital contribution	-	-	-	-	(700)	700	-
	154	12,304	(649)	16	909	2,819	15,553
Loss for the year	-	-	-	-	-	(3,280)	(3,280)
Other comprehensive income	-	-	2,899	-	-	(282)	2,617
At 31 March 2017	**154**	**12,304**	**2,250**	**16**	**909**	**(743)**	**14,890**

The notes on pages 16 to 33 form part of these statements

AIRLINE INVESTMENTS LIMITED
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 MARCH 2017

	Called-up share capital £000	Share premium account £000	Capital redemption reserve £000	Capital contribution reserve £000	Profit and loss account £000	Total £000
At 1 April 2015	**122**	**10,200**	**-**	**-**	**10,180**	**20,502**
Year ended 31 March 2016						
Transactions with owners:						
On issue of shares	35	1,965	-	-	-	2,000
Contributions by shareholders	-	-	-	356	-	356
Release from capital contribution	-	-	-	(130)	130	-
	157	12,165	-	226	10,310	22,858
Profit for the year	-	-	-	-	7,594	7,594
At 31 March 2016	**157**	**12,165**	**-**	**226**	**17,904**	**30,452**
Transactions with owners:						
On issue of shares	13	227	-	-	-	240
Share repurchase	(16)	(88)	16	-	(16)	(104)
Fair value adjustment to shareholder loans	-	-	-	58	-	58
Release from capital contribution	-	-	-	(148)	148	-
	154	12,304	16	136	18,036	30,646
Profit for the year	-	-	-	-	795	795
At 31 March 2017	**154**	**12,304**	**16**	**136**	**18,831**	**31,441**

The notes on pages 16 to 33 form part of these statements

1. Accounting policies

(a) Basis of preparation

These group and parent company financial statements have been prepared in accordance with Financial Reporting Standard 102, the Financial Reporting Standard applicable in the UK and Republic of Ireland ("FRS 102") as issued in August 2014. The amendments to FRS 102 issued in July 2015 and effective immediately have been applied.

(b) Basis of consolidation

The group accounts consolidate the accounts of Airline Investments Limited and its subsidiary undertakings.

Unless otherwise stated, the acquisition method of accounting has been adopted. Under this method, the results of subsidiary undertakings acquired or disposed of in the year are included in the consolidated profit and loss account from the date of acquisition or up to the date of disposal.

In accordance with section 408(3) of the Companies Act 2006, Airline Investments Limited is exempt from the requirement to present its own profit and loss account.

(c) Going concern

After reviewing the group's forecasts and projections, the directors have a reasonable expectation that the group has adequate resources to continue in operational existence for the foreseeable future. The group therefore continues to adopt the going concern basis in preparing its consolidated financial statements.

(d) Revenue

Revenues comprise scheduled, wet lease and charter airline services, freight, aircraft maintenance and ground handling services net of Air Passenger Duty and other similar taxes. Revenues are recognised when the service has been provided. Passenger and freight revenue is recognised once a passenger ticket or freight coupon has been used.

Amounts received from passengers in advance of travel are held within accruals and deferred income until the tickets are used. Future flying revenue is not discounted as materially all bookings are made within a 6 month period; hence the impact would be immaterial. Unused tickets are recognised as revenue using estimates based on the terms and conditions of the ticket and historical trends.

(e) Aircraft maintenance costs

The cost of major overhauls for owned aircraft are carried as fixed assets and depreciated over the period to the next overhaul. The cost of certain overhauls for operating leased aircraft is covered by a monthly charge payable to the lessor on a flying hour basis. Provisions for periodic overhaul costs of certain operating leased aircraft are established such as to spread the cost of maintenance over the period of the lease with reference to the number of hours and cycles flown, time elapsed or other relevant basis. All other maintenance costs on aircraft are expensed in the period in which they occur.

(f) Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are expressed at the rates prevailing at the balance sheet date or at the contracted rate where applicable. Transactions during the year denominated in foreign currencies are translated using the rates prevailing at the date the transaction occurred, or at the contracted rate where applicable. Exchange adjustments due to fluctuations arising in the normal course of business are included in the profit and loss account before taxation.

(g) Taxation

Current tax is recognised for the amount of income tax payable in respect of the taxable profit for the current or past reporting periods using the tax rates and laws that have been enacted or substantively enacted by the reporting date.

Deferred tax is recognised in respect of all timing differences at the reporting date, except as otherwise indicated.

Deferred tax assets are only recognised to the extent that it is probable that they will be recovered against the reversal of deferred tax liabilities or other future taxable profits.

Deferred tax is calculated using the tax rates and laws that that have been enacted or substantively enacted by the reporting date that are expected to apply to the reversal of the timing difference.

With the exception of changes arising on the initial recognition of a business combination, the tax expense (income) is presented either in profit or loss, comprehensive income or equity depending on the transaction that resulted in the tax expense (income).

1. Accounting policies (continued)

(g) Taxation (continued)

Deferred tax liabilities are presented within provisions for liabilities and deferred tax assets within debtors. Deferred tax assets and deferred tax liabilities are offset only if:

- the group has a legally enforceable right to set off current tax assets against current tax liabilities, and

- the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously.

(h) Investments

In the company's financial statements, investments in subsidiary undertakings are stated at cost less provision for impairment.

(i) Tangible fixed assets

Tangible fixed assets are measured at cost less accumulated depreciation and any accumulated impairment losses. Depreciation is calculated to write down the cost less estimated residual value of all tangible fixed assets over their expected useful lives, using the straight line method. The rates applicable are:

Aircraft	30-35	years from date of manufacture (45 years for DH6 aircraft)
Rotables	10	years
Capitalised maintenance	2.5-12	years
Plant and equipment	5-10	years
Office and IT equipment	3-10	years
Leasehold improvements	3-15	years (over the remainder of the lease term)
Motor vehicles	5	years

(j) Intangible fixed assets

Intangible fixed assets are capitalised at cost and amortised using a straight line basis calculated to write down their cost over the useful economic life. These estimates are reviewed regularly and adjusted as appropriate:

Software & reservations system	3-10	years (expected useful life of the software)
Goodwill	10	years (based on directors assessment of economic life)
Brand	10	years (domain name and trade mark registration period)

(k) Leases

Assets obtained under hire purchase contracts and finance leases are capitalised as tangible assets and depreciated over the shorter of the lease term and their useful lives. Obligations under such agreements are included in creditors net of the finance charge allocated to future periods. The finance element of the rental payment is charged to the profit and loss account so as to produce a constant periodic rate of charge on the net obligation outstanding in each period. Rentals payable under operating leases are charged against income on a straight line basis over the lease term.

(l) Sale and leaseback

The group has entered into sale and leaseback transactions whereby the group sells aircraft, or rights to acquire aircraft, to a third party. The group then leases the assets back, by way of a finance lease, which is accounted for in accordance with the Leases accounting policy. Where the transaction does not substantially transfer the risk and rewards of ownership, the profit on disposal is deferred and amortised over the lease term.

(m) Stocks

Stocks consist of consumable spares, and sundry supplies and are valued at the lower of cost and net realisable value

(n) Debtors

Short term debtors are measured at the transaction price, less any impairment. Loans receivable are measured initially at fair value, net of any transaction costs and are measured subsequently at amortised cost using the effective interest method, less any impairment.

(o) Cash at bank

Cash at bank is measured at the transaction price. Included within cash, is cash at bank and a ring fenced cash amount of £nil relating to future flying (2016: £116,000).

(p) Creditors

Short term creditors are measured at the transaction price. Other financial liabilities, including bank loans, are measured initially at fair value, net of transaction costs and are measured subsequently at amortised cost using the effective interest method.

1. **Accounting policies (continued)**

(q) Provisions for liabilities

Provisions are recognised when the group has a present obligation (legal or constructive) as a result of a past event, it is probable that the group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Further details of provisions for liabilities are given in note 17.

(r) Contribution to pension funds

Loganair operates a defined benefit scheme which provides benefits based on final pensionable pay. The scheme is now closed to new entrants and future accrual. The assets of the defined benefit scheme are held separately from Loganair, being invested by professional investment managers. Pension scheme assets are measured using current bid price. Pension scheme liabilities are measured using a projected unit method and discounted at the current rate of return on a high quality corporate bond of equivalent term to the liability. The movement in the pension scheme deficit is split between interest payable and similar changes in the profit and loss account and actuarial gains and losses in the statement of comprehensive income. For current employees the group contributes to stakeholder schemes providing individual arrangements for employees. The assets of the schemes are held separately from those of the group in independently administered funds. The amount charged to the profit and loss account represents the contributions payable by the employer to the schemes in respect of the accounting year.

(s) Dividends

Dividends unpaid at the balance sheet date are only recognised as a liability at that date to the extent that they are appropriately authorised and are no longer at the discretion of the company. Unpaid dividends that do not meet these criteria are disclosed in the notes to the financial statements.

(t) Derivatives

The group uses derivative financial instruments to manage its exposure to fluctuations in foreign exchange rates and fuel price. Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are re-measured at their fair value at each subsequent reporting date. Currently the group only has cash flow hedge relationships. Cash flow hedges are hedges of particular risks that might change the amount or timing of future cash flows. For qualifying cash flow hedges, the hedging instrument is recorded at fair value. The portion of any change in fair value that is an effective hedge is included in equity and any remaining ineffective portion is reported in the profit and loss account. Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, no longer qualifies for hedge accounting or the group revokes the designation. The fair value of the forward currency contract and fuel swap contracts is calculated by reference to current forward exchange contracts and fuel swap contracts with similar maturity profiles.

(u) Capital contribution

In line with FRS 102 the shareholder loans have been adjusted to fair value with interest payable and receivable being recognised at the effective rate of interest. This results in a capital contribution reserve being created for the fair value adjustment based on the notional interest on the outstanding loan at the balance sheet date which has been waived by the shareholders and as such deemed to be a capital contribution.

2 **Accounting estimates and judgements**

Preparation of the financial statements requires management to make significant judgements and estimates. The items in the financial statements where these judgements and estimates have been made include:

Defined benefit pension scheme

Loganair operates a defined benefit pension plan. The costs and the present value of any related pension assets and liabilities depend on such factors as life expectancy of the members, the rate of inflation, the returns the plan assets generate and the discount rate used to calculate the present value of the liabilities. The group uses previous experience and impartial actuarial advice to select the values of critical estimates. The estimates are disclosed in note 18.

Aircraft depreciation period

Extensive industry information is available on the age of aircraft operating within the regional aviation industry. The group uses this to estimate the useful life of the aircraft and the period they should be depreciated over.

Maintenance provision

British Midland Regional Limited incurs liabilities for maintenance costs in respect of its operating leased aircraft during the course of the lease term. These are a result of obligations within the lease contract in respect of the return conditions applied by lessors. A provision is made for the next required maintenance event, and for handback at the end of the lease. The provision will be utilised against maintenance events over the remaining life of leased aircraft.

Accounting estimates and judgments (continued)

EU 261 provision
Provision is made for passenger compensation under regulation EU261 due to the obligation to recompense customers where flights have been delayed or cancelled. Provisions for compensation and costs of disruption are measured based on known delays/cancellations and historic claim rates.

Other creditors
British Midland Regional Limited had entered into arrangement, which expired in September 2016, with Bond Business Services Limited (previously Rushbury Enterprises Limited) to cap an element of its fuels costs. Bond Business Services Limited is a related party as disclosed in note 28. The contract had an option embedded within it which the directors have concluded had no significant value at 31 March 2016 owing to the global fall in fuel prices. As a result, this option has not been recognised within the financial statements.

Deferred tax
The group has unrecognised deferred tax assets of £7,776,000 (2016: £8,525,000), full detail is disclosed in note 17. These have not been recognised due to the uncertainty over their recoverability in the foreseeable future.

3. Turnover

Total turnover of Loganair Limited for the period has been derived from its principal activity mainly undertaken in the United Kingdom.

It is the view of the directors of British Midland Regional Limited that all its activities fall within one class of business, that of an airline operator. Its turnover within the British Isles represents revenue from domestic flights, while its turnover between the British Isles and Europe represents revenue from inbound and outbound flights between the British Isles and other European countries. The activities of British Midland Regional Limited are managed and administered on a central basis within the British Isles. As a result it would not be possible to provide a meaningful analysis of its operating results and net assets on a route by route basis and so the operating results and net assets are not shown across the geographical areas defined above.

No other subsidiaries have external revenue.

4. Operating profit

	2017 £000	Restated 2016 £000
Operating profit is stated after charging:		
Depreciation and amortisation	7,226	6,717
(Gain) on sale of fixed assets	(252)	(9)
(Gain) on sale and leaseback	(9)	-
Foreign exchange translation adjustment	(151)	(405)
Operating lease rentals:		
Aircraft	4,718	3,480
Land and buildings	1,194	1,362
Auditors' remuneration :		
Audit services	71	74
Taxation services	14	14
Other services	3	2

5. Staff numbers and costs

Number of employees
The average monthly number of employees employed by the group during the year was:

	Group		Company	
	2017	**2016**	**2017**	**2016**
Pilots and cabin crew	501	474	-	-
Ground support	331	345	-	-
Administration	155	121	1	1
	987	940	1	1

Employment costs	**£000**	**£000**	**£000**	**£000**
Wages and salaries	37,078	35,032	231	211
Social security costs	3,977	3,791	31	26
Other pension costs	1,813	1,953	-	21
	42,868	40,776	262	258

6. Directors' emoluments

	Group		Company	
	2017	**2016**	**2017**	**2016**
	£000	**£000**	**£000**	**£000**
Emoluments for qualifying services	344	414	231	211
Social security costs	45	48	31	26
Contributions to money purchase pension schemes	-	21	-	21

No directors are accruing retirement benefits under defined benefit schemes.
The number of directors for whom retirement benefits accrued under money purchase pension schemes for the group and company amounted to nil (2016: 1).

Amounts included above in respect of the highest paid director:				
Remuneration	231	211	231	211
Contributions to money purchase pension schemes	-	21	-	21

7. Other interest receivable and similar income

	Group		Company	
	2017	**2016**	**2017**	**2016**
	£000	**£000**	**£000**	**£000**
Bank interest	10	25	-	-
Imputed interest receivable on intercompany loan	-	-	149	130
	10	25	149	130

8. Interest payable and similar charges

	Group		Company	
	2017	**2016**	**2017**	**2016**
	£000	**£000**	**£000**	**£000**
Bank interest	98	71	-	-
Other	16	17	-	-
Interest on finance lease	42	-	42	-
Net interest expense on pension scheme	11	11	-	-
Interest on deferred consideration	-	139	-	-
Amortisation of issue cost on shareholder loans	50	50	-	-
Imputed interest on shareholder loans	1,456	1,443	149	130
	1,673	1,731	191	130

9. Taxation

The tax (credit)/charge is based on the (loss)/profit for the year and represents:

	Group 2017 £000	Group Restated 2016 £000	Company 2017 £000	Company 2016 £000
U.K. corporation tax	8	-	-	42
Adjustment in respect of previous periods	(8)	96	-	-
Deferred taxation:				
- Origination and reversal of timing differences	(1,583)	(537)	23	23
Tax on results of ordinary activities	(1,583)	(441)	23	65

The tax assessed for the year is lower (2016: higher) than the standard rate of corporation tax in the UK at 20% (2016: 20%). The difference is explained as follows:

	Group 2017 £000	Group Restated 2016 £000	Company 2017 £000	Company 2016 £000
(Loss)/profit on ordinary activities before tax	(4,864)	(3,870)	818	7,658
Profit/(loss) on ordinary activities multiplied by standard rate of corporation tax in the UK of 20% (2016 - 20%)	(973)	(774)	163	1,532
Group income	-	-	-	(1,510)
Capital allowances for period in excess of depreciation	(544)	(228)	(149)	(2)
Other timing differences	(66)	561	9	45
Tax on results on ordinary activities	(1,583)	(441)	23	65

The aggregate current and deferred tax relating to items that are recognised as items of comprehensive income is a charge of £493,000 (2016: credit £458,000).

10. Intangible fixed assets

Group	Goodwill £000	Brand £000	Computer software £000	Total £000
Cost or valuation				
At 1 April 2016	6,712	1,000	513	8,225
Additions	-	-	25	25
At 31 March 2017	6,712	1,000	538	8,250
Amortisation				
At 1 April 2016	5,092	100	42	5,234
Charge for the year	180	100	83	363
At 31 March 2017	5,272	200	125	5,597
Net book values				
At 31 March 2017	1,440	800	413	2,653
At 31 March 2016	1,620	900	471	2,991

11. Tangible fixed assets

Group	Aircraft £000	Capitalised maintenance £000	Rotables £000	Plant & equipment £000	Office & IT equipment £000	Motor vehicles £000	Total £000
Cost or valuation							
At 1 April 2016	62,336	8,322	16,871	3,023	2,546	655	93,753
Prior year adjustment	-	-	(3,569)	-	-	-	(3,569)
At 1 April 2016 - restated	62,336	8,322	13,302	3,023	2,546	655	90,184
Additions	7,489	4,639	1,434	401	462	51	14,476
Disposals	(7,665)	(2,063)	(618)	-	-	-	(10,346)
At 31 March 2017	62,160	10,898	14,118	3,424	3,008	706	94,314
Depreciation							
At 1 April 2016	12,131	4,498	4,067	1,594	1,599	440	24,329
Prior year adjustment	-	-	(1,519)	-	-	-	(1,519)
At 1 April 2016 - restated	12,131	4,498	2,548	1,594	1,599	440	22,810
On disposals	(836)	(2,063)	(4)	-	-	-	(2,903)
Charge for the year	2,683	2,608	855	363	278	76	6,863
At 31 March 2017	13,978	5,043	3,399	1,957	1,877	516	26,770
Net book values							
At 31 March 2017	48,182	5,855	10,719	1,467	1,131	190	67,544
At 31 March 2016 - restated	50,205	3,824	10,754	1,429	947	215	67,374

For full details on the prior year adjustment to rotable fixed assets, please refer to note 29.

11. Tangible fixed assets (continued)

Tangible fixed assets

Company	**Aircraft £000**
Cost	
At 1 April 2016	5,043
Additions	5,883
Disposals	(5,043)
At 31 March 2017	5,883
Depreciation	
At 1 April 2016	103
Charge for the year	123
Disposals	(219)
At 31 March 2017	7
Net book values	
At 31 March 2017	5,876
At 31 March 2016	4,940

12. Investments

Company	**Shares in group undertakings £000**
Cost and net book value	
At 1 April 2016 and 31 March 2017	22,074

Subsidiary Companies	**Shareholding**	**Incorporated**	**Principal Activity**
Loganair Limited	100%	Scotland	Scheduled service airline
Sector Aviation Holdings Limited	100%	England	Holding company
Sector Aircraft Leasing Limited	100%	England	Leasing of aircraft
British Midland Regional Limited	100%	Scotland	Scheduled service airline

13. Stocks

	Group		Company	
	2017	2016	2017	2016
	£000	£000	£000	£000
Aircraft consumable spares	3,690	2,824	-	-
Fuel / de-icer	-	41	-	-
	3,690	2,865	-	-

14. Debtors

	Group		Company	
	2017	2016	2017	2016
	£000	£000	£000	£000
Trade debtors	14,061	10,047	-	-
Other debtors	5,298	2,865	647	323
Directors loans	1,012	772	1,012	772
Amounts due from fellow subsidiary	-	-	11,839	5,203
Aircraft deposits	-	606	-	-
Prepayments and accrued income	4,952	1,533	25	-
Deferred tax asset	-	110	-	-
Corporation tax	101	-	-	
Derivative asset	2,346	1,276	-	-
	27,770	17,209	13,523	6,298

Further detail on directors loans is provided in note 28.

15. Creditors: amounts falling due within one year

	Group		Company	
	2017	2016	2017	2016
	£000	£000	£000	£000
Bank loans	2,500	3,500	-	-
Finance lease obligations	1,180	-	1,180	-
Trade creditors	13,271	9,294	-	-
Corporation tax	78	63	78	163
Other taxes and social security costs	1,245	1,026	-	-
Accruals and deferred income	32,955	27,441	1,102	8
Other creditors	274	431	-	-
Derivative liability	96	1,925	-	-
Amounts due to fellow subsidiary	-	-	22	42
	51,599	43,680	2,382	213

16. Creditors: amounts falling due after one year

	Group		Company	
	2017	2016	2017	2016
	£000	£000	£000	£000
Shareholder loans	31,209	30,250	3,063	2,974
Finance lease obligations	4,629	-	4,629	-
	35,838	30,250	7,692	2,974

The shareholder loans are due to be repaid on 30 September 2018 and all interest has been waived. The loans have an imputed interest charge of 5% charged to the profit and loss account.
Finance lease obligations are secured on the assets concerned.

17. Provisions for liabilities and charges

	Group 2017 £000	Group 2016 £000	Company 2017 £000	Company 2016 £000
Maintenance	500	728	-	-
EU 261 provision	382	-	-	-
Deferred taxation	5,230	6,432	46	23
	6,112	7,160	46	23

Aircraft maintenance provisions are made in respect of contractual obligations to maintain aircraft under operating lease contracts. The amount and timing of the maintenance costs are dependent on future usage of the relevant aircraft. Typically this will be utilised within two years.

	Group 2017	Group 2016	Company 2017	Company 2016
Deferred taxation	**£000**	**£000**	**£000**	**£000**
At beginning of period	6,432	1,593	23	-
Provision on defined benefit pension	(110)	-	-	-
On acquisition of subsidiary	-	5,550	-	-
Credit to profit and loss	(1,585)	(253)	23	23
On items taken directly to comprehensive income	493	(458)	-	-
At end of period	5,230	6,432	46	23

Deferred tax is provided at 18% (2016: 18%) analysed over the following timing differences:

	Provided	Unprovided	Provided	Unprovided
Group	**2017 £000**	**2017 £000**	**2016 £000**	**2016 £000**
Accelerated capital allowances	4,806	(2,017)	6,713	(40)
Derivative contracts	-	-	(281)	-
Short term timing differences	424	178	-	152
Trading losses	-	(5,937)	-	(8,637)
Deferred tax liability/(asset)	5,230	(7,776)	6,432	(8,525)

The group has unrecognised deferred tax assets of £7,776,000 (2016: £8,525,000) of which £5,937,000 (2016: £8,637,000) relate to trading losses. These trading losses have not been recognised due to uncertainty over their recoverability in the foreseeable future. The remainder of the unprovided amount relates to accelerated capital allowances and short term timing differences as noted above.

	Provided	Unprovided	Provided	Unprovided
Company	**2017 £000**	**2017 £000**	**2016 £000**	**2016 £000**
Accelerated capital allowances	46	-	23	-
	46	-	23	-

18. Retirement benefits - pension costs

Loganair Limited sponsors the Loganair 1997 Pension Scheme, a funded defined benefit pension scheme in the UK. The scheme is set up on a tax relieved basis as a separate trust independent of the company and is supervised by independent trustees. The trustees are responsible for ensuring that the correct benefits are paid, that the scheme is appropriately funded and that scheme assets are appropriately invested.

The company pays the balance of the cost as determined by regular actuarial valuations. The trustees are required to use prudent assumptions to value the liabilities and costs of the scheme whereas the accounting assumptions must be best estimates.

The company contributes £411,000 per annum in annual instalments to fund the deficit as agreed in the March 2016 valuation and associated Recovery Plan.

A formal actuarial valuation was carried out as at 31 March 2016. The results of that valuation have been projected to 31 March 2017 and the results adjusted using the assumptions set out below. The figures in the following disclosures were measured using the Projected Unit Method.

The scheme was closed to future accrual from April 2006 and has no active members.

Amounts recognised in the balance sheet

	2017 £000	2016 £000
Defined benefit obligations	(15,134)	(13,144)
Fair value of plan assets	15,193	12,593
Net defined benefit asset/(liability)	59	(551)
Related deferred tax (liability)/asset	(11)	110
Net pension asset/(liability)	48	(441)

Amounts recognised in the consolidated profit and loss account

	2017	2016
Net interest expense	11	11
Charge recognised in profit and loss	11	11

Amounts recognised in the consolidated statement of comprehensive income

	2017	2016
Remeasurements of the net liability:		
Return on scheme assets (excluding amount included in net interest expense)	(2,195)	564
Actuarial losses/(gains)	1,984	(134)
(Credit)/Charge recorded in other comprehensive income	(211)	430

18. Retirement benefits - pension costs (Continued)

The principal actuarial assumptions used were:	2017	2016
RPI Inflation assumption	3.35%	3.05%
CPI Inflation assumption	2.35%	2.35%
Rate of increase in salaries	0.00%	0.00%
Liability discount rate	2.65%	3.35%
Increases for pensions in payment:		
Guaranteed Minimum Pension (GMP)	2.35%	2.35%
Benefits accrued in excess of GMP	3.35%	3.05%
Revaluation of deferred pensions:		
Benefits accrued in excess of GMP	2.35%	2.35%
Proportion of employees opting for early Retirement	0.00%	0.00%
Proportion of employees commuting pension for cash	25.00%	25.00%
Expected age at death of current pensioner at age 65:		
Male aged 65 at year end	88.0	88.0
Female aged 65 at year end	90.4	90.4
Expected age at death of future pensioner at age 65:		
Male aged 45 at year end	89.9	89.9
Female aged 45 at year end	92.2	92.2

Reconciliation of scheme assets and liabilities

	Assets £000	Liabilities £000	Total £000
At start of period	12,592	(13,144)	(551)
Benefits paid	(427)	427	-
Contributions from the employer	411	-	411
Interest income/(expense)	422	(433)	(11)
Return on assets (excluding amount included in net interest expense)	2,195	-	2,195
Actuarial losses	-	(1,984)	(1,984)
At end of period	15,193	(15,134)	60

The return on plan assets was:

	2017 £000	2016 £000
Interest income	422	418
Return on plan assets (excluding amount included in net interest expense)	2,195	(564)
Total return on plan assets	2,617	(146)

18. Retirement benefits - pension costs (continued)

The major categories of scheme assets are as follows:

	2017 £000	2016 £000
UK equities	313	-
Overseas equities	2,367	5,957
Corporate bonds	4,889	3,178
Gilts	1,068	-
Index linked bonds	3,876	3,197
Property	383	-
Other	2,019	-
Insured pensions	205	170
Cash	73	89
Total market value of assets	15,193	12,592

The Scheme has no investments in the group or in property occupied by the group.

Future contributions

Loganair Limited expects to contribute £411,000 to the scheme in the next financial year.

Defined contribution pension schemes

The group contributes to defined contribution pension plans for individual employees' pension arrangements.

The pension charge for the year was £1,813,000 (2016: £1,953,000). There were unpaid contributions of £183,000 (2016: £nil) at the end of the financial year.

19. Share capital

Allotted, called up and fully paid		2017 £000	2016 £000
112,752	A Ordinary shares of £1 each	113	113
7,609	B Ordinary shares of £1 each	8	9
10,200	C Ordinary shares of £1 each	10	13
13,071	D Ordinary shares of £1 each	13	12
1,200	S Ordinary shares of £1 each	1	1
8,576	S1 Preference shares of £1 each	9	9
95	S2 Preference shares of £1 each	-	-
		154	157

During the year shares were issued and repurchased as follows:

	No of shares issued/(repur chased)	Share capital £000	Share premium £000
Shares repurchased:			
B Ordinary shares	(3,805)	(4)	(88)
C Ordinary shares	(8,350)	(8)	-
D Ordinary shares	(4,170)	(4)	-
	(16,325)	(16)	(88)
New shares issued			
B Ordinary shares	2,718	3	128
C Ordinary shares	5,750	6	99
D Ordinary shares	4,500	4	-
	12,968	13	227
	(3,357)	**(3)**	**139**

The S1 and S2 Preference shares have certain preferential dividend and income rights. The directors have considered these and deem the rights to be immaterial.

The voting rights attached to each class of share are disclosed below:

Class of Share	Voting rights
All classes of shares	Each share is entitled to one vote

20. Reserves

Called-up share capital
This represents the nominal value of shares that have been issued.

Share premium account
This reserve records the amount above the nominal value received for shares sold, less transaction costs.

Capital redemption reserve
The capital redemption reserve represents the nominal value of shares that have been repurchased by the company.

Cash flow hedging reserve
The hedging reserve comprises the effective position of the cumulative net changes in fair value of cash flow hedging instruments related to hedge transactions that have not yet been realised and recycled to the profit and loss account.

Capital contribution reserve
This reserve is the deemed capital contribution in relation to the interest free loans provided by the shareholders.

Profit and loss account
This includes all current year and prior period retained profits and losses.

21. Other financial commitments

At 31 March 2017 the group had future minimum rental commitments under non-cancellable operating leases as follows:

	2017 £000	2016 £000
Aircraft and engines		
Payable within one year	4,002	2,266
Payable between one and five years	5,375	3,947
Payable in more than five years	-	862
	9,377	7,075
Land and buildings		
Payable within one year	809	683
Payable between one and five years	2,026	2,406
Payable in more than five years	448	597
	3,283	3,686

22. Financial assets and liabilities

Forward currency contracts

At 31 March 2017, the group had entered into forward currency contracts. This included the purchase of $39,500,000 and the sale of €8,004,000 through forward currency contracts, with execution dates between April 2017 and March 2018. The average exchange rate of these contracts is 1.3275 and 1.1819 respectively resulting in a sale of £29,756,000 and purchase of £6,772,000 respectively. The fair value of these forward currency contracts at 31 March 2017 was £1,593,000.

At 31 March 2016 the group had entered into forward contracts which had a fair value of £326,000. These were all fully settled and recycled to the profit and loss account during the current financial year.

The change in fair value of the hedging instrument that was recognised in comprehensive income during the period was £1,267,000 (2016:(£526,000)), being the difference between the fair value at the end of the prior year of £326,000 and the fair value at the end of the current year £1,593,000.

Fuel commodity swap contracts

At 31 March 2017, the group had entered into fuel commodity swap contracts for the purchase of aviation fuel. This included the purchase of 44,770 tonnes through fuel contracts, with execution dates between April 2017 and March 2018. The average price per tonne for these contracts is $495.59 resulting in a purchase commitment of $22,232,000. The fair value of these fuel contracts at 31 March 2017 was £657,000.

At 31 March 2016 the group had entered into fuel commodity swap contracts for the purchase of aviation fuel which had a fair value of (£976,000). The remaining fair value of the contracts not fully settled during the financial year was £484,000 and is included in the closing balance above.

The change in fair value of the hedging instrument that was recognised in comprehensive income during the period was £1,633,000 (2016: (£373,000)), being the difference between the fair value at the end of the prior year of (£976,000) and the fair value at the end of the current year £657,000.

23. Security

Loganair has granted its bankers a bond and floating charge over all its assets.

The aircraft owned by Sector Aircraft Leasing Limited and Airline Investments Limited have been used as security against the shareholders loans disclosed in note 16.

Airline Investments Limited, Sector Aviation Holdings Limited, Sector Aircraft Leasing Limited and British Midland Regional Limited have each entered into guarantees in favour of Stephen Bond and Peter Bond guaranteeing the amounts due under the shareholders loans.

24. Capital commitments

At 31 March 2017 the group had capital commitments of £1,135,636 (2016: £1,785,715).

25. Parent and ultimate controlling party

Airline Investments Limited is the ultimate controlling company of the group.

Airline Investments Limited is a company incorporated in England and Wales and is jointly controlled by Stephen Bond and Peter Bond.

26. Key management personnel

It is the opinion of the directors that there are no key management personnel other than the company directors. The director's remuneration is disclosed in note 6 of the financial statements.

27. Financial assets and liabilities

Group

	2017	2016
Financial assets measured at amortised cost	**£000**	**£000**
Trade debtors	14,061	10,047
Other debtors	5,298	2,865
Directors loans	1,012	772
Cash at bank and in hand	6,722	6,072
	27,093	19,756
Financial assets measured at fair value – Derivative asset	2,346	1,276
Financial liabilities measured at amortised cost	**£000**	**£000**
Trade creditors	13,271	9,294
Finance lease obligations	5,809	-
Bank loans	2,500	3,500
Accruals and deferred income	32,955	27,441
	54,535	40,235
Financial liabilities measured at fair value – Derivative liability	96	1,925

Company

Financial assets measured at amortised cost	**£000**	**£000**
Other debtors	647	323
Directors loans	1,012	772
Amounts due from fellow subsidiary	11,839	5,203
Cash at bank and in hand	88	350
	13,586	6,648
Financial assets measured at fair value – Derivative asset	-	-
Financial liabilities measured at amortised cost	**£000**	**£000**
Finance lease obligations	5,809	-
Accruals and deferred income	1,102	8
	6,911	8
Financial liabilities measured at fair value – Derivative liability	-	-

28. Related party transactions

Transactions with related parties are disclosed below:

Group	**At 1 April 2016 £000**	**Increase in year £000**	**At 31 March 2017 £000**
Shareholder loans	30,250	959	31,209
	30,250	959	31,209

Company	**At 1 April 2016 £000**	**Increase in year £000**	**At 31 March 2017 £000**
Shareholder loans	2,974	89	3,063
	2,974	89	3,063

During the year £nil (2016: £861,000) was paid to Bond Business Services Limited (previously Rushbury Enterprises Limited) in relation to a fuel purchase agreement which capped an element of the fuel requirement for British Midland Regional Limited. Stephen Bond is a shareholder of Bond Business Services Limited and a related party to the group.

On 27 July 2016, shares with a nominal value of £12,968 were issued to certain directors within the business. The consideration for this amounted to £239,568 and was settled through the directors' loan account. The directors consider the consideration to be equal to the fair value at the date of grant. The amount outstanding in respect of this transaction amounts to £239,568 and is disclosed in note 14 along with a further amount of £772,569 relating to shares issued in previous years. The loans are unsecured and are due for repayment upon an exit or other event, as defined within the loan documentation.

29. Prior year adjustment

	Profit and loss account £000
At 1 April 2016 as previously stated	4,185
Adjustment to reserves brought forward	(1,877)
Adjustment to profit for the year ended 31 March 2016	(173)
At 1 April 2016 as restated	2,135

A prior year adjustment has been made due to a fundamental error.

Following a full reconciliation of Loganair Limited's rotable fixed assets during the year, it was discovered that the rotable fixed assets were overstated by £2,050,000 at 31 March 2016. The last full rotable fixed assets reconciliation was carried out at 31 March 2008, therefore the overstatement had accumulated over this period.

The accounting consequence was that cost of sales had been understated by £2,050,000 for the period 1 April 2008 until 31 March 2016 while the rotable fixed assets on the balance sheet had been overstated by the same amount. This understatement has been apportioned over prior periods using the flying activitiy applicable to the rotable fixed assets, thus the profit for the prior year has been adjusted by £173,000 and the brought forward reserves by £1,877,000.

30. Post balance sheet events

The impact of the one-off costs to establish Loganair's own brand operations combined with the new competitive pressures from Flybe has increased the requirement for funding. Loganair are pleased to have concluded discussions with Clydesdale Bank to renew facilities with them structured as a £6 million overdraft available to 31 December 2018 supported by a new £3 million subordinated loan advanced by Bond Business Services Ltd, a company controlled by Stephen Bond who is a related party to the group.

Under these new facilities both parties have security over the assets of Loganair Limited.