

**Air Arabia PJSC  
and its subsidiaries**

**Consolidated financial statements**  
*31 December 2014*

# Air Arabia PJSC and its subsidiaries

## Consolidated financial statements *for the year ended 31 December 2014*

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## **Independent auditors' reports**

The Shareholders  
Air Arabia PJSC

### **Report on the consolidated financial statements**

We have audited the accompanying consolidated financial statements of Air Arabia PJSC ("the Company") and its subsidiaries (collectively referred to as "the Group"), which comprise the consolidated statement of financial position as at 31 December 2014, the consolidated income statement, and the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

#### ***Management's responsibility for the consolidated financial statements***

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

#### ***Auditors' responsibility***

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 evaluating the overall presentation of the consolidated financial statements.

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

#### ***Opinion***

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2014, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

### **Report on other legal and regulatory requirements**

As required by the UAE Federal Law No. 8 of 1984 (as amended), we further confirm that we have obtained all information and explanations necessary for our audit; the consolidated financial statements comply, in all material respects, with the applicable requirements of the UAE Federal Law No. 8 of 1984 (as amended) and the Articles of Association of the Company; that proper financial records have been kept by the Company; a physical count of inventories was carried out by the management in accordance with established principles; and the contents of the Directors' report which relate to these consolidated financial statements are in agreement with the Company's financial records. We are not aware of any violation of the above mentioned Law and the Articles of Association having occurred during the year ended 31 December 2014, which may have had a material adverse effect on the business of the Company or its consolidated financial position.

Austin Alan Henry Rudman  
Registration no: 844  
Dubai, United Arab Emirates

12 FEB 2015

Air Arabia PJSC and its subsidiaries  
 Consolidated statement of financial position  
 as at 31 December 2014

	Note	2014 AED'000	2013 AED'000
<b>Assets</b>			
<b>Non-current assets</b>			
Property and equipment	5	5,643,598	4,332,127
Advance for new aircraft	6	578,817	707,987
Investment properties	7	162,147	162,897
Intangible assets	8	1,095,165	1,092,347
Goodwill	9	198,522	189,474
Deferred charges	10	8,446	8,740
Aircraft lease deposits	11	3,675	11,775
Available-for-sale investments	12	703,824	771,029
Trade and other receivables	13	-	32,579
Investment in joint ventures	14	50,152	55,667
Investment in an associate	15	10,417	-
Long-term portion of other investments	17.1	100,000	50,000
<b>Total non-current assets</b>		<b>8,554,763</b>	<b>7,414,622</b>
<b>Current assets</b>			
Inventories	16	17,423	11,730
Due from related parties	13	48,298	79,114
Trade and other receivables	17.1	396,053	498,169
Short-term portion of other investments	17	233,654	-
Bank balances and cash		1,324,250	1,391,066
<b>Total current assets</b>		<b>2,019,678</b>	<b>1,980,079</b>
<b>Total assets</b>		<b>10,574,441</b>	<b>9,394,701</b>
<b>Non-current liabilities</b>			
Provision for staff terminal benefits	22	65,301	48,011
Trade and other payables	23	655,004	109,835
Non-current portion of finance lease liabilities	24	2,635,031	1,951,054
<b>Total non-current liabilities</b>		<b>3,355,336</b>	<b>2,108,900</b>
<b>Current liabilities</b>			
Due to related parties	16	7,040	15,543
Deferred income	17.2	254,820	206,520
Short-term borrowings	23	183,657	291,946
Trade and other payables	24	1,426,030	1,019,591
Current portion of finance lease liabilities		266,542	176,018
<b>Total current liabilities</b>		<b>2,138,089</b>	<b>1,709,618</b>
<b>Total liabilities</b>		<b>5,493,425</b>	<b>3,818,518</b>
<b>Capital and reserves</b>			
Share capital	18	4,666,700	4,666,700
Statutory reserve	19	319,702	264,411
General reserve	20	262,925	207,634
Fair value reserve	12	48,590	70,922
Cash flow hedge reserve	21	(692,977)	-
Retained earnings		449,585	345,591
<b>Equity attributable to owners of the Company</b>		<b>5,054,525</b>	<b>5,555,258</b>
Non-controlling interests		26,491	20,925
<b>Total equity</b>		<b>5,081,016</b>	<b>5,576,183</b>
<b>Total liabilities and equity</b>		<b>10,574,441</b>	<b>9,394,701</b>

The accompanying notes on pages 7 to 51 are an integral part of these consolidated financial statements.

These consolidated financial statements were approved by the Board of Directors and authorised for issue on 12 February 2015.

Chairman

Chief Executive Officer

Director of Finance

The independent auditors' report on the consolidated financial statements is set out on page 1.

# Air Arabia PJSC and its subsidiaries

## Consolidated income statement for the year ended 31 December 2014

	<i>Note</i>	2014 AED'000	2013 AED'000
<b>Revenue</b>	25	3,728,793	3,183,823
Direct costs	26	(3,045,873)	(2,681,269)
<b>Gross profit</b>		<u>682,920</u>	<u>502,554</u>
Selling and marketing expenses	27	(51,792)	(54,361)
General and administrative expenses	28	(148,207)	(104,604)
Finance income		65,547	49,806
Finance costs		(66,046)	(46,503)
Share of profit from joint ventures	14	18,608	19,437
Other income (net)	29	64,798	68,872
<b>Profit for the year</b>		<u><u>565,828</u></u>	<u><u>435,201</u></u>
<b><i>Profit attributable to:</i></b>			
Owners of the Company		552,912	420,739
Non-controlling interests		12,916	14,462
		<u><u>565,828</u></u>	<u><u>435,201</u></u>
<b>Basic earnings per share (AED)</b>	30	<u><u>0.12</u></u>	<u><u>0.09</u></u>

The accompanying notes on pages 7 to 51 are an integral part of these consolidated financial statements.

The independent auditors' report on the consolidated financial statements is set out on page 1.

# Air Arabia PJSC and its subsidiaries

## Consolidated statement of profit and loss and other comprehensive income for the year ended 31 December 2014

	Note	2014 AED '000	2013 AED '000
<b>Profit for the year</b>		<b>565,828</b>	435,201
<b>Other comprehensive income</b>			
<i>Items that are or may be reclassified subsequently to consolidated profit or loss</i>			
<b><i>Fair value reserve (available-for-sale investments)</i></b>			
Net change in fair value	12	(10,202)	32,250
Net amount transferred to consolidated profit or loss on sale of available-for-sale investments	29	(12,130)	-
<b><i>Cash flow hedge</i></b>			
Effective portion of change in fair value	21	(692,977)	-
<b><i>Total other comprehensive (loss)/income</i></b>		<b>(715,309)</b>	32,250
<b>Total comprehensive (loss)/income for the year</b>		<b>(149,481)</b>	467,451
<b><i>Total comprehensive (loss)/income attributable to:</i></b>			
Owners of the Company		(162,397)	452,989
Non-controlling interests		12,916	14,462
		<b>(149,481)</b>	467,451

The accompanying notes on pages 7 to 51 are an integral part of these consolidated financial statements.

The independent auditors' report on the consolidated financial statements is set out on page 1.

# Air Arabia PJSC and its subsidiaries

## Consolidated statement of changes in equity for the ended 31 December 2014

	Share capital AED'000	Statutory reserve AED'000	General reserve AED'000	Fair value reserve AED'000	Cash flow hedge reserve AED'000	Retained earnings AED'000	Attributable to owners of the Company		Total AED'000
							Company AED'000	Non-controlling interests AED'000	
Balance at 1 January 2013	4,666,700	222,337	165,560	38,672	-	335,669	5,428,938	11,705	5,440,643
Profit for the year	-	-	-	-	-	420,739	420,739	14,462	435,201
Other comprehensive income	-	-	-	32,250	-	-	32,250	-	32,250
Total comprehensive income	-	-	-	32,250	-	420,739	452,989	14,462	467,451
Transfer to reserves (refer note 19 and 20)	-	42,074	42,074	-	-	(84,148)	-	-	-
Decrease in non-controlling interests	-	-	-	-	-	-	-	(342)	(342)
Dividend paid (refer note 35)	-	-	-	-	-	(326,669)	(326,669)	(4,900)	(331,569)
Balance at 31 December 2013	4,666,700	264,411	207,634	70,922	-	345,591	5,555,258	20,925	5,576,183
Balance at 1 January 2014	4,666,700	264,411	207,634	70,922	-	345,591	5,555,258	20,925	5,576,183
Profit for the year	-	-	-	-	-	552,912	552,912	12,916	565,828
Other comprehensive income	-	-	-	(22,332)	(692,977)	-	(715,309)	-	(715,309)
Total comprehensive income	-	-	-	(22,332)	(692,977)	552,912	(162,397)	12,916	(149,481)
Transfer to reserves (refer note 19 and 20)	-	55,291	55,291	-	-	(110,582)	-	-	-
Dividend paid (refer note 35)	-	-	-	-	-	(338,336)	(338,336)	(7,350)	(345,686)
<b>Balance at 31 December 2014</b>	<b>4,666,700</b>	<b>319,702</b>	<b>262,925</b>	<b>48,590</b>	<b>(692,977)</b>	<b>449,585</b>	<b>5,054,525</b>	<b>26,491</b>	<b>5,081,016</b>

The accompanying notes on pages 7 to 51 are an integral part of these consolidated financial statements.

# Air Arabia PJSC and its subsidiaries

## Consolidated statement of cash flows

for the year ended 31 December 2014

	Note	2014 AED '000	2013 AED '000
<b>Operating activities</b>			
Profit for the year		565,828	435,201
<i>Adjustments for:</i>			
Depreciation of property and equipment	5	302,680	221,364
Depreciation of investment property	7	750	750
Amortisation of deferred charges	10	1,652	3,388
Provision for staff terminal benefits	22	21,438	12,366
Transfer to consolidated profit or loss on sale of available-for-sale investments	29	(12,130)	-
Unrealised loss/(gain) on derivative financial instruments	29	37,522	(37,692)
Share of profits from joint ventures	14	(18,608)	(19,437)
Gain on fair value of joint venture		(4,614)	-
Reversal of provisions		(20,417)	-
Finance income		(65,547)	(49,806)
Dividend income		(244)	(172)
		<u>808,310</u>	<u>565,962</u>
<i>Operating cash flows before working capital changes</i>			
<i>Changes in:</i>			
- Trade and other receivables	13	138,556	(18,606)
- Inventories		(5,693)	(2,463)
- Due from related parties	16	30,816	(9,718)
- Trade and other payables	23	218,753	153,372
- Deferred income		48,300	17,961
- Due to related parties	16	1,497	(13,594)
- Staff terminal benefits paid	22	(4,476)	(2,822)
		<u>1,236,063</u>	<u>690,092</u>
<b>Net cash from operating activities</b>			
<b>Investing activities</b>			
Acquisition of property and equipment	5	(72,411)	(91,068)
Payments for advances for new aircraft	6	(418,186)	(370,650)
Payments for deferred charges		(1,358)	(7,736)
Proceeds from sale of available for sale investments	12	57,003	-
Dividend received from joint ventures	14	17,500	28,526
Acquisition of intangible assets		(1,421)	-
Payment for acquisition of a subsidiary-net		(1,395)	-
Dividend received		244	172
Payments for aircraft lease deposits		8,100	4,034
Change in fixed and margin deposits	17	131,390	(45,821)
Interest income from bank deposits		65,547	49,806
Other investments made		(283,654)	-
		<u>(498,641)</u>	<u>(432,737)</u>
<b>Net cash used in investing activities</b>			
<b>Financing activities</b>			
Dividend paid to non-controlling interests		(7,350)	(4,900)
Dividend paid to shareholders		(338,336)	(326,669)
Payments of finance lease obligations	24	(218,788)	(129,263)
(Payments to)/ receipt from supplier finance facility	17.2	(91,946)	91,861
		<u>(656,240)</u>	<u>(368,971)</u>
<b>Net cash used in financing activities</b>			
<b>Net increase/ (decrease) in cash and cash equivalents</b>			
Cash and cash equivalents at the beginning of the year		(18,104)	93,512
		<u>62,898</u>	<u>(18,104)</u>
<b>Cash and cash equivalents at the end of the year</b>			
<b>The details of cash and cash equivalents are as under:</b>			
Cash at bank and in hand	17	1,324,250	1,391,066
Fixed deposits with maturity over 3 months		(1,074,392)	(1,206,608)
Margin deposits with maturity over 3 months		(3,303)	(2,477)
		<u>246,555</u>	<u>181,981</u>
Bank overdraft	17.2	(183,657)	(200,085)
		<u>62,898</u>	<u>(18,104)</u>

The accompanying notes on pages 7 to 51 are an integral part of these consolidated financial statements.

The independent auditors' report on the consolidated financial statements is set out on page 1.



# Air Arabia PJSC and its subsidiaries

## Notes

(forming part of the consolidated financial statements)

### 1 Reporting entity

Air Arabia PJSC (the “Company”) was incorporated on 19 June, 2007 as a Public Joint Stock Company in accordance with United Arab Emirates (UAE) Federal Law No. 8 of 1984 (as amended). The Company operates in the United Arab Emirates under a trade license issued by the Economic Development Department of the Government of Sharjah and Air Operator's Certificate Number AC 2 issued by the General Civil Aviation Authority, United Arab Emirates.

The Company’s ordinary shares are listed on the Dubai Financial Market, United Arab Emirates.

The registered office address is P.O. Box 8, Sharjah, United Arab Emirates.

The consolidated financial statements as at 31 December 2014 include the financial performance and position of the Company and its subsidiaries (collectively referred to as the “Group”) and the Group’s interests in associates and joint ventures.

The licensed activities of the Group are international commercial air transportation, aircraft trading, aircraft rental, aircraft spare parts trading, travel and tourist agencies, hotels, hotel apartment rentals, airline companies’ representative office, passengers transport, cargo services, air cargo agents, documents transfer services, aviation training and aircraft repairs and maintenance.

The extent of the Group’s ownership in its various subsidiaries, joint ventures and associates and their principal activities are as follows:

<u>Name</u>	<u>Legal ownership interest</u>		<u>Country of incorporation</u>	<u>Principal Activities</u>
	2014	2013		
<i>Subsidiaries</i>				
COZMO Travel LLC and its subsidiaries	51%	51%	United Arab Emirates	Travel and tours, tourism and cargo services.
<i>Subsidiaries of COZMO Travel LLC:</i>				
COZMO Travel WLL	100%	100%	Qatar	Travel and tours, tourism and cargo services.
COZMO Travel Limited Company	100%	100%	Kingdom of Saudi Arabia	Travel and tours, tourism and cargo services.
COZMO Travel LLC*	100%	-	Kuwait	Travel and tours, tourism and cargo services.
COZMO Travel LLC*	100%	-	Bahrain	Travel and tours, tourism and cargo services.
Information System Asscoiates (FZC)	100%	51%	United Arab Emirates	IT services to aviation industry
Action Hospitality (*)	100%	-	United Arab Emirates	Hospitality services, tourism, managing and operating restaurants and hotels
<i>Joint ventures</i>				
Alpha Flight Services UAE (LLC)	50%	50%	United Arab Emirates	Flight and retail catering and ancillary services to the Air Arabia PJSC.
Sharjah Aviation Services (LLC)	50%	50%	United Arab Emirates	Aircraft handling, passenger and cargo services at the Sharjah International Airport.
Air Arabia – Egypt Company (S.A.E.)	50%	50%	Egypt	International commercial air transportation.
<i>Associate</i>				
Air Arabia Maroc, S.A.	40%	40%	Morocco	International commercial air transportation.

(\*) Established in curent year.

# Air Arabia PJSC and its subsidiaries

Notes *(continued)*

## **2 Basis of preparation**

### **2.1 Statement of compliance**

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) and comply with the relevant Articles of the Company and the UAE Federal Law No. 8 of 1984 (as amended).

### **2.2 Basis of measurement**

The consolidated financial statements have been prepared on the historical cost basis except for derivative financial instruments and available-for-sale investments, which are measured at their fair values in the statement of financial position.

### **2.3 Functional and presentation currency**

These consolidated financial statements are presented in United Arab Emirates Dirham (“AED”), which is the Group’s functional currency.

### **2.4 Use of estimates and judgments**

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

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

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements are described in note 38.

### **2.5 Measurement of fair values**

A number of the Group’s accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities.

The Management have overall responsibility for overseeing all significant fair value measurements, including Level 3 fair values. Management regularly reviews significant unobservable inputs and valuation adjustment. If third party information, such as broker quotes or pricing services, is used to measure fair values, then the management assesses the evidence obtained from the third parties to support the conclusion that such valuations meet the requirement of IFRS, including the level in the fair value hierarchy in which such valuations should be classified.

# Air Arabia PJSC and its subsidiaries

Notes (continued)

## 2 Basis of preparation (continued)

### 2.5 Measurement of fair values (continued)

When measuring the fair value of an asset or a liability, the Group uses market observable data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

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

If inputs used to measure the fair value of an asset or liability might be categorised in different levels of the fair value hierarchy, then the fair value measurement is categorised in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

Further information about assumptions made in measuring fair values is included in notes 12 and 36.5.

### 2.6 New standards and interpretations issued but not effective

A number of new standards and amendments to standards are effective for annual periods beginning on or after 1 January 2014; however, the Group has not applied the following new or amended standards in preparing these consolidated financial statements:

- *IFRS 9 Financial Instruments*

IFRS 9, published in July 2014, replaces the existing guidance in IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39. IFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.

- *IFRS 15 Revenue from Contracts with Customers*

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes. IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2017, with early adoption permitted.

Accounting for Acquisitions of Interests in Joint Operations (Amendments to IFRS 11).

Clarification of Acceptable Methods of Depreciation and Amortisation (Amendments to IAS 16 and IAS 38).

The above standards, amendments and interpretation are currently being assessed by management to determine any material impact on the Group's consolidated financial statements.

# Air Arabia PJSC and its subsidiaries

Notes *(continued)*

## 3 Significant accounting policies

The Group has consistently applied the following accounting policies to all periods presented in these consolidated financial statements.

### 3.1 Basis of consolidation

These consolidated financial statements comprise the consolidated statement of financial position and the consolidated results of operations of the Company and its subsidiaries (collectively referred to as “the Group”) on a line by line basis together with the Group’s share in the net assets of its equity accounted investees. The principal subsidiaries, associates and joint ventures have been disclosed above in note 1.

#### *Business combinations*

The Group accounts for business combinations using the acquisition method when control is transferred to the Group. The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Any gain on a bargain purchase is recognised in profit or loss immediately. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are generally recognised in profit or loss. Any contingent consideration payable is measured at fair value at the acquisition date. If the contingent consideration is classified as equity, then it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes in the fair value of the contingent consideration are recognised in consolidated profit or loss.

The Group measures goodwill at the acquisition date as the fair value of the consideration transferred; plus the recognised amount of any non-controlling interests in the acquiree; less the net recognised amount (at fair value) of the identifiable assets acquired and liabilities assumed. When the excess is negative, a bargain purchase gain is recognised immediately in consolidated profit or loss.

A contingent liability of the acquiree is assumed in a business combination only if such a liability represents a present obligation and arises from a past event, and its fair value can be measured reliably.

Transaction costs that the Group incurs in connection with a business combination are expensed as incurred, other than those associated with the issue of debt or equity securities.

#### *Non controlling interests (NCI)*

NCI are measured at their proportionate share of the acquiree's identifiable net assets at the acquisition date.

Changes in the Group's interest in a subsidiary that do not result in a loss of control are accounted for as equity transactions.

# Air Arabia PJSC and its subsidiaries

Notes *(continued)*

## 3 Significant accounting policies (continued)

### 3.1 Basis of consolidation (continued)

#### *Subsidiaries*

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in consolidated financial statements from the date on which control commences until the date on which control ceases.

#### *Loss of control*

When the Group loses control over a subsidiary, it derecognises the assets and liabilities of the subsidiary, and any related NCI and other components of equity. Any resulting gain or loss is recognised in profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

#### *Gain of control- Step acquisition*

When the Group gains control over an associate/joint venture, it derecognises the carrying amount of the equity-accounted investee after taking profit or loss till the date of step acquisition. Any resulting gain or loss is recognised in consolidated profit or loss. Any interest gain in the former associate/joint venture is measured at fair value when control is obtained.

#### *Interests in joint arrangements*

Under IFRS 11, the Group assessed its interests in joint arrangements as either joint operations or joint ventures depending on the Group's rights to the assets and obligations for the liabilities of the arrangements.

When making this assessment, the Group considers the structure of the arrangements, the legal form of any separate vehicles, the contractual terms of the arrangements and other facts and circumstances.

Based on this evaluation, the Group has concluded that its involvement in its joint arrangements is of the nature of a joint venture.

A joint venture is an arrangement in which the Group has joint control, whereby the Group has rights to the net assets of the arrangement, rather than rights to its assets and obligations for its liabilities.

Interests in joint venture are accounted for using the equity method. They are recognised initially at cost, which includes transaction costs. Subsequent to initial recognition, the consolidated financial statements include the Group's share of consolidated profit or loss and other comprehensive income of joint venture, until the date on which significant influence or joint control ceases.

#### *Interests in associates*

Associates are those entities in which the Group has significant influence, but not control or joint control, over the financial and operating policies.

# Air Arabia PJSC and its subsidiaries

Notes *(continued)*

## 3 Significant accounting policies (continued)

### 3.1 Basis of consolidation (continued)

#### *Interests in associates (continued)*

Interests in associates are accounted for using the equity method. They are recognised initially at cost, which includes transaction costs. Subsequent to initial recognition, consolidated financial statements include the Group's share of consolidated profit or loss and other comprehensive income of associates, until the date on which significant influence ceases.

#### *Transactions eliminated on consolidation*

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

### 3.2 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

#### *Rendering of services*

Passenger revenue is recognised in the period in which the service is provided. Unearned revenue represents flight seats sold but not yet flown and is included in current liabilities as deferred income. It is released to the profit or loss when flown or time expired.

Sales of other services are recognised when the services are rendered.

#### *Hotel revenue*

Income from Hotel services rendered to guests and customers is recognised pro-rata over the periods of occupancy. Revenue from sale of goods, food and beverages is recognised upon issuance of related sales invoices on delivery to guests and customers.

#### *Sale of goods*

Revenue from the sale of goods is recognised when all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the entity; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Specifically, revenue from the sale of goods is recognised when the goods are delivered and legal title is passed.

# Air Arabia PJSC and its subsidiaries

Notes *(continued)*

## 3 Significant accounting policies (continued)

### 3.3 Dividend income

Dividend from investments is recognised when the Group's right to receive payment has been established.

### 3.4 Finance income and finance costs

Finance income comprises interest income on fixed deposits investments and available-for-sale investments. Interest income is recognised in consolidated profit or loss as it accrues, using the effective interest rate method.

Finance cost comprises interest expense on bank borrowings and finance lease obligations. All borrowing costs are recognised in consolidated profit or loss using the effective interest rate method. However, borrowing costs that are directly attributable to the acquisition or construction of a qualifying asset are capitalised as part of the cost of that asset. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. Capitalisation of borrowing costs ceases when substantially all the activities necessary to prepare the asset for its intended use or sale are complete.

### 3.5 Rental income

Rental income from investment properties is recognised on a straight-line basis over the term of the lease. Lease incentives granted are recognised as an integral part of the total rental income, over the term of the lease.

### 3.6 Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

#### *The Group as lessor*

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

#### *The Group as lessee*

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

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in consolidated profit or loss. Contingent rentals are recognised as expenses in the periods in which they are incurred.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

# Air Arabia PJSC and its subsidiaries

Notes (continued)

## 3 Significant accounting policies (continued)

### 3.6 Leasing (continued)

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

### 3.7 Foreign currencies

Transactions denominated in foreign currencies are translated to AED at exchange rates at the date of transactions. Monetary assets and liabilities denominated in foreign currencies are translated into AED at the exchange rates prevailing at the reporting date. Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into AED at the exchange rate when the fair value was determined. Foreign currency differences are generally recognised in profit and loss. Non-monetary items that are measured based on historical cost in the foreign currency are not translated.

### 3.8 Property and equipment

Land granted by the Government of Sharjah and acquired through the acquisition of Radisson Blu Hotel and Resort is not depreciated, as it is deemed to have an infinite life.

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less impairment loss, if any. Cost includes professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Such properties are classified to the appropriate categories of property and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Other property and equipment are stated at cost less accumulated depreciation and impairment losses, if any.

Depreciation is calculated on a straight line basis so as to write off the cost of assets (other than freehold land and properties under construction) over their estimated useful lives, as follows:

	<b>Years</b>
Buildings	15 - 20
Aircraft	15
Aircraft engines	20
Aircraft rotables and equipments	3 - 10
Airport equipments and vehicles	3 - 15
Other property and equipment	3 - 7

The depreciation method, useful lives and residual values of assets are re-assessed at each reporting date. Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be reliably measured. All other repairs and maintenance are charged to consolidated profit or loss when incurred.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in consolidated profit or loss.



# Air Arabia PJSC and its subsidiaries

Notes *(continued)*

## 3 Significant accounting policies (continued)

### 3.9 Government grants

Land granted by the government is recognised at nominal value where there is reasonable assurance that the land will be received and the Group will comply with any attached conditions, where applicable.

### 3.10 Investment properties

Investment properties are accounted under the cost model of IAS 40. Investment properties, which are properties held to earn rentals and/or for capital appreciation (including property under construction for such purposes), are stated at cost less accumulated depreciation and any identified impairment losses. Cost includes the cost of replacing part of existing investment properties at the time that cost is incurred if the recognition criteria are met; and excludes the cost of day to day servicing of investment properties.

Investment properties under development that are being constructed or developed for future use as investment properties are measured initially at cost including all direct costs attributable to the design and construction of the property. Upon completion of construction or development, such properties are transferred to investment properties. Depreciation of these assets, on the same basis as other investment properties, commences when the assets are ready for their intended use.

Depreciation is charged so as to write off the cost of investment properties, other than land and investment properties under development, over the estimated useful lives of 20 years, using the straight line method.

Value of land granted by the Government of Sharjah on which investment property is constructed was valued by an external consultant.

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognised in consolidated profit and loss in the period of retirement or disposal.

### 3.11 Goodwill

Goodwill arising on acquisition of a subsidiary or jointly controlled entity is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit and loss.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit-pro rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in consolidated profit and loss. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of consolidated profit and loss on disposal.

# Air Arabia PJSC and its subsidiaries

Notes (continued)

## 3 Significant accounting policies (continued)

### 3.11 Intangible assets

Intangible assets acquired in a business combination are identified and recognised separately from goodwill where they satisfy the definition of an intangible asset and their fair values can be measured reliably. The cost of such intangible assets is their fair value at the acquisition date.

The useful lives of intangible assets have been estimated to be indefinite.

Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated impairment losses, on the same basis as intangible assets acquired separately.

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including expenditure on internally generated goodwill and brands, is recognised in profit or loss as incurred.

### 3.12 Deferred charges

Deferred charges are amortised on the straight-line method over the estimated period of benefit.

### 3.13 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises invoice price of materials. Cost is calculated using the first-in-first-out method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

### 3.14 Provision for staff terminal benefits

#### *Provision for employees' end of service indemnity*

Provision is made for the full amount of end of service benefit due to non-UAE national employees in accordance with the UAE Labour Law and is based on current remuneration and their period of service at the end of the reporting period. Provisions for staff terminal benefits for the employees working with the entities domiciled in other countries are made in accordance with local laws and regulations applicable to each entity.

#### *Defined contribution plans*

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and has no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution plans are expensed as the related service is provided. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

UAE national employees of the Group are members of the Government-managed retirement pension and social security benefit scheme pursuant to U.A.E. labour law no. 7 of 1999. The Group is required to contribute 12.5% of the "contribution calculation salary" of payroll costs to the retirement benefit scheme to fund the benefits. The employees and the Government contribute 5% and 2.5% of the "contribution calculation salary" respectively, to the scheme. The only obligation of the Group with respect to the retirement pension and social security scheme is to make the specified contributions. The contributions are charged to consolidated profit or loss.

# Air Arabia PJSC and its subsidiaries

Notes *(continued)*

## 3 Significant accounting policies (continued)

### 3.15 Aircraft maintenance

For the aircraft under operating lease agreements, wherein the Group has an obligation to maintain the aircraft, accruals are made during the lease term for the obligation based on estimated future costs of major airframe and certain engine maintenance checks by making appropriate charges to consolidated profit or loss calculated by reference to the number of hours or cycles operated and engineering estimates.

For the aircraft owned by the Group, maintenance accruals are made based on the technical evaluation.

### 3.16 Deferred income

Deferred income mainly represents unearned revenue from flight seats sold but not yet flown and will be released to consolidated profit or loss when passengers are flown or time expired.

### 3.17 Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

### 3.18 Financial instruments

#### *Non-derivative financial instruments*

Financial assets and financial liabilities are recognised when a Group entity becomes a party to the contractual provisions of the instrument.

All financial assets are recognised and derecognised on trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value.

Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss' (FVTPL), 'held-to-maturity' investments, 'available-for-sale' (AFS) investments and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

# Air Arabia PJSC and its subsidiaries

Notes (continued)

## 3 Significant accounting policies (continued)

### 3.18 Financial instruments (continued)

#### *Non-derivative financial instruments (continued)*

##### *Financial assets*

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

##### *Available-for-sale investments (AFS)*

Listed shares held by the Group that are traded in an active market are classified as being AFS and are stated at fair value. The Group also has other investments that are not traded in an active market but are also classified as AFS and stated at fair value because management considers that fair value can be reliably measured. Gains and losses arising from changes in fair value are recognised in consolidated statement of profit or loss and other comprehensive income and accumulated in the fair value reserve with the exception of impairment losses, which are recognised in consolidated profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the cumulative change in fair values is reclassified to consolidated profit or loss.

Dividend on AFS equity instruments are recognised in consolidated profit or loss when the Group's right to receive the dividends is established.

The fair value of AFS monetary assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the reporting date. The change in fair value attributable to translation differences that result from a change in amortised cost of the asset is recognised in consolidated profit or loss, and other changes are recognised in consolidated statement of profit or loss and other comprehensive income.

##### *Loans and receivables*

Loans and receivables are measured at amortised costs using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

The Group has classified the following financial assets as 'loans and receivables': bank balances and cash, long-term investments, short-term investments, trade and other receivables (excluding prepaid aircraft lease rentals and prepaid expenses), due from related parties and aircraft lease deposits.

##### *Bank balances and cash*

Bank balances and cash include cash on hand, balances in current account, call deposits, fixed deposits and margin deposits.

##### *Impairment of financial assets*

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For listed and unlisted AFS equity investments, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

# Air Arabia PJSC and its subsidiaries

Notes (continued)

## 3 Significant accounting policies (continued)

### 3.18 Financial instruments (continued)

#### *Non-derivative financial instruments (continued)*

#### *Financial assets (continued)*

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as a default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate. For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written-off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in consolidated profit and loss.

When an AFS investment is considered to be impaired, cumulative gains or losses previously recognised in consolidated statement of profit or loss and other comprehensive income are reclassified to consolidated profit and loss in the period.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through consolidated profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of AFS equity securities, impairment losses previously recognised in profit or loss are not reversed through consolidated profit or loss. Any increase in fair value subsequent to an impairment loss is recognised in consolidated statement of profit and loss and other comprehensive income.

# Air Arabia PJSC and its subsidiaries

Notes *(continued)*

## 3 Significant accounting policies (continued)

### 3.18 Financial instruments (continued)

#### *Non-derivative financial instruments (continued)*

##### *Financial assets (continued)*

##### *Derecognition of financial assets*

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset

##### *Financial liabilities*

The Group has classified the following financial liabilities as ‘other financial liabilities’: finance lease liabilities, trade and other payables, short-term borrowings and due to related parties and are initially measured at fair value, net of transaction costs and are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis except for short term payable when the recognition of interest would be immaterial.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

##### *Derecognition of financial liabilities*

The Group derecognises financial liabilities when, and only when, the Group’s obligations are discharged, cancelled or expired.

##### *Derivative financial instruments*

Derivatives financial instruments are initially recognised at fair value at the date a derivative contract is entered into and are subsequently re-measured to their fair value at the end of each reporting period. All the derivatives financial instruments are carried at their fair values as financial assets where the fair values are positive and as financial liabilities where the fair values are negative. A derivative financial instrument is presented as non-current assets or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realised or settled within 12 months. Other derivative financial instruments are presented as current assets or current liabilities. The resulting gain or loss is recognised in consolidated profit and loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in consolidated profit and loss depends on the nature of hedge relationship.

# Air Arabia PJSC and its subsidiaries

Notes *(continued)*

## 3 Significant accounting policies (continued)

### 3.18 Financial instruments (continued)

#### *Derivative financial instruments (continued)*

##### *Derivatives held for risk management purposes and hedge accounting*

Derivatives held for risk management purposes include all derivative assets and liabilities that are not classified as trading assets or liabilities. Derivatives held for risk management purposes are measured at fair value in the statement of financial position.

The Group designates certain derivatives held for risk management as hedging instruments in qualifying hedging relationships. On initial designation of the hedge, the Group formally documents the relationship between the hedging instruments and hedged items, including the risk management objective and strategy in undertaking the hedge, together with the method that will be used to assess the effectiveness of the hedging relationship. The Group makes an assessment, both at inception of the hedge relationship and on an ongoing basis, of whether the hedging instruments are expected to be highly effective in offsetting the changes in the fair value or cash flows of the respective hedged items during the period for which the hedge is designated, and whether the actual results of each hedge are within a range of 80–125%. The Group makes an assessment for a cash flow hedge of a forecast transaction, of whether the forecast transaction is highly probable to occur and presents an exposure to variations in cash flows that could ultimately affect consolidated profit or loss.

When a derivative is designated as the hedging instrument in a hedge of the variability in cash flows attributable to a particular risk associated with a forecasted transaction or recognised asset or liability that could affect consolidated profit or loss, the effective portion of changes in the fair value of the derivative is recognised in other comprehensive income and presented in the cash flow hedge reserve within equity. Any ineffective portion of changes in the fair value of the derivative is recognised immediately in consolidated profit or loss. The amount recognised in other comprehensive income is reclassified to consolidated profit or loss as a reclassification adjustment in the same period as the hedged cash flows affect consolidated profit or loss, and in the same line item in the consolidated statement of profit or loss and other comprehensive income.

If the hedging derivative expires or is sold, terminated or exercised, or the hedge no longer meets the criteria for cash flow hedge accounting, or the hedge designation is revoked, then hedge accounting is discontinued prospectively. However, if the derivative is novated to a central counterparty by both parties as a consequence of laws or regulations without changes in its terms except for those that are necessary for the novation, then the derivative is not considered as expired or terminated.

If a derivative is not held for trading, and is not designated in a qualifying hedge relationship, then all changes in its fair value are recognised immediately in consolidated profit or loss as a component of net income from other financial instruments at fair value through profit or loss.

## 4 Financial risk management and capital management

### Overview

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

- Credit risk
- Liquidity risk
- Market risk

# Air Arabia PJSC and its subsidiaries

Notes (continued)

## 4 Financial risk management and capital management (continued)

### Overview (continued)

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital.

### 4.1 Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Group is exposed to credit risk in relation to its monetary assets, mainly trade and other receivables, due from related parties, available-for-sale investments, long term and short term investment, cash at bank, long-term and short-term investments and aircraft lease deposits.

Trade receivables consist of a large number of customers, spread across diverse industries and geographical areas. Ongoing credit evaluation is performed on the financial condition of accounts receivable.

The Group does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The Group defines counterparties as having similar characteristics if they are related entities.

The carrying amount of financial assets recorded in the consolidated financial statements, which is net of impairment losses, represents the Group's maximum exposure to credit risk.

The exposure to credit risk on trade and other receivables is monitored on an ongoing basis by the management and these are considered recoverable by the Group's management.

The Group's cash and cash equivalents and investments are placed with banks institution of repute.

### 4.2 Liquidity risk

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

### 4.3 Market risk

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

#### 4.3.1 Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate because of changes in foreign exchange rates. The Group is not exposed to currency risk as all significant transactions of the Group are carried out in UAE Dirham ("AED") and US Dollar ("USD"), which is currently pegged to AED.



# Air Arabia PJSC and its subsidiaries

Notes *(continued)*

## 4 Financial risk management and capital management (continued)

### 4.3 Market risk (continued)

#### 4.3.2 Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate because of changes in market interest rates. The Group's interest rate risk is subject to changes in EIBOR rates.

#### 4.3.3 Equity price risk

The Group is exposed to equity price risks arising from equity investments. Equity investments are held for strategic rather than trading purposes. The Group does not actively trade these investments.

#### 4.3.4 Fuel price risk

The Group is exposed to fluctuations in the price of jet fuel. The Group closely monitors the actual cost of jet fuel against the forecasted cost. Significant changes in jet fuel and other product prices may have a substantial effect on the Group's results. The Group manages this risk by entering fuel hedging agreements.

## 4.4 Capital management

The Group's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. Management monitors the return on capital as well as the level of dividends to ordinary shareholders. No changes were made in the objectives, policies or processes during the year ended 31 December 2014.

The Group's management reviews the capital structure on a regular basis. As part of this review, the management considers the cost of capital and the risks associated with capital. The Group does not have a formalised optimal target capital structure or target ratios in connection with its capital risk management objective.

# Air Arabia PJSC and its subsidiaries

Notes (continued)

## 5. Property and equipment

Cost	Land AED '000	Buildings AED '000	Aircraft AED '000	Aircraft engines AED '000	Aircraft rotables and equipment AED '000	Airport equipment and vehicles AED '000	EDP equipment AED '000	Office equipment and fixture AED '000	Capital work- in-progress AED '000	Total AED '000
1 January 2013	50,000	600,435	2,691,858	200,922	26,526	18,224	17,285	15,141	14,942	3,635,333
Additions during the year	-	1,114	1,222,198	43,743	2,664	695	1,807	1,911	15,996	1,290,128
31 December 2013	50,000	601,549	3,914,056	244,665	29,190	18,919	19,092	17,052	30,938	4,925,461
1 January 2014	50,000	601,549	3,914,056	244,665	29,190	18,919	19,092	17,052	30,938	4,925,461
Additions/(transfers) during the year	-	12,023	1,553,346	36,194	7,339	-	4,839	11,785	(11,375)	1,614,151
31 December 2013	50,000	613,572	5,467,402	280,859	36,529	18,919	23,931	28,837	19,563	6,539,612
<b>Depreciation</b>										
1 January 2013	-	48,931	258,711	30,240	9,307	2,335	12,001	10,445	-	371,970
Charge for the year	-	30,379	174,270	9,292	2,214	1,053	1,721	2,435	-	221,364
31 December 2013	-	79,310	432,981	39,532	11,521	3,388	13,722	12,880	-	593,334
1 January 2014	-	79,310	432,981	39,532	11,521	3,388	13,722	12,880	-	593,334
Charge for the year	-	30,633	251,913	10,686	2,694	883	975	4,896	-	302,680
31 December 2014	-	109,943	684,894	50,218	14,215	4,271	14,697	17,776	-	896,014
<b>Net book value</b>										
31 December 2014	50,000	503,629	4,782,508	230,641	22,314	14,648	9,234	11,061	19,563	5,643,598
31 December 2013	50,000	522,239	3,481,075	205,133	17,669	15,531	5,370	4,172	30,938	4,332,127

# Air Arabia PJSC and its subsidiaries

Notes (continued)

## 5. Property and equipment (continued)

Depreciation is allocated as follows:

	2014 AED'000	2013 AED'000
Direct costs (refer note 26)	294,830	214,234
Administrative and general expenses (refer note 28)	7,850	7,130
	<u>302,680</u>	<u>221,364</u>

Buildings include hotel apartments, simulator and staff quarters. Simulator and staff quarters are constructed on leasehold land, leased from Sharjah Airport Authority.

At 31 December 2014, aircraft with carrying amount of AED 4.2 billion (2013: AED 2.9 billion) are held under finance lease (refer note 24).

Property and equipment includes one plot of land in Sharjah, granted by the Government of Sharjah recognised at nominal value of AED 1.

All of the Group's non-movable assets are located in the United Arab Emirates (UAE), except for property and equipment with carrying amount of AED 3.9 million (2013: AED 2.1 million), located outside UAE.

Capital work-in-progress represents advance payment made towards purchase of aircraft engines. Also refer note 6.

## 6. Advance for new aircraft

Advance for new aircraft represents pre-delivery payments made to suppliers for an amount of USD 158 million (equivalent to AED 577 million) (2013: USD 194 million (equivalent to AED 708 million)) made in respect of aircraft.

Movement in the advance for new aircraft was as follows:

	2014 AED'000	2013 AED'000
At 1 January	707,987	649,800
Advances paid during the year	447,158	472,987
Adjusted against aircraft purchase	(547,356)	(312,463)
Refund of advance paid	(28,972)	(102,337)
<b>At 31 December</b>	<u><b>578,817</b></u>	<u><b>707,987</b></u>

# Air Arabia PJSC and its subsidiaries

Notes (continued)

## 7. Investment properties

	Investment property AED '000	Investment property under construction AED '000	Total AED '000
<b>Cost</b>			
1 January and 31 December 2013	54,040	115,795	169,835
	-----	-----	-----
1 January and 31 December 2014	54,040	115,795	169,835
	-----	-----	-----
<b>Depreciation</b>			
1 January 2013	6,188	-	6,188
Charge for the year	750	-	750
	-----	-----	-----
31 December 2013	6,938	-	6,938
	-----	-----	-----
1 January 2014	6,938	-	6,938
Charge for the year	750	-	750
	-----	-----	-----
31 December 2014	7,688	-	7,688
	-----	-----	-----
<b>Net book value</b>			
<b>31 December 2014</b>	<b>46,352</b>	<b>115,795</b>	<b>162,147</b>
	=====	=====	=====
31 December 2013	47,102	115,795	162,897
	=====	=====	=====

Investment properties comprise a building constructed by the Group on a plot of land, adjacent to Sharjah International Airport, granted by the Government of Sharjah. The Group has accounted for this land at AED 39 million, based on independent valuers' report, engaged for the purpose of applying IFRS3 'Business Combination', at the time of acquisition of Air Arabia LLC (Air Arabia) by the Group.

The property rental income earned by the Group during the year amounted to AED 3.4 million (2013: AED 1.1 million) and direct operating expenses arising on the investment properties amounted to AED 0.75 million (2013: AED 0.75 million).

Management estimates the fair value of investment properties as at 31 December 2014 to be AED 167.8 million (2013: AED 167.8 million).

Investment property under construction comprises of a building located in Dubai, UAE.

# Air Arabia PJSC and its subsidiaries

Notes (continued)

## 8. Intangible assets

	2014 AED '000	2013 AED '000
<i>Movement during the year was as follows:</i>		
At 1 January	1,092,347	1,092,347
Additions during the year	2,818	-
	-----	-----
<b>At 31 December</b>	<b>1,095,165</b>	<b>1,092,347</b>
	=====	=====

Intangible assets arising out of acquisition of Air Arabia LLC (Air Arabia) in 2007, determined by independent valuer were as follows:

	2014 AED'000	2013 AED'000
Trade name	395,410	395,410
Landing rights	468,273	468,273
Price benefit from related parties	180,281	180,281
Handling licence - Sharjah Aviation Services	48,383	48,383
	-----	-----
	<b>1,092,347</b>	<b>1,092,347</b>
	=====	=====

During the year intangible assets were subject to impairment test similar to goodwill (refer note 9) and management has concluded that intangible assets are not impaired.

## 9. Goodwill

	2014 AED '000	2013 AED '000
<i>Movement during the year was as follows:</i>		
At 1 January	189,474	189,474
Additions during the year (refer note 34)	9,048	-
	-----	-----
<b>At 31 December</b>	<b>198,522</b>	<b>189,474</b>
	=====	=====

Goodwill arising out of acquisition of Air Arabia LLC determined by an independent valuer is as follows:

	2014 AED'000	2013 AED'000
Total fair value of Air Arabia Company LLC	1,400,000	1,400,000
Fair value of intangible assets (refer note 8)	(1,092,347)	(1,092,347)
Fair value of tangible assets (net)	(118,179)	(118,179)
	-----	-----
	<b>189,474</b>	<b>189,474</b>
	=====	=====

# Air Arabia PJSC and its subsidiaries

Notes (continued)

## 9. Goodwill (continued)

During the year, the Group has performed the impairment test on goodwill. The recoverable amount of cash-generating unit for impairment test has been determined using value in use calculation. For calculation purposes management prepared cash flow projections for 5 year period and applied a discount rate of between 9.28% to 9.81%.

Cash flow projections during the forecast period are based on the expected gross margins. Management believes that any reasonably possible change in the key assumptions on which recoverable amount is based would not cause the aggregate carrying amount to exceed the aggregate recoverable amount of the cash-generating unit. Based on these calculations goodwill is not impaired.

## 10. Deferred charges

	Aircraft upgrade costs AED'000	Landing permission charges AED'000	Total AED'000
<b>Cost</b>			
At 1 January 2013	22,153	51,745	73,898
Additions during the year	7,736	-	7,736
	-----	-----	-----
31 December 2013	29,889	51,745	81,634
	-----	-----	-----
At 1 January 2014	29,889	51,745	81,634
Additions during the year	1,358	-	1,358
	-----	-----	-----
31 December 2014	31,247	51,745	82,992
	=====	=====	=====
<b>Amortisation</b>			
At 1 January 2013	19,920	49,586	69,506
Charge for the year	1,229	2,159	3,388
	-----	-----	-----
31 December 2013	21,149	51,745	72,894
	-----	-----	-----
At 1 January 2014	21,149	51,745	72,894
Charge for the year	1,652	-	1,652
	-----	-----	-----
31 December 2014	22,801	51,745	74,546
	=====	=====	=====
<b>Net book value</b>			
<b>31 December 2014</b>	<b>8,446</b>	<b>-</b>	<b>8,446</b>
	=====	=====	=====
31 December 2013	8,740	-	8,740
	=====	=====	=====

## 11. Aircraft lease deposits

Aircraft lease deposits are placed with lessors for leasing aircraft.

# Air Arabia PJSC and its subsidiaries

Notes (continued)

## 12. Available-for-sale investments

	2014 AED '000	2013 AED '000
Quoted	12,286	16,358
Unquoted	691,538	754,671
	<u>703,824</u>	<u>771,029</u>
In UAE	336,509	403,715
In other GCC countries	367,315	367,314
	<u>703,824</u>	<u>771,029</u>
	2014 AED '000	2013 AED '000
<i>Movement during the year was as follows:</i>		
At 1 January	771,029	738,779
Disposed during the year	(57,003)	-
Change in fair value	(10,202)	32,250
<b>At 31 December</b>	<u><b>703,824</b></u>	<u><b>771,029</b></u>

The market rate as at 31 December 2014 is considered for the calculation of the fair value of the available-for-sale investments that are quoted in the stock exchange.

## 13. Trade and other receivables

	2014 AED '000	2013 AED '000
<b>Current</b>		
Trade receivables	187,351	152,063
Allowance for doubtful debts	(2,184)	(333)
	<u>185,167</u>	<u>151,730</u>
Prepaid aircraft lease rentals	7,595	13,705
Prepaid expenses – others	6,427	7,844
Advances and other receivables	196,864	276,476
Derivative financial instruments (refer note 21)	-	48,414
	<u><b>396,053</b></u>	<u><b>498,169</b></u>

# Air Arabia PJSC and its subsidiaries

Notes (continued)

## 13. Trade and other receivables (continued)

	2014 AED '000	2013 AED '000
<b>Non-current</b>		
Derivative financial instruments (refer note 21)	-	32,579
	====	=====

The average credit period ranges between 29-45 days (2013: 29 – 45 days). Trade receivables more than 180 days are provided for based on estimated irrecoverable amounts, determined by reference to past default experience in addition to specific provision made on identified customers. No interest is charged on trade receivables.

Before accepting any new customer the Group assesses the potential customers' quality and defines credit limits by customer. There are 2 customers (2013: 5 customers) who represent more than 5% of the total balance of trade receivables.

Trade receivables include receivable from Sales Agents amounting to AED 128.58 million (2013: AED 140.01 million), which is fully secured by bank guarantees.

In determining the recoverability of trade receivables, the Group considers any change in the credit quality of the trade receivables from the date credit was initially granted up to the reporting date. The concentration of credit risk is limited due to the customer base being large and unrelated. Further, trade receivables from Sales Agents are secured by bank guarantees. Accordingly, the management believes that there is no further credit provision required in excess of the allowance for doubtful debts. Management has assessed the advances and other receivables for impairment and have concluded that they are fully recoverable in the normal course of business.

## 14. Investment in joint ventures

Movement is as under:

	2014 AED '000	2013 AED '000
Balance as 1 January	55,667	64,756
Add: Share of profit for the year	18,608	19,437
Less: Step acquisition of a subsidiary, net *	(6,623)	-
Less: Dividend received	(17,500)	(28,526)
	-----	-----
Balance at 31 December	50,152	55,667
	=====	=====

\*This represents reversal of the value of the investment of the Air Arabia PJSC in the Information Systems Associates FZC (ISA) at the time of obtaining control in ISA (refer to note 34).



# Air Arabia PJSC and its subsidiaries

Notes (continued)

## 14. Investment in joint ventures

The following summarises the financial information of the material joint ventures and reconciles the summarized financial information to the carrying amount of the Group's interest in the joint ventures.

Percentage of interest	Alpha Flight Services UAE LLC		Sharjah Aviation Services LLC		Information Systems Associates FZC		Total
	2014 AED '000	2013 AED '000	2014 AED '000	2013 AED '000	2014 AED '000	2013 AED '000	
Assets	32,590	36,556	138,725	127,776	-	15,554	171,315
Liabilities	(20,402)	(18,421)	(50,609)	(48,158)	-	(2,240)	(71,011)
Net assets	12,188	18,135	88,116	79,618	-	13,314	100,304
Group's share in net assets as presented in the consolidated statement of financial position	6,094	9,068	44,058	39,809	-	6,790	50,152
Profit/(loss) for the year	9,052	15,135	28,497	20,310	(325)	3,361	37,224
Group's share of profit for the year	4,526	7,568	14,248	10,155	(166)	1,714	18,608
Cash dividends received by the Group	(7,500)	(7,526)	(10,000)	(21,000)	-	-	(17,500)

\*During the current year, ISA was converted to wholly owned subsidiary (refer note 34).

# Air Arabia PJSC and its subsidiaries

Notes (continued)

## 15. Investment in an associate

Investment in an associate represents a partial reversal of the provision against the cost of the investment.

## 16. Related party transactions

The Group, in the ordinary course of business, enters into transactions with other business enterprises that fall within the definition of related parties as contained in International Accounting Standard 24 "Related Party Disclosures". The management approves prices and terms of payment for these transactions and these are carried out at mutually agreed rates. The significant transactions entered into by the Group with related parties, other than those disclosed elsewhere in these consolidated financial statements, are as follows

### Transactions with related parties

During the year the Group entered into the following transactions with related parties:

	2014 AED '000	2013 AED '000
Rental income from investment property (refer note 7)	3,400	1,100
Rental income from aircraft operating lease (refer note 31.2)	71,958	77,436
Expenses recharged by related parties	29,436	30,574
Revenue from related parties	12,921	5,597
Management fees from associate (refer note 29)	8,014	7,981
	<u>          </u>	<u>          </u>

Transactions with related parties were carried out at terms agreed between the management of the Company and related parties.

### Compensation of key management personnel:

	2014 AED '000	2013 AED '000
Short term benefits	12,609	12,313
Long term benefits	3,450	2,250
Board of Directors' remuneration	3,850	3,850
	<u>          </u>	<u>          </u>

	2014 AED '000	2013 AED '000
<b>Due from related parties:</b>		
Receivable from an associate and joint ventures	48,298	77,485
Others	-	1,629
	<u>          </u>	<u>          </u>
	<u>48,298</u>	<u>79,114</u>

# Air Arabia PJSC and its subsidiaries

Notes (continued)

## 16. Related party transactions (continued)

	2014 AED '000	2013 AED '000
<b>Due to related parties:</b>		
Payable to joint ventures	1,731	14,363
Others	5,309	1,180
	<u>7,040</u>	<u>15,543</u>

Amount due from/(to) related parties are unsecured, bear no interest and have no fixed repayment terms. Management considers these to be current assets/current liabilities as appropriate.

The Group also invests cash balances with a related party in order to seek to maximise returns. The unquoted investments disclosed in note 12 (and the other short term investments disclosed in note 17.1) represent such investments.

## 17. Bank balances and cash

	2014 AED '000	2013 AED '000
Bank balances:		
Current accounts	222,870	159,156
Call deposits	21,356	21,260
Fixed deposits*	1,074,392	1,206,608
Margin deposits*	3,303	2,477
	<u>1,321,921</u>	<u>1,389,501</u>
Cash in hand	2,329	1,565
	<u>1,324,250</u>	<u>1,391,066</u>

\* These carry interest rates ranging from 3% - 5% per annum (2013: 3% - 4.5%).

### 17.1. Other investments

	2014 AED '000	2013 AED '000
Short-term investments (refer note (i) below)	183,654	-
National bonds (refer note (ii) below)	150,000	50,000
	<u>333,654</u>	<u>50,000</u>
Less: long-term portion of other investments	(100,000)	(50,000)
	<u>233,654</u>	<u>-</u>

(i) Represents investment placed in an investment company. This investment carry interest at 10% per annum.

(ii) Represents investment in national bonds. These bonds carry interest ranging from 3.5% - 4% per annum (2013: 4% per annum).

# Air Arabia PJSC and its subsidiaries

Notes (continued)

## 17. Bank balances and cash (continued)

### 17.2. Short term borrowings

	2014 AED '000	2013 AED '000
Bank overdraft (refer note (i) below)	183,657	200,085
Supplier finance facility (refer note (ii) below)	-	91,861
	<u>183,657</u>	<u>291,946</u>

(i) The Group has availed overdraft facility from a lending bank. This overdraft facility carries interest at one month LIBOR+0.9% per annum (2013: six months LIBOR+1.6% per annum).

(ii) In the previous year, the Group entered into a factoring arrangement with the lending bank for the purpose of payments to a major fuel supplier. This factoring arrangement carried interest at one month EIBOR+2.25% per annum.

## 18. Share capital

	2014 AED '000	2013 AED '000
Authorised, issued and fully paid up share capital (of 4,666,700 thousand shares of AED 1 each)	<u>4,666,700</u>	<u>4,666,700</u>

## 19. Statutory reserve

In accordance with the Company's Articles of Association and Article 255 of UAE Federal Law No. 8 of 1984 (as amended), 10% of profit for the year has to be transferred to a statutory reserve. Such transfers may be discontinued when the reserve equals 50% of the paid up share capital of the Company. This reserve is non-distributable except in certain circumstances as mentioned in the above Law.

## 20. General reserve

In accordance with the Company's Articles of association, an amount equal to 10% of profit for the year is transferred to a general reserve. Transfers to this reserve shall stop by resolution of an Ordinary General Assembly upon recommendation by the Board of Directors or when this reserve reaches 50% of the paid up capital of the Company. This reserve shall be utilised for the purposes determined by the General Assembly at an ordinary meeting upon recommendation by the Board of Directors.

## 21. Derivative instruments

The Group uses derivative financial instruments for risk management purpose.

# Air Arabia PJSC and its subsidiaries

Notes (continued)

## 21. Derivative instruments (continued)

### *Fuel derivative*

During the year ended 31 December 2014 The Group has classified fuel derivatives as cash flow hedges in accordance with the recognition criteria of IAS 39, "Financial instruments: Recognition and measurement", as it is mitigating the risk of cash flow variations due to movements in fuel jet prices.

Hedging instruments are measured at their fair value at the reporting date and the effective portion of the changes in their fair value is recognised in other comprehensive income, as part of the Cash flow hedge reserve.

During 2014 losses of AED 37.5 million relating to the ineffective portion of cash flow hedges were reflected in consolidated profit or loss, as part of other income (refer note 29).

	2014		2013	
	Term	AED '000	Term	AED '000
<b>Non-current liabilities</b>				
Commodity Swaps, forwards options and others	2014-2017	399,267	-	-
<b>Current liabilities</b>				
Commodity Swaps, forwards options and others	2014-2017	331,233	-	-
<b>Total</b>		<b>730,500</b>		<b>-</b>

# Air Arabia PJSC and its subsidiaries

Notes (continued)

## 21. Derivative instruments (continued)

### *Currency and interest rate derivatives*

These derivatives are linked to the underlying commodity and they do not meet the criteria for hedge accounting under IAS 39.

The realised and unrealised gain on these derivatives amounting AED 24.7 million (2013: AED 3.3 million gain) (refer note 29) has been taken to the consolidated profit or loss. As of the reporting date there is no open position relating to these derivatives.

## 22. Provision for staff terminal benefits

	2014 AED '000	2013 AED '000
At 1 January	48,011	38,467
Charge for the year	21,766	12,366
Payments made during the year	(4,476)	(2,822)
	-----	-----
<b>At 31 December</b>	<b>65,301</b>	<b>48,011</b>
	=====	=====

## 23. Trade and other payables

	2014 AED '000	2013 AED '000
Trade payables	108,898	124,458
Maintenance liabilities	567,693	420,071
Accrued expenses	275,705	230,061
Cash flow hedge liability (refer note 21)	730,500	-
Lease deposit payables	12,353	10,448
Other payables	385,885	344,388
	-----	-----
	2,081,034	1,129,426
Less: Amount due for settlement after 12 months (shown under non-current liabilities)	(255,737)	(109,835)
Less: Cash flow hedge liability due for settlement after 12 months (shown under non-current liabilities)	(399,267)	-
	-----	-----
<b>Amount due for settlement within 12 months</b>	<b>1,426,030</b>	<b>1,019,591</b>
	=====	=====

The Group has financial risk management policies in place to ensure that all payables are paid within the credit timeframe.

# Air Arabia PJSC and its subsidiaries

Notes (continued)

## 24. Finance lease liabilities

The Group has entered into a leasing arrangement with a leasing company to finance the purchase of aircraft. The terms of the leases are 12 years and payments due under lease agreements are as follows:

	2014 AED '000	2013 AED '000
Not later than one year	266,542	176,018
Later than one year but not later than five year	1,117,748	812,916
Later than five years	1,517,283	1,138,138
	<u>2,901,573</u>	<u>2,127,072</u>

The finance charges are calculated based on average interest rate of 2.64% (2013: 2.97%).

Disclosed in the consolidated financial statements as:

	2014 AED '000	2013 AED '000
Current-portion of finance lease liabilities	266,542	176,018
Non-current portion of finance lease liabilities	2,635,031	1,951,054
	<u>2,901,573</u>	<u>2,127,072</u>

The finance lease liabilities are secured by the leased aircraft (refer note 5).

The lease agreements are subject to certain financial and operational covenants including compliance to various regulations, restrictions on subleasing, insurance coverage and maintenance of total debt to equity ratio.

## 25. Revenue

	2014 AED '000	2013 AED '000
Passenger revenue	3,274,316	2,766,776
Baggage revenue	44,422	43,167
Cargo revenue	90,904	79,581
Service revenue	88,286	54,089
Revenue from hotel operations	77,883	67,248
Other airline related services	196,890	214,803
Sales commission and expenses	(43,908)	(41,841)
	<u>3,728,793</u>	<u>3,183,823</u>

# Air Arabia PJSC and its subsidiaries

Notes (continued)

## 26. Direct costs

	2014 AED '000	2013 AED '000
Staff costs	439,574	373,251
Aircraft lease rentals (net) (refer note 31.2)	53,635	104,054
Fuel	1,525,174	1,338,136
Aircraft maintenance expenses	273,390	240,068
Passenger, ground and technical handling charges	194,743	175,915
Landing and overflying charges	200,342	179,978
Insurance	12,029	14,824
Service costs	4,046	3,348
Depreciation of property and equipment (refer note 5)	294,830	214,234
Other operating costs	48,110	37,461
	-----	-----
	<u>3,045,873</u>	<u>2,681,269</u>

## 27. Selling and marketing expenses

	2014 AED '000	2013 AED '000
Staff costs	24,990	24,734
Advertisement expenses	25,075	25,767
Reservation management expenses	1,727	3,860
	-----	-----
	<u>51,792</u>	<u>54,361</u>

## 28. General and administrative expenses

	2014 AED '000	2013 AED '000
Staff costs	64,150	40,310
Legal and professional fees	5,874	4,056
Travel and accommodation costs	4,131	321
Communication costs	5,029	4,406
Depreciation of property and equipment (refer note 5)	7,850	7,130
Rent	5,909	2,961
Impairment loss recognised on receivables	-	4,220
Other expenses	55,264	41,200
	-----	-----
	<u>148,207</u>	<u>104,604</u>



# Air Arabia PJSC and its subsidiaries

Notes (continued)

## 29. Other income

	2014 AED '000	2013 AED '000
Gain on derivatives transactions (foreign currency and interest rates)	24,723	3,320
Recycling of fair value reserve on disposal of available-for-sale-investments	12,130	-
Exchange rate variance	10,510	4,096
Reversal of impairment provision	10,000	-
Unrealised (loss)/gain on fuel derivatives (refer note 21)	(37,522)	37,692
Management fees from associate (refer note 16)	8,014	7,981
Gain on valuation of investment in joint venture (refer note 34)	4,614	-
Rental income	3,400	4,222
Simulator and pilot/crew training income	14,038	5,297
Dividend income	244	172
Other miscellaneous income	14,647	6,092
	<u>64,798</u>	<u>68,872</u>

## 30. Basic earnings per share

	2014 AED	2013 AED
Profit attributable to the owners of the Company (in AED '000)	<u>552,912</u>	<u>420,739</u>
Number of shares (in '000)	<u>4,666,700</u>	<u>4,666,700</u>
Basic earnings per share (AED)	<u>0.12</u>	<u>0.09</u>

Basic earnings per share have been calculated by dividing the profit attributable to the owners of the Company for the year by the number of shares outstanding as at the reporting date.

## 31. Operating lease arrangements

### 31.1 Where the Group is a lessee:

	2014 AED '000	2013 AED '000
Minimum lease payment under operating leases (excluding variable lease rental on the basis of flying hours) recognised in consolidated profit and loss for the year	<u>125,594</u>	<u>181,461</u>

# Air Arabia PJSC and its subsidiaries

Notes (continued)

## 31. Operating lease arrangements (continued)

### 31.1 Where the Group is a lessee (continued):

The lease commitments for aircraft were as follows:

	2014 AED '000	2013 AED '000
Within one year	52,386	115,825
In the second to fifth years inclusive	7,068	59,241
	-----	-----
	<u>59,454</u>	<u>175,066</u>

In addition to the above fixed lease commitments, there is a variable lease rental element depending on the flying hours of the leased aircraft.

The aircraft lease agreements are subject to various covenants including restriction to sell or convey substantially all of the Group's property and assets or merge or consolidate with or into any other corporation without the prior consent of the lessor and no security interest may be created by the Group on the leased aircraft.

### 31.2 Where the Group is a lessor:

The Group has leased out 4 (2013: 5) aircraft under non-cancellable operating lease agreements to related parties.

*Minimum lease payments:*

The leases have varying terms and renewal rights. The future minimum lease payments receivable under non-cancellable operating leases contracted for at the reporting dates but not recognised as receivables, are as follows:

	2014 AED '000	2013 AED '000
Within one year	33,580	43,819
In the second to fifth years inclusive	17,111	24,422
	-----	-----
	<u>50,691</u>	<u>68,241</u>

The carrying amount of the leased aircraft owned by the Group under operating leases at the reporting date are as follows.

	2014 AED '000	2013 AED '000
Net book value	492,010	374,731
	=====	=====
Accumulated depreciation	148,488	99,382
	=====	=====
Depreciation charge for the year	34,177	25,298
	=====	=====

The Group has leased out 4 aircraft (2013: 3 aircraft).

# Air Arabia PJSC and its subsidiaries

Notes (continued)

## 32. Contingent liabilities

	2014 AED '000	2013 AED '000
Letters of credit	27,862	34,036
Letters of guarantee	30,666	25,453
	<u>          </u>	<u>          </u>

Letters of credit mainly comprise letters of credit issued to lessors of aircraft in lieu of placing deposits against leased aircraft.

## 33. Capital commitments

	2014 AED '000	2013 AED '000
<i>Authorised and contracted:</i>		
Aircraft fleet	3,151,956	6,465,167
	<u>                  </u>	<u>                  </u>
<i>Authorised but not contracted:</i>		
Aircraft fleet	1,422,807	1,422,807
	<u>                  </u>	<u>                  </u>

## 34. Acquisition of a subsidiary

On 25 February 2014, the Group acquired 49% of the shares and voting interests in Information Systems Associates FZC ("ISA"). As a result, the Group's equity interest in ISA increased from 51% to 100% and it obtained control of ISA. ISA was previously a joint venture and was accounted for as an equity accounted investee.

The re-measurement to fair value of the Group's existing 51% interest in ISA resulted in a gain of AED 4,614 thousand. This amount has been included in other income (refer note 29).

The Goodwill arising from the acquisition has been recognised as follows:

	AED'000
Cash consideration	10,797
Fair value of previously held equity interest in ISA	11,238
	<u>          </u>
<b>Total consideration transferred</b>	<b>22,035</b>
Less : Fair value of identifiable net assets acquired (i)	(12,987)
	<u>          </u>
<b>Goodwill (refer note 9)</b>	<b>9,048</b>
	<u>          </u>

# Air Arabia PJSC and its subsidiaries

Notes (continued)

## 34. Acquisition of subsidiary (continued)

- (i) The assets and liabilities of ISA have been recorded at their carrying values. Management is currently in the process of evaluating the fair value of identifiable net assets acquired and any necessary adjustments will be made to these net assets and goodwill during the measurement period of one year as permitted by IFRS 3.

## 35. Dividend

During the year, dividend of AED 9 fils per share (2013: AED 7 fils) was paid to the Shareholders.

The Directors propose that a dividend of AED 420,003,000 AED 9 fils per share (2013: AED 338,335,750, AED 7.25 fils per share) will be paid to the Shareholders in 2015. This dividend is subject to approval by the Shareholders at the Annual General Meeting and has not been included as a liability in these consolidated financial statements.

## 36. Financial instruments

Financial assets of the Group include available-for-sale investments, cash at bank, long-term and short-term investments, trade and other receivables, aircraft lease deposits and amounts due from related parties. Financial liabilities of the Group include trade and other payables, short term borrowings, finance lease liabilities and amounts due to related parties. Accounting policies of financial assets and financial liabilities are disclosed under note 3. The table below sets out the Group's classification of each class of financial assets and financial liabilities and their fair values for the current year and the comparative period:

### 36.1 Credit risk

#### Exposure to credit risk

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

31 December 2014

Assets	Loans and Receivables AED '000	Financial assets		Total AED '000
		Available- for-sale AED '000	Designated as FVTPL AED '000	
Bank balances and cash	1,324,250	-	-	1,324,250
Other investments (long-term and short-term)	333,654	-	-	333,654
Trade and other receivables	396,053	-	-	396,053
Due from related parties	48,298	-	-	48,298
Available-for-sale investments	-	703,824	-	703,824
Aircraft lease deposits	3,675	-	-	3,675
<b>Total assets</b>	<b>2,105,930</b>	<b>703,824</b>	<b>-</b>	<b>2,809,754</b>

# Air Arabia PJSC and its subsidiaries

Notes (continued)

## 36. Financial instruments (continued)

### 36.1 Credit risk (continued)

*Exposure to credit risk (continued)*

31 December 2013

Assets	Loans and Receivables AED '000	Financial assets		Total AED '000
		Available- for-sale AED '000	Designated as FVTPL AED '000	
Bank balances and cash	1,391,066	-	-	1,391,066
Long term investments	50,000	-	-	50,000
Trade and other receivables	428,206	-	80,993	509,199
Due from related parties	79,114	-	-	79,114
Available-for-sale investments	-	771,029	-	771,029
Aircraft lease deposits	11,775	-	-	11,775
<b>Total assets</b>	<b>1,960,161</b>	<b>771,029</b>	<b>80,993</b>	<b>2,812,183</b>

### 36.2 Liquidity risk

The following are the contractual maturities of financial liabilities, including interest payments and including the impact of netting of agreements at the statement of financial position date:

	Carrying amount AED'000	Contractual cash flows AED'000	Less than one year AED'000	More than one year AED'000
<b>31 December 2014</b>				
<i>Non-derivative</i>				
<i>Financial liabilities</i>				
Trade and other payables	1,350,534	1,350,534	1,094,797	255,737
Finance lease liabilities	2,901,573	3,372,396	273,578	3,098,818
Short term borrowings	183,657	183,657	183,657	-
Due to related parties	7,040	7,040	7,040	-
<i>Derivative</i>				
Cash flow hedge liability	730,500	730,500	399,267	331,233
	<b>5,173,304</b>	<b>5,644,127</b>	<b>1,958,339</b>	<b>3,685,788</b>
<b>31 December 2013</b>				
<i>Non-derivative</i>				
<i>Financial liabilities</i>				
Trade and other payables	1,129,426	1,129,426	1,019,591	109,835
Finance lease liabilities	2,127,072	2,397,386	187,025	2,210,361
Short term borrowings	291,946	295,782	295,782	-
Due to related parties	15,543	15,543	15,543	-
	<b>3,563,987</b>	<b>3,838,137</b>	<b>1,517,941</b>	<b>2,320,196</b>

# Air Arabia PJSC and its subsidiaries

Notes (continued)

## 36. Financial instruments (continued)

### 36.3 Equity price risk

The Group is exposed to equity price risks arising from equity investments. Equity investments are held for strategic rather than trading purposes. The Group does not actively trade these investments.

The following table demonstrates the sensitivity of the Group's equity and profit or loss to a 10 percent change in the price of its equity holdings, assuming all other variables remain constant.

	Effect on other comprehensive income AED'000	Effect on profit or loss AED'000
<b>31 December 2014</b>		
Effect of changes in AFS investments	70,382	-
	=====	====
<b>31 December 2013</b>		
Effect of changes in AFS investments	77,103	-
	=====	====

### 36.4 Interest rate risk

The Group is mainly exposed to interest rate risk on fixed deposits, margin deposits, finance lease liabilities and short term borrowings. These are subject to normal commercial rates of interest determined by market conditions.

At the reporting date, the interest rate profile of the Group's interest-bearing financial instruments is as under:

	2014 AED'000	2013 AED'000
<b>Fixed rate instruments</b>		
<i>Financial assets</i>		
Fixed deposits	1,074,392	1,206,608
Margin deposits	3,303	2,477
Other investments (short-term + long-term)	333,654	50,000
	=====	=====
	2014 AED'000	2013 AED'000
<b>Variable rate instruments</b>		
<i>Financial liabilities</i>		
Finance lease liabilities	2,901,573	2,127,072
Short term borrowings	183,657	291,946
	-----	-----
	3,085,230	2,419,018
	=====	=====

# Air Arabia PJSC and its subsidiaries

Notes (continued)

## 36. Financial instruments (continued)

### 36.4 Interest rate risk (continued)

#### *Sensitivity analysis for fixed rate instruments*

Since the interest rate is fixed, therefore any change in interest rate will not have any impact on the consolidated profit or loss of the Group.

#### *Sensitivity analysis for variable rate instruments*

A change of 100 basis points (“bp”) in interest rates at the reporting date would have increased/decreased consolidated equity and consolidated profit or loss by the amounts shown below. The analysis below excludes interest capitalized and assumes that all other variables remain constant.

	<b>Income statement</b>	
	<b>100 bp increase AED’000</b>	<b>100 bp decrease AED’000</b>
<b>31 December 2014</b>		
Variable rate instruments	30,852	(30,852)
	=====	=====
<b>31 December 2013</b>		
Variable rate instruments	24,190	(24,190)
	=====	=====

### 36.5 Fair value hierarchy

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

#### **31 December 2014**

	<b>Level 1 AED ’000</b>	<b>Level 2 AED ’000</b>	<b>Level 3 AED ’000</b>	<b>Total AED ’000</b>
Derivative liability	-	(730,500)	-	(730,500)
<i>Available-for-sale Investments</i>				
FVPTL - Quoted investments	12,286	-	-	12,286
FVPTL - Unquoted Investments	-	691,538	-	691,538
	-----	-----	-----	-----
	12,286	(38,962)	-	(26,676)
	=====	=====	=====	=====

# Air Arabia PJSC and its subsidiaries

Notes (continued)

## 36. Financial instruments (continued)

### 36.5 Fair value hierarchy (continued)

31 December 2013

	Level 1 AED '000	Level 2 AED '000	Level 3 AED '000	Total AED '000
Derivative financial Instruments	-	80,993	-	80,993
<i>Available-for-sale Investments</i>				
FVPTL - Quoted investments	16,358	-	-	16,358
FVPTL - Unquoted Investments	-	754,671	-	754,671
	----- 16,358 =====	----- 835,664 =====	----- - =====	----- 852,022 =====



# Air Arabia PJSC and its subsidiaries

Notes (continued)

## 37. Segment information

The Group has broadly two reportable segments as described below, which are the Group's strategic business units. The strategic business units operate in different sectors and are managed separately because they require different strategies. The following summary describes the operation in each of the Group's reportable segments:

*Airline* includes international commercial air transportation, aircraft rental, passengers transport, cargo services, aviation training and aircraft repairs and maintenance.

*Other segments* includes travel and tourist agencies, hotels, hotel apartment rentals, airline companies' representative office and documents transfer services.

*Primary reporting format – business segments*

<b>31 December 2014</b>	<b>Airline</b>	<b>Other</b>	<b>Eliminations</b>	<b>Total</b>
	<b>AED '000</b>	<b>segments</b>	<b>AED '000</b>	<b>AED '000</b>
		<b>AED '000</b>	<b>AED '000</b>	<b>AED '000</b>
<b>Revenue</b>				
External sales	3,562,738	166,055	-	3,728,793
Inter-segment sales	-	3,275	(3,275)	-
	<u>3,562,738</u>	<u>169,330</u>	<u>(3,275)</u>	<u>3,728,793</u>
<b>Result</b>				
Segment result	454,923	58,598	-	513,521
Share of profit from equity accounted investees	-	-	-	29,025
Finance costs	-	-	-	(66,046)
Finance and other income	-	-	-	89,328
<b>Profit for the year</b>				<u>565,828</u>
<b>Other information</b>				
Additions to property and equipment and deferred charges	1,598,061	17,448	-	1,615,509
Depreciation and amortisation	300,984	4,098	-	305,082
<b>Assets</b>				
Segment assets	8,117,882	206,133	(79,234)	8,244,781
Unallocated Group assets	-	-	-	2,329,660
<b>Total assets</b>				<u>10,574,441</u>
<b>Liabilities</b>				
Segment liabilities	5,472,472	100,187	(79,234)	5,493,425

# Air Arabia PJSC and its subsidiaries

Notes (continued)

## 37. Segment information (continued)

Primary reporting format - business segments (continued)

31 December 2013	Airline AED '000	Other segments AED '000	Eliminations AED '000	Total AED '000
<b>Revenue</b>				
External sales	3,066,596	117,227	-	3,183,823
Inter-segment sales	814	4,353	(5,167)	-
	<u>3,067,410</u>	<u>121,580</u>	<u>(5,167)</u>	<u>3,183,823</u>
<b>Result</b>				
Segment result	348,308	55,764	(3,249)	400,823
Share of profit from equity accounted investees	-	-	-	19,437
Finance costs	-	-	-	(43,183)
Finance and other income	-	-	-	58,124
<b>Profit for the year</b>				<u>435,201</u>
<b>Other information</b>				
Additions to property and equipment and deferred charges	1,295,264	2,600	-	1,297,864
Depreciation and amortization	223,553	1,949	-	225,502
<b>Assets</b>				
Segment assets	7,070,647	154,427	(45,872)	7,179,202
Unallocated Group assets	-	-	-	2,215,499
<b>Total assets</b>				<u>9,394,701</u>
<b>Liabilities</b>				
Segment liabilities	3,812,535	51,855	(45,872)	3,818,518

Inter-segment sales are charged at prevailing market prices.

The accounting policies of the reportable segments are the same as the Group's accounting policies described in Note 3 to the consolidated financial statements. Segment result represents the profit earned by each segment without considering share of profit from equity accounted entities, finance cost, finance income and other income. Segment assets do not include fixed deposits, available-for-sale investments, investment properties, investment in joint ventures and associates and short term investment. Goodwill and intangible assets have been allocated to the Airline segment.

# Air Arabia PJSC and its subsidiaries

Notes (continued)

## 38. Significant accounting estimates and judgements

The Group makes estimates and assumptions that affect the reported amounts of assets and liabilities within the next financial year. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on amounts recognised in the consolidated financial statements are as follows.

### *Classification of investments*

Management decides on acquisition of a financial asset whether it should be classified as Fair value through profit or loss (FVTPL) - held for trading, held to maturity investments, loans and receivables or available for sale investments.

The Group has classified its investment as AFS investments as these investments are not falling under the category of FVTPL - held for trading, held to maturity investments or loans and receivables.

### *Valuation of unquoted investments*

The Group carries out valuation of unquoted investments normally based on recent market transactions on an arm's length basis, fair value of another instrument that is substantially the same, expected cash flows discounted at current rates for similar instruments or other valuation models.

### *Impairment of AFS Investments*

The Group determines whether AFS investments are impaired when there has been a significant or prolonged decline in their fair value below cost. This determination of what is significant or prolonged requires judgement. In making this judgement and to record whether an impairment occurred, the Group evaluates among other factors, the normal volatility in share price, the financial health of the investee, industry and sector performance, changes in technology and operational and financial cash flows.

### *Impairment of goodwill and intangible assets*

Goodwill is tested annually for impairment and at other times when such indications exist. The impairment calculation requires the use of estimates.

The intangible asset includes trade name, landing rights, price benefits from related parties and handling license – Sharjah Aviation Services LLC.

Management has concluded that no impairment of goodwill and intangible assets is required based on independent valuer's report on impairment test performed as of 31 December 2014.

# Air Arabia PJSC and its subsidiaries

Notes (continued)

## 38. Significant accounting estimates and judgements (continued)

### *Classification of leases*

The Group, as a lessor and lessee, has entered into lease arrangements for leasing of aircrafts.

In the process of determining whether these arrangements represent operating leases or finance leases, the Group's management has made various judgements. In making its judgements, the Group's management considered the terms and conditions of the lease agreements and the requirements of IAS 17 Leases, including the Basis for Conclusions on IAS 17 provided by the International Accounting Standards Board and related guidance, to determine whether significant risks and rewards associated with the asset in accordance with each lease term would have been transferred to the lessee at the end of the lease period. The Group evaluated the transfer of risks and rewards before and after entering into the lease arrangements and the management is satisfied that the lease arrangements accounted for in the consolidated financial statements are appropriately classified as finance lease and operating lease.

### *Leased aircraft maintenance costs*

The Group incurs liabilities for maintenance costs in respect of its leased aircraft during the course of the lease term. These are a result of legal and constructive obligations in the lease contract in respect of the return conditions applied by lessors, which require aircraft airframes, engines, landing gear and auxiliary power units to reach at least a specified condition on their return at the end of the lease term. A charge is made in consolidated profit or loss each month based on the number of flight hours or cycles used to build up an accrual to cover the cost of heavy-duty maintenance checks when they occur. Estimates involved in calculating the provision required include the expected date of the check, market conditions for heavy-duty maintenance checks pertaining at the expected date of check, the condition of asset at the time of the check, the likely utilisation of the asset in terms of either flying hours or cycles, and the regulations in relation to extensions to lives of life-limited parts, which form a significant proportion of the cost of heavy-duty maintenance costs of engines. Additional maintenance costs for aircraft engines are considered for accrual based on the estimates made by engineering department on the basis of operational requirements.

The Group is also required to pay maintenance reserves to lessors on a monthly basis, based on usage. These maintenance reserves are then returned to the Group on production of evidence that qualifying maintenance expenditure has been incurred. Maintenance reserves paid are deducted from the accruals made. In some instances, not all of the maintenance reserves paid can be recovered by the Group and therefore are retained by the lessor at the end of the lease term.

Assumptions made in respect of the basis of the accruals are reviewed for all aircraft once a year. In addition, when further information becomes available which could materially change an estimate made, such as a heavy-duty maintenance check taking place, utilisation assumptions changing, or return conditions being re-negotiated, then specific estimates are reviewed immediately, and the accrual is reset accordingly.

### *Accrual for aircraft flying costs*

Management accrues for the landing, parking, ground handling, and other charges applicable for each airport in which the Group operates flights on a monthly basis. These estimates are based on the rate of charges applicable to each airport based on the agreements and recent invoices received for the services obtained. Similarly, accruals for overflying charges are estimated based on the agreement entered with each country. Actual charges may differ from the charges accrued and the differences are accounted for, on a prospective basis.

# Air Arabia PJSC and its subsidiaries

Notes (continued)

## 38. Significant accounting estimates and judgements (continued)

### *Estimated useful life and residual value of property, plant and equipment and investment properties*

The cost of property and equipment and investment property is depreciated (except land) over the estimated useful life, which is based on expected usage of the asset, expected physical wear and tear, the repair and maintenance program and technological obsolescence arising from changes and the residual value. The management has considered residual values while computing the depreciation for aircraft, aircraft engines and aircraft rotables and equipment.

### *Deferred charges*

The period of amortisation of the deferred charges is determined based on the pattern in which the future economic benefits are expected to be consumed by the Group.

### *Impairment losses on trade and related party receivables*

An estimate of the collectible amount of trade and related party receivables is made when collection of the full amount is no longer probable. This determination of whether these trade and related party receivables are impaired, entails the Group evaluating, the credit and liquidity position of the customers, historical recovery rates and collateral requirements from certain customers in certain circumstances. The difference between the estimated collectible amount and the book amount is recognised as an expense in consolidated profit or loss. Any difference between the amounts actually collected in the future periods and the amounts expected will be recognised in consolidated profit or loss at the time of collection.

### *Impairment of property and equipment*

Management assesses impairment loss on property and equipment whenever there are indicators of impairment. In assessing impairment of property and equipment based on value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and risk specific to the asset.

## 39. Post balance sheet event

Subsequent to the year end, Air Arabia PJSC has opened a new international hub at Amman Queen Alia International Airport in Jordan and also acquired 49 per cent stake in Petra Airlines.

