

air greenland



Annual Report 2016



The Group's key figures and ratios	Unit of measure	2012	2013	2014	2015	2016
Turnover	MDKK	1,166,7	1,181,6	1,171,7	1,225,6	1,307,1
Profit or loss before financial income and expenses	MDKK	112,8	64,4	82,6	90,5	35,6
Profit or loss before tax	MDKK	106,8	63,2	80,7	90,3	40,8
Profit or loss for the year	MDKK	71,4	41,2	52,7	60,0	25,6
Tangible fixed assets	MDKK	939,1	908,1	865,0	865,0	745,4
Equity	MDKK	697,6	737,2	784,8	903,6	683,6
Balance sheet total	MDKK	1,318,0	1,318,1	1,356,9	1,379,3	1,121,7
Dividends for the financial year	MDKK	-	-	30,0	274,0	37,0
Investments in tangible fixed assets	MDKK	132,3	242,5	101,8	129,9	78,7
Number of employees (year-end)	FTE	626	648	635	634	621
Profit margin	Percent	9,7%	5,5%	7,0%	7,4%	2,7%
Return on invested capital after tax incl. goodwill	Percent	10,9%	5,8%	8,0%	10,0%	4,1%
Financial gearing	Ratio	0,0	0,2	-0,2	-0,2	-0,2
Return on equity	Percent	10,6%	5,7%	6,9%	7,1%	3,2%
Equity ratio	Percent	52,9%	55,9%	57,8%	65,5%	60,9%

Statistical information	Unit of measure	2012	2013	2014	2015	2016
Length of scheduled service network	Km	17,178	19,114	17,709	16,879	18,340
Number of towns serviced	Towns	22	22	22	22	22
Kilometres flown, scheduled	1000	5,619	5,665	5,511	5,620	6,025
Airborne hours, total	Hours	22,655	22,745	22,230	22,693	23,176
Airborne hours, scheduled	Hours	12,256	13,105	12,826	13,191	13,911
Available tonne/kilometres, scheduled	1000	78,628	74,587	73,923	75,318	81,369
Sold tonne/kilometres, scheduled	1000	47,961	47,965	46,943	50,514	54,713
Total load factor, scheduled	Percent	61,0%	64,3%	63,5%	67,1%	67,2%
Number of passengers	1000	390	384	381	395	426
Available seat/kilometres, scheduled	1000	565,886	581,726	585,625	600,859	650,059
Sold seat/kilometres, scheduled	1000	446,840	451,999	443,325	482,002	523,656
Cabin factor, scheduled	Percent	79,0%	77,7%	75,7%	80,2%	80,6%
Average length of passenger's flight	Km	1,145	1,176	1,163	1,221	1,229



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About the Company

The Company

Air Greenland A/S

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Management

Michael Højgaard

CEO

(Air Greenland)

Auditor

Deloitte

State Authorized Public Accountants

Endorsements

We have today presented the annual report of Air Greenland A/S for the period January 1st – December 31st 2016.

The annual report has been prepared in accordance with the Greenlandic Financial Statements Act. We deem the accounting policies employed to be appropriate, accurately reflecting the Group's and the

Parent Company's assets and liabilities, financial position, profit and loss and cash flows.

The annual report is recommended for adoption at the general meeting.

Copenhagen, March 30th, 2017

Management **Michael Højgaard**
Chief Executive Officer

Board
of Directors **Søren Lennert Mortensen**
Chairman of the Board

Claus Holstein
Vice Chair

Jan Torberger

Bodil Marie Damgaard

Karl Andreassen

Jon Wilche

Leif Rasmussen

Bjarne Eklund

Henrik Steinbacher

Independent auditor's report

To the shareholders of Air Greenland A/S

We have audited the annual report of Air Greenland A/S for the financial year 1 January to 31 December 2016, which comprises the statement by Management on the annual report, management commentary, accounting policies, income statement, balance sheet, statement of changes in equity, cash flow statement and the notes for the Group as well as the Parent. The annual report is prepared in accordance with the Greenlandic Financial Statements Act.

Management's responsibility for the annual report

Management is responsible for the preparation of an annual report that gives a true and fair view in accordance with the Greenlandic Financial Statements Act and for such internal control as Management determines is necessary to enable the preparation of an annual report that is free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on the annual report based on our audit. We conducted our audit in accordance with International Standards on Auditing and additional requirements under Greenlandic audit regulation. This requires that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the annual report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatements of the annual report, whether due to fraud or error. In making

those risk assessments, the auditor considers internal control relevant to the entity's preparation of an annual report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Management, as well as the overall presentation of the annual report.

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

Our audit has not resulted in any qualification.

Opinion

In our opinion, the annual report gives a true and fair view of the Group's and the Parent's financial position at 31 December 2016, and of the results of their operations and cash flows for the financial year 1 January to 31 December 2016 in accordance with the Greenlandic Financial Statements Act.

Copenhagen, 30th March 2017

Deloitte

Statsautoriseret Revisionspartnerselskab

Claus Bech
State Authorised
Public Accountant

Kim Takata Mücke
State Authorised
Public Accountant

Management Report

Group Profile

Record year

In 2016, Air Greenland harvested the fruit of many years of focus on enhancing the effectiveness of the organisation, as well as a strategic investment in tourism that together has resulted in the best turnover in Air Greenland's history.

"2016 was a record year for both passenger numbers and results. Products and processes has been fine-tuned and we've put together exciting travel packages for selected markets. We have deliberately utilised the total capacity of the group to give visitors to Greenland the best deals and experiences. And it's worked. The year's result is borne by a continuous cost focus and the great work by many employees."

Michael Højgaard, CEO.

A passenger increase on routes to and from Greenland of more than 20% in the peak season over the past two years gives a good picture that more tourists from Europe and the USA are choosing Greenland as a destination. The increased activity benefits the entire society when the visitors stay overnight, go shopping, eat out, as well as experiencing the Greenlandic nature and culture. Air Greenland takes the lead in collaboration with local operators in order to ensure attractive offers for the tourists. The company's long-term goal is to stimulate growth-generating activities for the benefit of the Greenlandic society.

At the same time, it is important that the Air Greenland maintains its strategic focus on efficiency and conversion to the current market. We can only ensure a strong position in the market by continuing to be sharp on both the offers and the business. This combined with great effort and collaboration throughout the Air Greenland group has sharpened competitiveness. So that today, Air Greenland has 90% of the Foreign traffic to and from the Greenlandic Westcoast, while at the same time we are experiencing growth through increased demand for Greenland as a tourist destination.





Highlights of 2016

Air Greenland has achieved the highest number of passengers ever in 2016 – with an increase of 9% during the high season. In July we set a passenger record with 20,500 passengers across the Atlantic.

- Air Greenland has implemented the largest traffic schedule in the company's history with more double flights between Denmark and Greenland during the high season. The period for flights between Kangerlussuaq and Copenhagen has been extended and a new route between Ilulissat and Keflavik has been opened.
- A targeted focus on European and American tourists has particularly increased passenger numbers for European visitors via Copenhagen.
- The Government of Greenland's service contracts were put out to tender and Air Greenland regained 6 out of 9 contracts. The other contracts went to Disko Line and Norlandair. The smaller operation meant that we had to say goodbye to 45 coworkers and that we have a Bell 212 helicopter for sale.
- The Arctic Winter Games took place in April with the largest flight schedule ever. The games were briefly delayed due to bad weather and the 1200 guests had to stay a few extra hours at Kangerlussuaq. With good planning, 56 years of experience behind us and help from the many volunteers meant all the challenges were tackled with great success.
- A New Search and Rescue (SAR) contract has entered into force. The Air Greenland SAR team has received good feedback from Arctic Command on the basis of a number of successful joint operations.
- Air Greenland has, among other things, won a year-long contract with DMI to operate a charter flight with an AS350 helicopter for ice reconnaissance.

The Government of Greenland has established Kalaallit Airports that should execute the approved airport package, which deals with Greenland's future infrastructure. The airport package includes, among other things, plans for the extension of the runways at Nuuk and Ilulissat in 2020. Infrastructure development is crucial for Greenland's connectivity and for Air Greenland the infrastructure is a fundamental condition for the company's planning and operation. Air Greenland supports a structure that allows for direct flights to the customers' final destination and makes expertise available in the planning phase.







Economic development

In recent years, improved efficiency and targeted investment in tourism has in 2016 made a profit of DKK 107,6 million before taxes and before this year's devaluation of DKK 70 million of the company's Airbus A330-200 to market value. The market for used Airbus A330-200 has declined significantly in recent years, and due to the uncertainty surrounding an optimal fleet composition and the upcoming infrastructure, we have chosen to eliminate the risk of loss on a future sale of the plane by devaluing it further in 2016.

Air Greenland has succeeded in creating growth in all group companies through joint efforts. Since 2014, Air Greenland has transported more than 20% increase in passengers in peak season with the same number of employees. It has succeeded because of a great deal of commitment and adaptability on the part of our employees, and the efforts make a positive contribution to the company's unit costs.

This year's result shows increasing turnover due to increased passenger numbers. The increased activity also increases the cost of production directly with the irregular and poor weather. Delays and cancellations are an inconvenience to the affected customers, whereas local passengers have the option to go home or stay overnight with family in the event of bad weather, tourists have a greater need for accommodation. Since the proportion of tourists is increasing, this is a rising cost.

When the level of activity increases and fleet capacity is utilised, operation becomes more vulnerable. Air Greenland's Airbus 330 underwent a major C-check in 2016, which was delayed for five weeks. It meant an extra cost to hire another aircraft, which brought down an otherwise excellent result.

Service contracts are a matter of trust

In 2016, Air Greenland won the majority of service contracts with the Government of Greenland and we greatly appreciate the trust. The contractual period runs over 4½ years, which allows us to optimise our activities so that they match the company's and customers' needs.

Tourists want to have Arctic experiences and a bed to sleep in

An increased number of passengers again in 2016, it shows that interest in Arctic experiences is growing. There is still fertile ground for growth at Air Greenland, the limiting factor today is not the flights, but the capacity of the receiving apparatus. In order to ensure the continued growth of the tourism industry as a whole, we as a society need to invest in the receiving apparatus that must be able to provide quality offers and unique experiences for tourists. Such as the new cabin village at the settlement of Ilimanaq, which Air Greenland is co-owner of via World of Greenland. The cabin village, which is ready to welcome the first guests in June 2017, is located at the entrance to Ilulissat, where the ice calves. A location that is difficult to match elsewhere in the world.

Subsidiaries

In 2016, all group companies delivered the highest operating result to date thanks to more visitors to the country, as well as successful activities.

In 2016, Air Greenland sold its stake in Arctic Umiaq Line to Royal Arctic Line. Air Greenland will also continue its commercial collaboration with Arctic Umiaq Line in those areas where it can help to promote tourism in Greenland.

Greenland Travel

In 2016, Greenland Travel achieved a result of DKK 7.2 million before tax and 6.3 million after tax. They have had an increase in activities both in the leisure and business segment with a total activity increase of 10%. Greenland Travel is a close business partner in the development of package deals to the domestic and international market.

Greenland Travel is co-owner of World of Greenland in Ilulissat. World of Greenland delivered a very satisfactory result in 2016. World of Greenland's main activity is the Glacier Lodge Eqi north of Ilulissat. World of Greenland's Ilimanaq Lodge opens for guests in June 2017. This new Lodge concept consists of 15 new luxury cabins with direct views of the icefjord, and restaurant and conference facilities in 2 newly renovated historic buildings in the settlement.

Hotel Arctic

During the high season, Hotel Arctic had an occupancy rate of over 90% and ended 2016 with a result of DKK 7.1 million before tax and DKK 4.8 million after tax. In 2016, the hotel received the West Nordic Tourist Travel Awards Greenlandic award for innovation, accountability and sustainability. They have expanded capacity with new mountain rooms and they are planning a 110 m² extension and modernisation of the gourmet restaurant to meet a growing demand for quality products.

Risks and insurance

Operational risks

Air Greenland has many specialist functions that require specific skills or qualification requirements. The Greenlandic labour market is small and recruitment for specialist functions can be challenging. A shortage of qualified employees can ultimately lead to an inefficient operation, with increased costs and a diminished reputation. Therefore, Air Greenland's ability to attract and retain staff is a continuous focus area and with increased competition, it will require even more vigilant focus.

Strategic risks

The airport package that deals with the future infrastructure in Greenland is crucial for Air Greenland's strategic planning, particularly in relation to investments in the fleet. Uncertainty about the final plans gives competitors the opportunity to gain a foothold in the Greenlandic market. In addition, the possibility of direct flights to major airports will render many of the existing domestic flights redundant, which will result in a smaller domestic schedule. This will be a transition process for both the company and the customers.

The utilisation of the capacity for Air Greenland's Airbus 330 was increased by 9% during the high season in 2016, and a corresponding growth in the coming years is closely related to developments in the tourism sector. If we are not flexible enough and meet increased demand, competitors gain market share.

When construction of the new runway commences, Air Greenland can initiate long-term planning for our Airbus A330 and the fleet as a whole, which is of great importance for the company's competitiveness and the mobility of the people of Greenland throughout the country.

Financial risks

The population in Greenland is stagnating to slightly falling, combined with the fact that urbanisation in the Arctic is also a reality. It is a challenge to anticipate demand in this market and therefore also to budget costs and earnings. It results in conservative budgeting and investment at the risk of jeopardizing competitiveness. Air Greenland has implemented a new system for Revenue Management, which will enhance the company's ongoing business development.

Fuel is a major expense and price changes are therefore the largest single factor affecting Air Greenland's costs. In relation to the Airbus 330, Air Greenland uses a hedging policy, where we annually safeguard against price and rate increases for a minimum of 40% of fuel consumption. In addition, we lower the fuel consumption by flying as economically as possible, among other things, by adjusting the flying height, as it burns less fuel the higher you fly.

A helicopter under construction with a book value of DKK 16.9 million has challenges in obtaining a permit. If the permit is not achieved it will cause impairment, although it is expected that the permit is obtained.





The Market

Focus on growth and customer service

2016 has shown that increased presence and focus on selected markets is successful. We have succeeded in getting more tourists from Scandinavia, Germany, England and North America out on experiences in the country in close collaboration within the group, as well as with other operators in the market such as Sermersooq Business Council. Here we are collaborating on the concept of #colourfulnuuk to promote Nuuk as a diverse Arctic metropolis.

As a tourist, it has become easier to buy inexpensive air fares and attractive package tours, and in 2016 Air Greenland has especially noticed an increased influx of tourists travelling via Copenhagen. 88% of the growth has come via Copenhagen, while the remaining 12% comes via Iceland.

In collaboration with Greenland Travel, Air Greenland has again in 2016 sold over capacity in the low season in the form of group packages, which has, among other things, made it possible to travel cheaply and with Air Greenland from Greenland southwards to the sun. An approach that has meant that we have also experienced growth during the low season.

Air Greenland continues the ongoing process to improve customer service and communications. It is important that we constantly see our products through the customer's eyes, so that we can customise offers and service according to current needs. The customer experience is in focus and we must help the customer all the way from idea to decision and from departure to arrival. In 2016, Air Greenland created extended opening hours at the call-cent-



tre and in 2017, there are further plans to optimise initiatives in Air Greenland's operations centre, which deals with passengers on the day of their flight.

Investment in tourism – is an investment in Greenland

Air Greenland's most important mission is to connect the Greenland population via air transport, and at the same time ensure a healthy business with profits to be an active contributor in the local community. In a challenged home market, growth potential lies in the international market with focus on the tourism segment. Air Greenland actively invests in the expansion of the country's hotel and accommodation offers, since good accommodation and experience offers are crucial in relation to being able to attract tourists. It requires a joint effort to make Greenland the tourists' favourite Arctic destination and Air

Greenland would like to take the lead in this work with a desire to collaborate with all operators.

Safety always

A proactive safety culture is a continuous area of focus at Air Greenland. In 2016, the whole organisation underwent training and education on the basis of an analysis of the company's safety culture, which was implemented in 2015 by consultancy company Baines Simmons. The aim is to focus employees' attention on potential security risks and continuously report and act on them. The safety project is a good example of how Air Greenland is working to streamline processes in the company. Air Greenland wants to be one step ahead of the legal rules in this area that are continually being developed.



Charter

Overall, Air Greenland's charter business had a great result in 2016. It is because we have a well trimmed and well functioning fleet, both in terms of equipment and competent manpower.

Successful SAR operations and Medevac

Search and Rescue (SAR) contingency agreement with Defence Command Denmark started up in 2016 and ran according to plan. The pilots were praised for their professionalism and they make a difference to safety in everyday life. Air Greenland is pleased with the collaboration with Arctic Command, in which we have carried out many successful rescue operations together in the course of the year.

In 2016, the Company's King Air has continued to be on contract with the Greenlandic health system as medevac, ambulance response. The ambulance plane operates 12 hours a day all week with all the necessary equipment. This contingency agreement with Air Greenland can optimise equipment and resources for the task – for the benefit of our customers. It is important work that saves human lives.

From Thule to Fuerteventura

Air Greenland's Airbus 330 has been optimally utilised in the high season with double flights between Copenhagen and Kangerlussuaq, which we would expect to repeat in 2017. On the other hand, the Airbus flew fewer trips to the Thule base due to repairs to the runway in Thule, which prevented landing with an aircraft of this size. Here we instead put Air Greenland's Dash 8 long-haul aircraft into service that proved its worth and was a great success.

The Airbus has again this year flown charter flights for Apollo to the Canary Island of Fuerteventura, and again this year packet trips was offered to the Greenlandic home marked from Greenland to Fuerteventura. It meant that the utilisation of our Airbus was also optimised in 2016.

Top destination for Heliskiing

Air Greenland is experiencing a growing demand for heliskiing, where extreme sportspeople challenge themselves on pristine snow on the Greenlandic

mountains. Professional ski guides from around the world hire helicopters for their customers. The flights give Air Greenland the opportunity to extend the season for the AS350 helicopters, which primarily fly charter jobs during the summer. It optimizes the utilisation of the capacity of the AS350.

Mineral research is coming back

Air Greenland uses many resources to train pilots for very complicated tasks with AS350 helicopters. They perform special tasks with equipment that is 10 times larger than the helicopter, they master the long-line-sling, which can move drilling rigs, they fly on expeditions to tag polar bears and field work in connection with mineral research. Air Greenland has a very experienced and specialised team of pilots for these tasks, who are known and recognised in the industry for their high professionalism, but also because they have excellent social skills that makes them a good partner for the customer in the camp, where they often live for extended periods of time. Mineral research in Greenland is about to return after many years of decline and in 2016, research was conducted at, among others, Nalunaq and Marmoralik for Arctic Resources and North American Nikkel.

Operation

Stable operation is a continuous focus at Air Greenland and in 2016, we have worked intensely with resource management and planning.

Good synergy reduces unit costs

In 2016, Air Greenland flew Dash 8 all year. Dash 8 is a versatile aircraft that has implemented a highly stable fly program over the summer. The equipment is modified and processes are adapted, and in 2017, we also expect to utilize the Dash 8 fleet.

Through outsourcing of major maintenance on the Dash 8, downtime was reduced by 50%. More planes in the air optimises our schedules, and cheaper spare parts reduce our operating costs. However, outsourcing is ongoing to review in relation to the tasks that can best be solved internally.

Optimised crew scheduling

Common European labour and rest rules, in 2016, FTL has challenged the planning of crew in the event of irregularity. For example, before we could send the crew to a hotel to sleep for 4-8 hours in the event of bad weather, where the rules are stricter now with a minimum of 10 hours' rest. This means that we have to call in a new crew in. It impairs the customer experience as a result of much later flight, and it increases costs. In 2016, Air Greenland has worked hard to adapt our departure times and procedures with a view to reducing the inconvenience to customers and costs in terms of the new rules. We have developed specific IT systems for managing capacity that gives us a better data basis for forecasting. It enables us to anticipate and respond more quickly to these challenges.







CSR - Social responsibility is a matter of course

Air Greenland gets involved in local communities by supporting development both in Greenlandic society and locally in the towns where we operate. We engage actively in social tasks in collaboration with relevant stakeholders – be it through sponsorships, donations, as well as active participation. Continued development of Greenland will require a competent and educated population. Air Greenland supports this through practical training opportunities for staff and students.

Air Greenland's sponsorship policy focuses on sports, culture and tourism, and in 2016 we were the Nanoq-sponsor of the Arctic Winter Games 2016 – the largest sporting and cultural event in the history of Greenland. The sponsorship was the company's largest to date, which, among other things, included voluntary resources for running the event, in the form of Committee Chairmen during the preparatory

period from 2014 until the games were held and volunteer employees during the actual games. Overall, Air Greenland has made volunteers available equivalent to over a 100 days, with the premise that the volunteers also worked in their own spare time during the event.

We are extending The Year of the Child in 2017

2016 was officially "The Year of the Child" in Greenland, which Air Greenland has supported with many initiatives.

We sponsored, among other things, a number of summer camps on the east coast, where enthusiasts together with the Association of Greenlandic Children gave young people the opportunity to expand their horizons with creative activities. Air Greenland sponsored tickets for two young men who as mould-breakers inspired the local youngsters at the summer camp to take responsibility for their future.



In collaboration with, among others, Sermersooq Municipality, Air Greenland has also supported a summer camp for young people who had dropped out of the school system. The young people were activated in nature through sport and practical tasks, for example, by collecting rubbish in the fjord system. The project also involved visits to companies, among others, Air Greenland, where they heard about opportunities to get an apprenticeship at the company. Air Greenland contributed by flying gear to the camp where the youngsters stayed most of the summer.

We also collaborated with many municipalities and the Ministry of Education on a project for pupils in 7th grade in Greenland's outer districts, where pupils went out and visited educational institutions and companies. Air Greenland contributed with project management, transport and practical execution.

Culture night

Again this year culture night at Air Greenland was well-attended by 3703 happy guests. 126 volunteer staff arranged for the cosy setting for an exciting programme where a group of young people from the Experimentarium were doing chemistry experiments, dissecting brains and hearts and made a bubble show. The focus on culture night is that every year in addition to being entertained, guests also take a little new knowledge home with them.

Recruitment and skills development are crucial for Greenland

Every year, state school graduation classes apply for 1-2 weeks of professional workplace experience and in 2016 Air Greenland had 41 young interns.

Expectations for 2017

2016 has surpassed all budgets and showed that the growth strategy is able to create strong synergies within our focus areas - safety, efficiency and market development.

Our activities and goals for 2017:

- We will continue to work to attract more foreign passengers and maintain the domestic market in Greenland
- Air Greenland operates through subsidiaries with new investments in the tourism sector in the style of the new cabin village in the settlement of Ilimanaq, which opens its doors in June 2017
- From March, the route between Nuuk and Keflavik starts as usual, but as an all year route with a weekly departure during the winter season
- The travel concept The Arctic Bow will be operational from March in collaboration with Greenland Travel. The package brings tourists from Iceland to both Nuuk and Ilulissat, where they stay a total of 2-3 nights, with the possibility of sailing on the fjord, whale watching and experience an Arctic metropolis with all it has to offer
- Our organisation is compliant with the new rules for special tasks with helicopter flights, which will come into force in April
- We have collective agreement bargaining in 2017, with a desire to reach satisfactory solutions for all parties
- Air Greenland has continuous focus on customer service and communications and launches a series of initiatives
- A pure Dash 8 fleet has given the expected synergy benefits that we expect an even larger benefit from in 2017
- In 2017, all the managers at Air Greenland take three training modules aimed at ensuring common direction within management, development and safety, and strengthen the company's adaptability and competitiveness. A task which ultimately will ensure timely production and service to customers.
- Air Greenland leads the planning of the airport package with plans to establish and extend the airports in many places in Greenland. Conversion of Greenland's infrastructure will lead to major changes, and we shall review the service of the Atlantic in this context, as well as the planned adaptation of our total fleet
- We continue our commitment in Greenlandic society through our sponsorship policy and CSR strategy





Corporate Social Responsibility

The company's Board holds six ordinary meetings a year, which are evenly distributed and agreed for one year at a time – which ensures ongoing dialogue between the Board and management. If need be, extraordinary meetings can be held.

The Board and management review the company's capital structure, which, along with a number of other factors, such as fiscal policy, insurance issues and strategies are discussed at least once a year.

Air Greenland and the stakeholders

Air Greenland take an active part in social responsibility, which is reflected in, among other things, the company's mission, where it is declared that "we are aware of our social responsibility and take it seriously." The company's stakeholder policy supports this focus on building and maintaining the company's relationships.

Openness and transparency

Air Greenland attaches importance to openness and transparency through the website and other appropriate means, including annual reports, newsletters, press releases, social media, etc., to ensure public access to relevant information about the company, including information about the board members and management competencies. The board has furthermore initiated the work of establishing a whistleblower system, which will be launched in 2017.

The Board's duties, responsibilities and work

The Board has organised itself with a chairman, who, according to the company's Articles of Association, is elected at the constituent meeting. I.e. the Board's rules of procedures the Board organise itself further with a vice chairman.

The duties and responsibilities of the Board appear in the company's rules of procedure. In addition to the issues which have to be dealt with, the Board works based on a range of established themes that are dealt with each year, including:

- Develop and/or revise strategies.
- Relate to the company's capital structure, fiscal policy, insurance.
- Evaluate collaboration frameworks and skills, and take possible corrective measures, including a review of the rules of procedure, Articles of Association and management instructions, evaluation of the Board and management.
- Determine and evaluate economic frameworks and results, including the budget, annual accounts, audits, long-term budget, finance policy, risk assessment and insurance policy.

Risk management, internal control and audit

Management regularly reports to the Board on the development in key areas of risk, and ensures that the Board is informed of any business-related risks and while corrective measures are underway. Furthermore, regular dialogue and exchange of information is ensured with the accountant, partly through audit reports and partly through the accountant's annual participation at the board meeting in March.

Accounting Policies

This annual report has been prepared in accordance with the provisions of the Greenlandic Financial Statements Act governing reporting class C enterprises (large).

The accounting policies are unchanged compared to 2015.

Recognition and measurement

Assets are recognised in the balance sheet when it is probable as a result of a prior event that future economic benefits will flow to the Group, and the value of the assets can be measured reliably.

Liabilities are recognised in the balance sheet when the Group has a legal or constructive obligation as a result of a prior event, and it is probable that future economic benefits will flow out of the Group, and the value of the liabilities can be measured reliably.

On initial recognition, assets and liabilities are measured at cost. Measurement subsequent to initial recognition is effected as described below for each financial statement item.

Anticipated risks and losses that arise before the time of presentation of the annual report and that confirm or invalidate affairs and conditions existing at the balance sheet date are considered at recognition and measurement.

Income is recognised in the income statement when earned, whereas costs are recognised by the amounts attributable to this financial year.

Consolidated financial statements

The consolidated financial statements comprise Air Greenland A/S (Parent) and the group enterprises (subsidiaries) that are controlled by the Parent, in accordance with the group overview. Control is achieved by the Parent, either directly or indirectly, holding more than 50% of the voting rights or in any other way possibly or actually exercising controlling influence. Enterprises in which the Group, directly or indirectly, holds between 20% and 50% of the voting

rights and exercises significant, but not controlling influence, are regarded as associated companies.

Basis of consolidation

The consolidated financial statements are prepared on the basis of the financial statements of Air Greenland A/S and the group enterprises. The consolidated financial statements are prepared by combining uniform items. On consolidation, intra-group income and expenses, intra-group accounts and dividends as well as profits and losses on transactions between the consolidated enterprises are eliminated. The financial statements used for consolidation have been prepared applying the Group's accounting policies.

Investments in subsidiaries are offset at the pro rata share of such subsidiaries' net assets at the takeover date, with net assets having been calculated at fair value.

Newly acquired or newly established enterprises are recognised in the consolidated financial statements from the time of acquiring or establishing such enterprises. Divested or wound-up enterprises are recognised in the consolidated income statement up to the time of their divestment or winding-up.

Foreign currency translation

On initial recognition, foreign currency transactions are translated applying the exchange rate at the transaction date. Receivables, payables and other monetary items denominated in foreign currencies that have not been settled at the balance sheet date are translated using the exchange rate at the balance sheet date. Exchange differences that arise between the rate at the transaction date and the rate in effect at the payment date or the rate at the balance sheet date are recognised in the income statement as financial income or financial expenses. Fixed tangible assets, intangible assets, inventories and other non-monetary assets that have been purchased in foreign currencies are translated using historical rates.

When recognising foreign associated companies, the share of the profit is translated using the average exchange rate for the year, and the share of the book value is translated using the currency exchange rate at the balance sheet date. Exchange rate differences resulting from the translation of the book value at the beginning of the year to the balance sheet date exchange rate, as well as for the translation of the share of the profit using the average rate to the exchange rate on the balance sheet date are recognised directly in equity.

Derivative financial instruments

On initial recognition in the balance sheet, derivative financial instruments are measured at cost and subsequently at fair value. Derivative financial instruments are recognised under other receivables and other payables.

Changes in the fair value of derivative financial instruments classified as and complying with, the requirements for hedging the fair value of a recognised

asset or a recognised liability are recorded in the income statement together with changes in the value of the hedged asset or the hedged liability.

Changes in the fair value of derivative financial instruments classified as and complying with the requirements for hedging future transactions are classified directly in equity. When the hedged transactions are realised, the accumulated changes are recognised as part of cost of the relevant financial statement items.

For derivative financial instruments that do not comply with the requirements for being treated as hedging instruments, changes in fair value are recognised currently in the income statement as financial income or financial expenses.

Changes in the fair value of derivative financial instruments applied for hedging net investments in independent foreign subsidiaries or associated companies are classified directly as equity.

Income Statement

Traffic revenue

Revenue from sale of tickets, cargo, mail and charter traffic is recognised in the income statement when the transport has taken place.

Passenger taxes on domestic flights in Greenland collected from passengers on behalf of third parties are not included in revenue.

Tickets sold that are not used before they are out-dated are recognised as income.

Payment for domestic air traffic is included in revenue.

Other operating income and expenses

Other operating income and expenses comprise income and expenses of a secondary nature viewed in relation to the Group's primary activities, including rental of business premises, handling income etc.

Other external expenses

Other external expenditure comprises costs for aircraft maintenance, fuel, purchase of capacity, provision to agents, taxes and costs in connection with passenger accommodation, premises, administration, sales and marketing, etc.

Staff costs

Staff costs include costs for salaries and wages and social contributions, pensions etc. for the company's employees.

Financial income and expenses

Financial income and expenses include interest income and expenses, the interest portion of financial lease instalments, exchange rate gains and losses, amortisation charges and deductions on mortgage debt, etc.

Income taxes

Tax for the year, which consists of current tax for the year and changes in deferred tax, is recognised in the income statement by the portion attributable to the profit for the year and recognised directly in equity by the portion attributable to entries directly in equity.

In Greenland, tax deductibility is allowed for dividend paid during the year. The tax value of allocated dividend in the annual report is therefore recorded directly in equity, in accordance with the above.

The current tax payable or receivable is recognised in the balance sheet, stated as tax calculated on this year's taxable income, adjusted for prepaid tax.

Deferred tax is recognised on all temporary differences between the carrying amount and tax-based value of assets and liabilities, for which the tax-based value of assets is calculated based on the planned use of each asset.

Deferred tax is measured based on the tax regulations and tax rates of the relevant countries that will be in effect, using the laws at the balance sheet date, when the deferred tax is estimated to be triggered as current tax. Changes in deferred tax resulting from changed tax rates are recognised in the income statement.

Deferred tax assets, including the tax base of tax loss carryforwards, are recognised in the balance sheet at their estimated realisable value, either as a set-off against deferred tax liabilities or as net tax assets.

Balance Sheet

Fixed tangible assets

Buildings, aircraft including essential components, other aircraft components as well as other equipment, vehicles and inventory are measured at cost price less accumulated depreciation and impairment losses.

Cost includes purchase price, costs directly attributable to the acquisition and preparation costs of the asset until the time when it is ready to be taken into use. For group-manufactured assets, cost comprises direct and indirect costs of materials, components, subsuppliers and labour costs. For assets held under finance leases, cost is the lower of the asset's fair value and present value of future lease payments.

Interest expenses on loans for financing the manufacture of tangible fixed assets are included in cost if they relate to the manufacturing period. All other financing costs are recognised in the income statement.

The basis of depreciation is cost less estimated residual value after the end of useful life. Straight-line depreciation is made on the basis of estimated useful lives and scrap values of the assets, see however below for essential aircraft components.

The value of Air Greenland's aircraft can be separated into partly the aircraft itself and partly essential components.

The aircraft is depreciated on a straight-line basis according to the above-mentioned principles.

The essential components are depreciated at the rate in which they are used, up to the next maintenance check. When a component is sent for a maintenance check, it will be written off and costs of the maintenance check will be activated and amortised up to the next maintenance check. This method ensures that maintenance costs are accrued at the same rate as the components are used.

Assets with a cost of less than DKK 50,000 are recorded as expenses in the income statement at the time of purchase. IT purchases are, regardless of cost, capitalised and depreciated over 3 years.

Tangible fixed assets are written down to the lower of recoverable value and book value.

Profits and losses from the sale of tangible fixed assets are calculated as the difference between the selling price less selling costs and book value at the time of sale. Profits or losses are recognised in the income statement as adjustment to depreciation and impairment losses, or under other operating income if the selling price exceeds original cost.

	Period of depreciation	Scrap value
Buildings	20-35 years	0-25%
Aircraft	6-12 years	0-25%
Other components	6-12 years	20%
Other equipment, vehicles and inventory	3-10 years	0%

Investments in subsidiaries and associated companies

Investments in subsidiaries and associated companies are recorded and measured according to the equity method. This means that investments are measured at the pro rata share of the enterprises' equity plus or less unamortised positive, or negative, goodwill and plus or less unrealised intra-group profits or losses.

The Parent's share of the enterprises' profits or losses after elimination of unrealised intra-group profits and losses and less or plus amortisation of positive, or negative, goodwill is recognised in the income statement.

Upon distribution of profit or loss, net revaluation of investments in subsidiaries and associated companies is transferred to reserve for net revaluation according to the equity method under equity.

Inventories

Inventories are measured at cost using the FIFO method or net realisable value, when this is lower.

Cost of spare parts comprises the purchase price with addition of delivery costs.

The net realisable value of inventories is calculated as the estimated selling price less completion costs and costs incurred to execute sale.

Receivables

Receivables are measured at amortised cost, usually equalling nominal value less provisions for bad debts.

Prepayments

Prepayments comprise incurred costs relating to subsequent financial years. Prepayments are measured at cost.

Dividend

Dividend is recognised as a liability at the time of adoption at the general meeting. The proposed dividend for the financial year is disclosed as a separate item in equity.

Mortgage debt

At the time of borrowing, mortgage debt is measured at cost which corresponds to the proceeds received less transaction costs incurred. The mortgage debt is subsequently measured at amortised cost. This means that the difference between the proceeds at the time of borrowing and the nominal amount of the loan is recognised in the income statement as a financial expense over the term of the loan applying the effective interest method.

Lease

Lease commitments relating to assets held under finance leases are recognised in the balance sheet as liabilities and, at the time of inception of the lease, measured at the present value of the future lease payments. Subsequent to initial recognition, lease commitments are measured at amortised cost. The difference between present value and nominal amount of the lease payments is recognised in the income statement as a financial expense over the term of the leases.

Lease payments on operating leases are recognised on a straight-line basis in the income statement over the term of the lease.

Other financial liabilities

Other financial liabilities are recognised at amortised cost which usually corresponds to nominal value.

Deferred income

Deferred income comprises received income for recognition in subsequent financial years. Deferred income is measured at cost.

Cash flow statement

The cash flow statement of the Parent Company and the Group is presented using the indirect method and shows cash flows from operating, investing and financing activities as well as the Parent Company and the Group's cash and cash equivalents at the beginning and end of the financial year.

The cash flow impact of the acquisition and sale of enterprises appears separately under cash flows from investment activities. In the cash flow state-

ment, group cash flows from acquired enterprises are recognised from the date of acquisition, and cash flows from sold enterprises are recognised until the time of sale.

Cash flows from operating activities are calculated as the operating profit/loss adjusted for non-cash operating items, working capital changes and income taxes paid.

Cash flow from investing activities comprise payments in connection with acquisition and divestment of enterprises and fixed asset investments as well as purchase, development, improvement and sale, etc. of intangible assets and tangible fixed assets, including acquisition of assets held under finance leases.

Cash flow from financing activities comprise changes in the size or composition of the Parent's share capital and related costs as well as the raising of loans, inception of finance leases, instalments on interest-bearing debt, purchase of treasury shares, and payment of dividend.

Cash and cash equivalents comprise cash less short-term bank debt.

Financial highlights

Key figures are drawn up on the basis of CFA Society Denmark's "Recommendations & Key Figures 2015".

NOPLAT (Net Operating Profit Less Adjusted Taxes) is defined as the profit/loss before interest (EBIT) adjusted for operational leasing costs cf. note 4, less calculated depreciation of operational leased aircraft less 31.8% tax.

Invested capital including goodwill is defined as equity plus net interest-bearing debt.

Net interest-bearing debt is defined as interest-bearing liabilities, net of interest-bearing assets, including cash and income tax receivable. Operational leasing is included in net interest bearing debts by a factor 7 times the year's operational leasing costs.

Key figures	Calculation formula	Ratios reflect
Profit ratio (EBIT margin) (%)	$\frac{\text{Gross profit (EBIT)}}{\text{Revenue}}$	The enterprise's operating gearing
Return on invested capital including goodwill (%)	$\frac{\text{NOPLAT}}{\text{Average invested capital incl. goodwill}}$	The return generated by the enterprise on investors' funds
Financial gearing (%)	$\frac{\text{Net interest-bearing debt}}{\text{Equity}}$	The enterprise's financial gearing
Return on equity (%)	$\frac{\text{Profit/loss for the year}}{\text{Average equity}}$	The enterprise's return on capital invested in the enterprise by the owners
Solvency ratio (%)	$\frac{\text{Equity}}{\text{Total assets}}$	The enterprise's financial strength



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Annual Report

Profit and loss account for 1 January to December 31 December

(in DKK thousands)

	Parent Company			The Group	
	2016	2015	Note	2016	2015
Turnover	1,213,182	1,145,464	1	1,307,053	1,225,631
Other external costs	(623,556)	(584,460)	2	(658,771)	(615,235)
Staff costs	(383,839)	(382,447)	3	(421,406)	(416,021)
Depreciation, amortisation and impairment losses	(185,326)	(98,019)	4	(191,313)	(103,882)
Profit or loss before financial income and expenses	20,461	80,538		35,563	90,493
Income from investments in subsidiaries	11,120	7,884	10	-	-
Income from investments in associated companies	5,601	403	10	6,505	2,733
Other financial income	1,400	1,542	5	1,609	1,850
Financial expenses	(987)	(2,598)	6	(2,873)	(4,762)
Profit or loss before tax	37,595	87,769		40,804	90,314
Tax on profit for the year	(11,957)	(27,735)	7	(15,166)	(30,280)
Profit or loss for the year	25,638	60,034		25,638	60,034
Proposal for profit allocation:					
Dividend for the financial year	37,000	274,000			
Transferred to reserve for net revaluation of investments according to the equity method	13,721	8,286			
Revaluation reserve	-	(3,383)			
Retained earnings	(25,083)	(218,869)			
	25,638	60,034			

Balance sheet at 31 December

(in DKK thousands)	Parent Company			The Group	
	2016	2015	Note	2016	2015
Software	4,279	8,629		4,279	8,629
Intangible fixed assets	4,279	8,629	8	4,279	8,629
Buildings	154,161	164,423		240,670	249,898
Aircraft equipment incl. essential aircraft components	451,656	566,395		451,656	566,395
Other aircraft components	28,616	27,841		28,615	27,841
Other fixtures and fittings, tools and equipment	18,723	16,168		24,429	20,857
Tangible fixed assets	653,156	774,827	9	745,370	864,991
Investments in subsidiaries	96,258	84,690	10	-	-
Investments in associated companies	19,662	15,159	10	25,498	20,091
Receivables from subsidiaries	5,437	7,776	10	-	-
Receivables from associated companies	-	1,000	10	-	1,000
Other investments	-	-	10	39	41
Other receivables	1,215	1,354	10	1,536	1,663
Deferred tax assets	-	-	14	971	578
Fixed asset investments	122,572	109,979		28,044	23,373
Fixed assets	780,007	893,435		777,693	896,993
Stocks	36,548	36,268	11	40,341	39,840
Trade receivables	71,880	66,282		94,085	82,168
Receivables from subsidiaries	821	841		-	-
Receivables from associated companies	62	321		62	198
Other receivables	6,162	5,260	12	7,252	7,276
Prepayments and accrued income	8,605	7,174		9,204	7,834
Receivables	87,530	79,878		110,603	97,476
Cash and cash equivalents	135,077	298,893		193,109	344,997
Total current assets	259,155	415,039		344,053	482,313
Assets	1,039,162	1,308,474		1,121,746	1,379,306

(contd.)

(in DKK thousands)	Parent Company			The Group	
	2016	2015	Note	2016	2015
Share capital	24,000	24,000	13	24,000	24,000
Reserve for net revaluation of investments according to the equity method	63,262	46,124		10,691	4,772
Retained earnings	559,376	559,441		611,948	600,793
Dividend proposed for the financial year	37,000	274,000		37,000	274,000
Equity	683,639	903,565		683,639	903,565
Deferred tax liabilities	128,142	120,179	14	139,097	128,877
Provisions	128,142	120,179		139,097	128,877
Mortgage debt	5,385	5,385		7,072	7,492
Bank loans	-	-		25,394	26,993
Long-term liabilities other than provisions	5,385	5,385	15	32,466	34,485
Short-term portion of long-term liabilities other than provisions	-	32,302	15	1,980	34,197
Other bank loans	-	-		5	3
Trade payables	51,925	64,764		66,382	70,830
Payables to subsidiaries	1,043	909		-	-
Payables to associated companies	32	123		255	140
Corporation tax	-	-		1,342	1,189
Other payables	83,917	108,709	16	111,501	130,482
Accruals and deferred income	85,079	75,538		85,079	75,538
Short-term liabilities other than provisions	221,996	279,345		266,544	312,379
Liabilities other than provisions	227,381	284,730		299,010	346,864
Equity and liabilities	1,039,162	1,308,474		1,121,746	1,379,306
Assets charged and contingent liabilities etc.			17-18		
Other notes			19-22		

Statement of changes in equity at 31 December 2016

(in DKK thousands)

Parent Company

	Share capital	Reserve for net revaluation of investments according to the equity method	Revaluation reserve	Retained earnings	Dividend for the financial year	Total
Equity at 01.01.2015	24,000	38,482	3,383	688,928	30,000	784,793
Dividend paid to shareholders	-	-	-	-	(30,000)	(30,000)
Value adjustment of derivative financial instruments	-	-	-	1,192	-	1,192
Profit or loss for the year	-	8,286	(3,383)	(218,869)	274,000	60,034
Exchange rate adjustment of foreign associated company	-	1,164	-	-	-	1,164
Deferred tax on profit for the year	-	-	-	87,132	-	87,132
Tax on changes in equity	-	(370)	-	(380)	-	(750)
Equity at 31.12.2015	24,000	47,562	-	558,003	274,000	903,565
Dividend paid to shareholders	-	-	-	-	(274,000)	(274,000)
Value adjustment of derivative financial instruments	-	-	-	21,541	-	21,541
Profit or loss for the year	-	13,721	-	(25,083)	37,000	25,638
Exchange rate adjustment of foreign associated company	-	2,902	-	-	-	2,902
Deferred tax on dividend for the year	-	-	-	11,766	-	11,766
Tax on changes in equity	-	(923)	-	(6,850)	-	(7,773)
Equity at 31.12.2016	24,000	63,262	-	559,376	37,000	683,639

(in DKK thousands)

The Group

	Share capital	Reserve for net revaluation of investments according to the equity method	Revaluation reserve	Retained earnings	Dividend for the financial year	Total
Equity at 01.01.2015	24,000	4,554	3,383	722,856	30,000	784,793
Dividend paid to shareholders	-	-	-	-	(30,000)	(30,000)
Value adjustment of derivative financial instruments	-	-	-	1,192	-	1,192
Profit or loss for the year	-	-	-	(210,442)	-	(210,442)
Exchange rate adjustment of foreign associated company	-	(141)	(3,383)	-	274,000	270,476
Deferred tax on dividend for the year	-	-	-	87,132	-	87,132
Tax on changes in equity	-	(370)	-	(380)	-	(750)
Equity at 31.12.2015	24,000	5,207	-	600,358	274,000	903,565
Dividend paid to shareholders	-	-	-	-	(274,000)	(274,000)
Dividend paid to shareholders	-	-	-	-	-	-
Value adjustment of derivative financial instruments	-	-	-	21,541	-	21,541
Profit or loss for the year	-	3,505	-	(14,867)	37,000	25,638
Dividend from associated company	-	-	-	-	-	-
Exchange rate adjustment of foreign associated company	-	2,902	-	-	-	2,902
Deferred tax on dividend for the year	-	-	-	11,766	-	11,766
Tax on changes in equity	-	(923)	-	(6,850)	-	(7,773)
Equity at 31.12.2016	24,000	10,691	-	611,948	37,000	683,639

Cash flow statement

(in DKK thousands)

	Parent Company			The Group	
	2016	2015	Note	2016	2015
Profit or loss before financial income and expenses	20,461	80,538		35,563	90,493
Depreciation, amortisation and impairment losses	185,326	98,019		191,313	103,882
Change in working capital	(11,439)	101	19	(5,860)	4,693
Other adjustments	951	716		833	691
	195,299	179,374		221,849	199,759
Financial income received	449	826		776	3,540
Financial expenses paid	(987)	(2,598)		(2,873)	(4,762)
Corporation tax paid	-	(13,752)		(1,189)	(14,957)
Cash flows from operating activities	194,761	163,850		218,563	183,580
Additions of intangible fixed assets	-	(928)		-	(928)
Additions of tangible fixed assets	(68,982)	(125,523)		(78,749)	(129,869)
Sale of tangible fixed assets	9,677	30,684		11,407	30,689
Additions of fixed asset investments	-	(13,431)		(12)	(5,664)
Sale of fixed asset investments	7,030	1,000		5,139	3,922
Cash flows from investing activities	(52,275)	(108,198)		(62,215)	(101,850)
Repayments of long-term liabilities other than provisions	(32,302)	(30,589)		(34,236)	(42,310)
Dividend paid	(274,000)	(30,000)		(274,000)	(30,000)
Cash flows from financing activities	(306,302)	(60,589)		(308,236)	(72,310)
Increase/decrease in cash and cash equivalents	(163,816)	(4,937)		(151,888)	9,420
Cash at 1 January	298,893	303,830		344,997	335,577
Cash at 31 December	135,077	298,893		193,109	344,997

Notes to the annual report

(in DKK thousands)

	Parent Company		The Group	
	2016	2015	2016	2015
1. Turnover				
Passenger revenue	694,857	646,703	694,857	646,703
Charter revenue	221,043	204,998	221,043	204,998
Freight revenue	76,650	72,893	76,650	72,893
Post revenue	26,939	27,161	26,939	27,161
Payment for service contracts	117,060	122,444	117,060	122,444
Revenue from hotel operations	-	-	57,629	49,387
Revenue from ticket sales	3,138	3,531	38,960	33,890
Other traffic revenue	63,324	57,737	63,324	57,738
Other operating revenue	10,171	9,997	10,591	10,417
	1,213,182	1,145,464	1,307,053	1,225,631
2. Other external costs				
Resulting from flight service operations in Greenland:				
- Air traffic taxes to third parties	127,327	118,946	127,327	118,946
- Distribution costs	17,721	15,613	17,721	15,613
- Taxes charged to passengers	(64,806)	(59,601)	(64,806)	(59,601)
	80,242	74,958	80,242	74,958

(contd.)

(in DKK thousands)	Parent Company		The Group	
	2016	2015	2016	2015
3. Staff costs				
Wages and salaries	335,567	336,326	370,825	368,666
Pension costs	13,078	10,836	13,751	11,473
Other social costs	35,194	35,285	36,830	35,882
	383,839	382,447	421,406	416,021
Of this, total remuneration to the Parent Company:				
- Executive Board	3,478	3,357	3,478	3,357
- Board of Directors	1,417	1,417	1,417	1,417
	4,895	4,774	4,895	4,774
Average number of employees	560	560	653	652

Pursuant to contract, the Executive Board is remunerated with a fixed monthly salary incl. pension, as well as accommodation and company car in accordance with the applicable rules.

Moreover, a cash-based incentive programme has been set up for the Company's Executive Board. This incentive programme is based on the achievement of a combination of financial targets for the Company and individual targets. The maximum payment has been set at DKK 400,000 for 2016.

The company's Chief Executive Officer can be terminated by giving 12 months' notice, and he may terminate his position by giving 6 months' notice. If the Company terminates the Executive Board based on a no-breach justification, an agreement has been entered into with the Executive Board for a severance pay of 12 months' salary.

The annual remuneration of the Executive Board of the Parent Company can be specified as follows:

	2016	2015
Fixed salary	3,078	3,017
Bonus	400	340
	3,478	3,357

No incentive programmes have been set up for the Company's Board of Directors.

(contd.)

(in DKK thousands)	Parent Company		The Group	
	2016	2015	2016	2015
4. Depreciation, amortisation and impairment losses				
Software	4,350	4,672	4,350	4,672
Buildings	9,839	8,730	13,042	11,585
Aircraft equipment incl. essential aircraft components	158,449	75,740	158,449	75,740
Other aircraft components	7,633	2,567	7,633	2,567
Other fixtures and fittings, tools and equipment	7,474	6,338	10,258	9,351
Profit from the sale of tangible fixed assets	(2,419)	(28)	(2,419)	(33)
	185,326	98,019	191,313	103,882
5. Other financial income				
Interest on bank deposits	76	359	208	460
Interest from subsidiaries	153	124	25	-
Interest from associated companies	-	100	-	205
Currency gains	951	716	833	691
Other interest	220	243	543	494
	1,400	1,542	1,609	1,850
6. Financial expenses				
Interest on bank loans	3	4	412	310
Interest portion of lease payment	927	2,472	927	2,472
Interest on and amortisation of mortgage debt	-	-	1,455	1,721
Other interest	57	122	79	259
	987	2,598	2,873	4,762
7. Tax on profit for the year				
Current tax	-	-	1,342	1,196
Adjustment of tax for previous years	-	-	-	-
Deferred tax on profit for the year	11,957	27,735	13,824	29,084
Adjustment of deferred tax relating to previous years	-	-	-	-
	11,957	27,735	15,166	30,280

(contd.)

(in DKK thousands)

	Parent Company		The Group	
	Software	Total	Software	Total
8. Intangible fixed assets				
Cost at 01.01.2016	39,012	39,012	39,012	39,012
Additions	-	-	-	-
Cost at 31.12.2016	39,012	39,012	39,012	39,012
Amortisation and impairment losses at 01.01.2016	30,383	30,383	30,383	30,383
Amortisation for the year	4,350	4,350	4,350	4,350
Amortisation and impairment losses at 31.12.2016	34,733	34,733	34,733	34,733
Carrying amount at 31.12.2016	4,279	4,279	4,279	4,279

(contd.)

(in DKK thousands)

Parent Company

	Buildings	Aircraft equipment and aircraft components	Other aircraft components	Other fixtures and fittings, tools and equipment	Total
g. Tangible fixed assets					
Cost at 01.01.2016	357,523	943,152	70,639	108,279	1,479,593
Additions	-	44,177	14,776	10,029	68,982
Disposals	(5,038)	(10,377)	(6,368)	(1,727)	(23,510)
Cost at 31.12.2016	352,485	976,952	79,047	116,581	1,525,065
Depreciation and impairment losses at 01.01.2016	193,100	376,757	42,798	92,111	704,766
Depreciation for the year	9,839	88,449	7,633	7,474	113,395
Impairment losses for the year	-	70,000	-	-	70,000
Reversals regarding disposals for the year	(4,615)	(9,910)	-	(1,727)	(16,252)
Depreciation and impairment losses at 31.12.2016	198,324	525,296	50,431	97,858	871,909
Carrying amount at 31.12.2016	154,161	451,656	28,616	18,723	653,156

Impairment losses for the year are due to the write-down of the Company's Airbus 330-200 to market value.

(in DKK thousands)

The Group

	Buildings	Aircraft equipment and aircraft components	Other aircraft components	Other fixtures and fittings, tools and equipment	Total
g. Tangible fixed assets					
Cost at 01.01.2016	481,445	943,152	70,639	151,824	1,647,060
Additions	5,966	44,177	14,776	13,830	78,749
Disposals	(7,217)	(10,377)	(6,369)	(1,727)	(25,690)
Cost at 31.12.2016	480,194	976,952	79,046	163,927	1,700,119
Depreciation and impairment losses at 01.01.2016	231,547	376,757	42,798	130,967	782,069
Depreciation for the year	13,042	88,449	7,633	10,258	119,382
Impairment losses for the year	-	70,000	-	-	70,000
Reversals regarding disposals for the year	(5,065)	(9,910)	-	(1,727)	(16,702)
Depreciation and impairment losses at 31.12.2016	239,524	525,296	50,431	139,498	954,749
Carrying amount at 31.12.2016	240,670	451,656	28,615	24,429	745,370

Impairment losses for the year are due to the write-down of the Company's Airbus 330-200 to market value.

(contd.)

(in DKK thousands)

Parent Company

	Investments in subsidiaries	Investments in associated companies	Receivables from subsidiaries	Receivables from associated companies	Other receivables	Total
10. Fixed asset investments						
Cost at 01.01.2016	38,403	13,884	7,776	1,000	1,354	62,417
Additions						-
Disposals		(1,000)	(2,339)	(1,000)	(139)	(4,478)
Adjustment for previous years	448					448
Cost at 31.12.2016	38,851	12,884	5,437	-	1,215	58,387
Net revaluation at 01.01.2016	46,287	1,275	-	-	-	47,562
Exchange rate adjustment	-	2,902	-	-	-	2,902
Share of profit for the year	11,120	5,601	-	-	-	16,721
Disposals	-	(3,000)				(3,000)
Net revaluation at 31.12.2016	57,407	6,778	-	-	-	64,185
Carrying amount at 31.12.2016	96,258	19,662	5,437	-	1,215	122,572

	Ownership interest	Nominal value	Equity
Subsidiaries and associated companies			
A/S Hotel Arctic, Ilulissat	100%	30,000	57,904
Greenland Travel A/S, Copenhagen	100%	1,500	37,849
Air Greenland ATO A/S, Copenhagen	100%	500	501
Nordurflug ehf., Reykjavik	30%	5,956	25,772
Norlandair ehf., Akureyri	25%	10,197	50,279

	2016	2015
Profit of subsidiaries is made up as follows:		
Profit before tax A/S ATO, Copenhagen	-	1
Profit before tax A/S Hotel Arctic, Ilulissat	7,101	3,405
Profit before tax Greenland Travel A/S	7,228	6,724
Elimination of intra-group profit	-	299
Profit of associated companies before tax	14,329	10,429
Tax in subsidiaries	(3,209)	(2,545)
Profit of associated companies after tax	11,120	7,884

(contd.)

(in DKK thousands)

The Group

	Investments in associated companies	Receivables from associated companies	Other investments	Other receivables	Total
10. Fixed asset investments (continued)					
Cost at 01.01.2016	14,884	1,000	15	1,663	17,562
Additions	-	-	-	12	12
Disposals	(1,000)	(1,000)	-	(139)	(2,139)
Cost at 31.12.2016	13,884	-	15	1,536	15,435
Net revaluation at 01.01.2016	5,207	-	26	-	5,233
Exchange rate adjustment	2,902	-	-	-	2,902
Share of profit for the year	6,505	-	-	-	6,505
Disposals	(3,000)	-	-	-	(3,000)
Revaluation and impairment losses for the year	-	-	(2)	-	(2)
Net revaluation at 31.12.2016	11,614	-	24	-	11,638
Carrying amount at 31.12.2016	25,498	-	39	1,536	27,073

(in DKK thousands)

Parent Company

The Group

	2016	2015	2016	2015
11. Stocks				
Spare parts stocks	36,367	35,190	36,367	35,190
Sales inventory, aircraft and spare parts	-	803	-	803
Other stocks	181	275	3,974	3,847
	36,548	36,268	40,341	39,840

12. Other receivables

Positive fair value, hedging instruments	2,823	-	2,823	-
Deposit for purchases	1,283	1,246	1,283	1,246
Other receivables	2,056	4,014	3,146	6,030
	6,162	5,260	7,252	7,276

13. Share capital

The share capital of DKK 24 million consists of 40 shares of DKK 500,000, 384 shares of DKK 10,000 and 160 shares of DKK 1,000.

The shares are not divided into classes with special rights. Each share of DKK 1,000 carries 1 vote.

There has been no change in the share capital the past 5 years.

(contd.)

(in DKK thousands)

	Parent Company		The Group	
	2016	2015	2016	2015

14. Deferred tax liabilities

Provisions for deferred tax are incumbent on the following financial statement items:

Intangible fixed assets	1,361	2,744	1,361	2,726
Tangible fixed assets	161,684	158,955	172,821	167,677
Fixed asset investments	18,790	13,362	18,790	13,362
Current assets	(1,392)	(2,532)	(1,551)	(2,643)
Short-term liabilities other than provisions	-	17	(178)	33
Tax loss carryforwards	(40,535)	-	(41,351)	(489)
Dividend provided for	(11,766)	(52,367)	(11,766)	(52,367)
	128,142	120,179	138,126	128,299

Net value is recognised as follows in the balance sheet:

Deferred tax assets	-	-	(971)	(578)
Deferred tax liabilities	128,142	120,179	139,097	128,877
	128,142	120,179	138,126	128,299

This year's movements can be specified as follows:

Deferred tax at 1 January	120,179	178,826	128,299	185,589
Deferred tax on profit for the year	7,963	(58,647)	10,693	(57,290)
Adjustment of deferred tax relating to previous years	-	-	(866)	-
Deferred tax at 31 December	128,142	120,179	138,126	128,299

(contd.)

(in DKK thousands)

Parent Company

	Due within 1 year	Due within 2-5 years	Due after 5 years	Nominal liabilities total
15. Long-term liabilities other than provisions				
Mortgage debt	-	-	5,385	5,385
Long-term liabilities other than provisions at 31.12.2016	-	-	5,385	5,385

(in DKK thousands)

The Group

	Due within 1 year	Due within 2-5 years	Due after 5 years	Nominal liabilities total
Mortgage debt	420	700	5,952	7,072
Bank loans	1,560	5,448	18,386	25,394
Long-term liabilities other than provisions at 31.12.2016	1,980	6,148	24,338	32,466

Parent Company

The Group

	2016	2015	2016	2015
16. Other payables				
Salaries, tax at source, social security contributions, etc. payable	18,222	18,221	20,720	19,219
Holiday pay obligations	26,827	30,293	30,711	33,770
Other payables	37,648	40,257	58,850	57,555
Negative fair value, hedging instruments	1,220	19,938	1,220	19,938
	83,917	108,709	111,501	130,482

17. Assets charged

Mortgage loans are secured by way of mortgages on properties.

As security for bank loans and mortgage debt, mortgages registered to owners have been deposited on properties in the nominal amount of
Carrying amount of mortgaged properties

91,635	91,635	91,635	121,852
87,490	91,101	87,490	247,447

Cash and cash equivalents deposited in favour of the Danish Travel Guarantee Fund and trade credits in general.

2,203	2,203	3,793	3,793
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(contd.)

<i>(in DKK thousands)</i>	Parent Company		The Group	
	2016	2015	2016	2015
18. Lease obligations				
For the years 2016-2019, operating lease agreements have been entered into for aircraft	8,016	10,207	8,016	10,207
Of this, due within 1 year	3,963	4,414	3,963	4,414
19. Change in working capital				
Change in stocks	(280)	(2,218)	(501)	(2,517)
Change in receivables	13,888	(10,827)	8,414	(10,062)
Change in trade payables etc.	(25,047)	13,146	(13,773)	17,272
Change in working capital, total	(11,439)	101	(5,860)	4,693
20. Fees to the auditor elected by the Annual General Meeting				
Fees to the Parent Company's auditor elected by the Annual General Meeting for the financial year:				
Statutory audit	750	780	1,036	1,058
Other services	335	330	510	426
	1,085	1,110	1,546	1,484

(contd.)

(in DKK thousands)

21. Related parties

Related parties with a controlling interest in the Air Greenland Group:

- None

Transactions between other related parties that the Air Greenland Group has had transactions with in 2016:

- Government of Greenland, shareholder
- SAS, Kastrup, shareholder
- Board of Directors and Executive Board.

Transactions between other related parties and the Air Greenland Group in 2016:

- Government of Greenland: Service contracts (see the management report), transport of patients for the Greenlandic Healthcare Service, sale of tickets, settlement of traffic charges, as well as the operation of heliports/airports by Mittarfegarfiit, etc.
- SAS: Settlement of tickets, handling and maintenance of Airbus 330-200 etc. in Kastrup
- Intra-group transactions
- There is an incentive programme with the Executive Board that is based on performance.

Air Greenland has had the following transactions with related parties in 2016:

	Sales price	Purchase price	Receivable from	Payable to
The Government of Greenland	172,571	227,266	3,720	12,098
SAS	650	14,090	144	1,869

22. Ownership

The following shareholders own more than 5% of the Company's share capital:

- Government of Greenland (37.5%)
- Scandinavian Airlines System A/S, 2700 Kastrup (37.5%)
- The Danish State (25%).

CSR Indicators

The good working life	2012	2013	2014	2015	2016
Resources used on courses	15,802 tkr	16,776 tkr	15,930 tkr	12,402 tkr	14,852 tkr
- Mandatory courses	1,974 tkr	2,372 tkr	2,545 tkr	1,479 tkr	1,821 tkr
- Simulator	7,826 tkr	9,593 tkr	8,739 tkr	6,891 tkr	7,598 tkr
- Non-mandatory courses	6,002 tkr	4,811 tkr	4,645 tkr	4,031 tkr	5,433 tkr
"Professional and personal development" evaluated in employee satisfaction survey	67	66	67	65	74
"Daily work" evaluated in employee satisfaction survey	78	76	76	75	81
Internal recruitment for management positions	90,0%	64,3%	100%	57,1%	18,8%
Employee turnover	11,0%	10,3%	10,6%	9,5%	9,1%
Proportion of trainees in the workforce	4,6%	4,6%	4,5%	4,7%	4,9%
Sick leave	3%	3%	2,8%	3,6%	3,7%
Accidents at work	8	9	5	9	12

(contd.)

The environmentally conscious operation	2012	2013	2014	2015	2016
CO ₂ emissions					
Total parent company	77,708 ton	74,339 ton	72,103 ton	74,833 ton	79,696 ton
- Total (only aircraft)	75,080 ton	71,190 ton	69,143 ton	71,881 ton	76,936 ton
CO ₂ emissions vehicles and ground equipment	339 ton	373 ton	304 ton	259 ton	275 ton
CO ₂ emissions buildings*	2,289 ton	2,776 ton	2,656 ton	2,694 ton	2,485 ton
Hotel Arctic CO ₂ emissions	937,5 ton	288,3 ton	279 ton	302,4 ton	329,3 ton
Greenland Travel CO ₂ emissions	36,7 ton	35,2 ton	55 ton	56,1 ton	55,9 ton

The committed company	2012	2013	2014	2015	2016
Sponsorships	2.829 tkr	2.151 tkr	3.141 tkr	1.984 tkr	2.399 tkr
Number of students in internship or similar	N/A	11	6	10	11

* The 2013 figure also includes the amount of stations that make up the 120 tonnes

Board and Skills



Søren Lennert Mortensen

Member and Chairman of the Board since 2016, appointed by the Government of Greenland.

Education

Bank trained. Management training from Jyske Bank. Board Academy's course in collaboration at Copenhagen University. Trained Greenlandic outfitter and trophy hunting organizer.

Career

Bank Manager of Grønlandsbanken and Branch Manager at Jyske Bank. Head of the Greenlandic Post Office (division of KNI A/S). Director of housing association INI A/S. Director of Trade Company KNI A/S. Director of the Greenlandic radio and TV (public service) KNR. Interim director for Tele Greenland A/S. Owns and operates a small real estate company LM Properties Ltd. with offices in Sisimiut and Nuuk.

Seats on boards

Vice Chairman of Greenland's national oil exploration company Nuna Oil A/S.

Competencies

Strategy and management, finance and accounting, economy, turnaround jobs, economic development, motivation and communication, organizational development, recruitment.



Bodil Marie Damgaard

Member of the Board since 2016, appointed by the Government of Greenland.

Educational background

Master of Arts in Communication Studies, with a bachelor in Company Studies from Roskilde University. Has several qualifications since 2010 in project management, and HR.

Career path

Consultant at Sirius partner, followed by a position as Project Coordinator at Nakuusa. First as Marketing Coordinator, then HR Development Consultant at Air Greenland from 2011-2016. HR Manager at Mit-tarfeqarfiit since 2016.

Board positions

Vice Chair in Katuaq's Board and former Board member of the Greenlandic House in Copenhagen.

Skills and experience

Communication, HR strategy and management.



Bjarne Eklund

Member of the board (appointed by the Danish State) since 2012.

Education

Graduated as a forwarding agent and shipper in 1960.

Career

From 1967 to 1995 Bjarne held a number of positions at Varig Brazilian Airlines, the most recent as European Director based in London. From 1995 to 2001 he was CEO of the Danish Tourist Board, after which he held the post of Chairman of the Danish Tourist Board until 2003.

Competences

Strategy, leadership (including international), organization, tourism, aviation.

Seats on boards

Bjarne is the Chairman of the The Sports Travel Agency and he has had several trusts within DBU and DIF. In the period from 2008 to 2011, he served as a self-appointed member of Air Greenland's Board of Directors. Furthermore, for a period of more than 10 years Bjarne served on the board of Visit Greenland, as both Chairman and board member.



Claus Holstein

Board of the Board since 2015 (appointed by the Danish state).

Education

Cand. merc. organization and strategy, Aalborg University (2004)

Career

Since 2007 he's been the managing director of the group Port of Aalborg A / S.

Competences

Strategy and management systems.

Seats on boards

Epoka IT A/S (chairman), Blip Systems A/S (member), Aalborg Stevedore Company A/S (Chairman) and AMU Aalborg (nominated by the Danish Industry).

Trust

Claus Holstein are in addition to his directorships also assigned the following positions of trust - Adjunct Fellow Institute of Economics and Management, Aalborg University, Chairman Advisory Board Center for Logistics (CELOG), Aalborg University, Member of the advisory board of Jura, Aalborg University and Chairman of the Board of TallShips Aalborg / training ship LOA.



Leif Rasmussen

Member of the board since 2012 (appointed by SAS).

Education

Leif studied HD-R at Copenhagen Business School, as well as Accounting and Finance at the Merchant School in Copenhagen. At Cornell University Hospitality he has taken single subjects, such as Financial Management, Properties Management, Human Resources and Service Management. Leif has taken the SAS Leadership Programme.

Career

Leif has had a long career at SAS Hotels and from 1983 he has been the CEO for many SAS hotels. He was employed at SAS Airline Denmark from 1991 to 1999 as Marketing and Sales Director respectively, and Vice President. In the period 2000 to 2009, he held, among others, the position as registered director and COO of Copenhagen Airport and later as CEO and country manager for Carlson Wagonlit Travel. In 2009, Leif returned to SAS Airline as President & CEO of SAS Cargo Group A/S.

Competences

Strategy and leadership, administration, economics, organisation and development, sales and marketing, communications, as well as industry experience in aviation and hospitality.

Seats on boards

Leif has held a number of board positions as respectively chairman and board member within aviation, tourism and the like. He has, among others, been on the board since 2009 (Chairman 2013-2015) for Malmø Freight Terminal and also from 2009 - 2011 as Chairman for Spirit Air Cargo Handling Group AB. From 1994 to 1997 Leif represented SAS Airline on the then 'Grønlandsfly' Board.



Jan Torberger

Member of the board (appointed by SAS) since 2016.

Education

Studied Business administration, Financing and Accounting at University of Lund Sweden graduated in 1987.

Career

He have experience from banking in SEB Stockholm and a long career at SAS mainly from Treasury department and currently Head of SAS Group Treasury, Vice President.

Competencies

Strategy and leadership, negotiator, financing, economics, asset management, pension, organization and financial communications.

Seat on boards

Jan is Chairman at SAS Spare Engine AB and SAS Struktur Freja Ab. Member of Steering Committee at Euroben Limited, Insurance Company, Ireland since 2007.



Henrik Maule Steinbacher

Employee elected board representative 2013.

Education

Henrik studied engineering at AUC (Aalborg University) from 1992 to 1995. He graduated as a pilot in 1997, and he has studied strategy and management as a single subject at Nuuk.

Career

Henrik started as a pilot at Grønlandsfly in 1997, and became a flight instructor at Air Greenland in 2004.

Competences

Leadership and strategy, aviation, engineering.

Trust positions and seats on boards

Henrik has been involved in union politics as treasurer and steward of the Pilots' Union (FFG) in the period from 2001-2011.



Karl Andreassen

Member of the board since 2014.

Education

Karl graduated as an aircraft mechanic in 1991.

Career

Karl graduated as an aircraft mechanic at 'Grønlandsfly' in 1991, and continued as an aircraft mechanic until 1998, where he took a position as Supervisor mechanic at Air Alpha Greenland. In 2005 he returned to Air Greenland as Lead mechanic until 2007, after which he worked as Maintenance Director at Helicopter Service of Iceland until 2008. In 2009 and 2010 he was Lead mechanic at Air Greenland until he took up the post as Rotor wing maintenance manager in 2011.

Competences

Operations, production, operations, aviation, leadership.



Jon Wilche

Employee elected board representative since 2015.

Education

Trained as an electrician in 1979. Aircraft mechanic with first type 1988.

Career

Jon trained as an electrician in 1979 and studied to be an electrical installer from Aarhus Tech 1980-1981. He worked at Grønlandfly A/S from 1984. After leave in 2000, he worked from 2001-2002 as Station mechanic at SFJTS and as a technician from 2002-2012 at GOHTS - and from 2012 at GOHSC.

Competences

Negotiating techniques, conflict resolution, etc., from the Metal College auspices. Positions of trust at FIG and Dansk Metal as treasurer. Jon was a board member and Chairman from 1984 - 2012 at FIG and board member of Godthåb Bathing Association.

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Editor: Air Greenland

Photos: Emil Nørgaard, Stach Jesper Blæsild p. 51 - Bjarne Eklund, p. 52

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Design: tita.gl

Print: helmertryk.dk

Fleet



Airbus 330-200

Number: 1
Seats: 278
Average speed: 870 km/t
Max altitude: 13,666 m
Engines: 2 x Pratt & Whitney
Total Engine power: 68,000 hp



Dash 8-200

Number: 7
Seats: 37
Average speed: 537 km/t
Max altitude: 7,620 m
Engines: 2x Pratt & Whitney, type PW123D
Total Engine power: 2x2150hp. 4,300 hp



Beech Super King Air B200

Number: 1
Seats: 8
Average speed: 480 km/t
Max altitude: 10,670 m
Engines: 2 x Pratt & Whitney type PT6A-41
Total Engine power: 1,700 hp



Sikorsky S-61N

Number: 2
Seats: 25
Average speed: 220 km/t
Max altitude: 3,650 m
Engines: 2 x 2 x General Electric CT58-140-2
Total Engine power: 3,000 hp



Bell 212

Number: 8
Seats: 13
Average speed: 185 km/t
Max altitude: 3,000 m
Engines: 2 x Pratt & Whitney type PT6T-3B
Total Engine power: 1,800 hp



AS 350 B2 Ecureuil

Number: 9
Seats: 5
Average speed: 234 km/t
Max altitude: 7,000 m
Engines: 1 x Turbomeca Arriel 1D/2B/2B1
Total Engine power: 732/847hp

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