

Air Arabia PJSC
and its subsidiaries

Condensed consolidated interim
financial information
for the three month period ended 31 March 2014

Air Arabia PJSC and its subsidiaries

Condensed consolidated interim financial information
for the three month period ended 31 March 2014

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Independent Auditors' Report on Review of Condensed Consolidated Interim Financial Information

The Board of Directors
Air Arabia PJSC

Introduction

We have reviewed the accompanying 31 March 2014 condensed consolidated interim financial information of Air Arabia PJSC ("the Company") and its subsidiaries (collectively referred to as "the Group"), which comprises:

- the condensed consolidated statement of financial position as at 31 March 2014;
- the condensed consolidated income statement for the three month period ended 31 March 2014;
- the condensed consolidated statement of profit or loss and other comprehensive income for the three month period ended 31 March 2014;
- the condensed consolidated statement of changes in equity for the three month period ended 31 March 2014;
- the condensed consolidated statement of cash flows for the three month period ended 31 March 2014;
- and,
- notes to the condensed consolidated interim financial information.

Management is responsible for the preparation and presentation of this condensed consolidated interim financial information in accordance with International Accounting Standard (IAS) 34, 'Interim Financial Reporting'. Our responsibility is to express a conclusion on this condensed consolidated interim financial information based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity." A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying 31 March 2014 condensed consolidated interim financial information is not presented, in all material respects, in accordance with IAS 34, "Interim Financial Reporting".

KPMG Lower Gulf Limited
Muhammad Tariq
Registration No.: 793
Dubai, United Arab Emirates

12 MAY 2014

Air Arabia PJSC and its subsidiaries

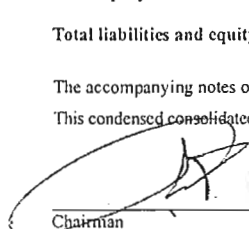
Condensed consolidated statement of financial position

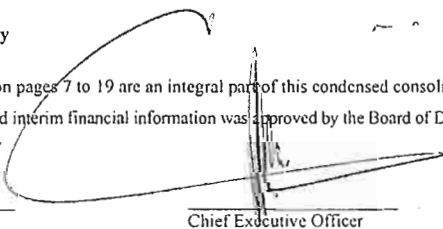
as at 31 March 2014

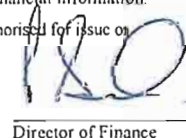
	Note	31 March 2014 (unaudited) AED'000	31 December 2013 (Audited) AED'000
Assets			
Non-current assets			
Property and equipment		4,652,607	4,332,127
Advances for new aircraft		729,788	707,987
Investment properties	5	162,710	162,897
Intangible assets		1,093,870	1,092,347
Goodwill		198,522	189,474
Deferred charges		8,546	8,740
Aircraft lease deposits		11,775	11,775
Available-for-sale investments	6	796,092	771,029
Trade and other receivables		19,639	32,579
Investment in joint ventures and associates	7	51,974	55,667
Long term investment		50,000	50,000
Total non-current assets		7,775,523	7,414,622
Current assets			
Inventories		13,047	11,730
Due from related parties		99,692	79,114
Trade and other receivables		477,060	498,169
Short term investment		367,308	-
Bank balances and cash	8	1,053,451	1,391,066
Total current assets		2,010,558	1,980,079
Total assets		9,786,081	9,394,701
Liabilities and equity			
Non-current liabilities			
Provision for employees' end of service indemnity		54,152	48,011
Trade and other payables		125,943	109,835
Finance lease liabilities	9	2,110,884	1,951,054
Total non-current liabilities		2,290,979	2,108,900
Current liabilities			
Due to related parties		2,224	15,543
Deferred income		220,111	206,520
Short term borrowings		391,918	291,946
Trade and other payables		1,359,960	1,019,591
Finance lease liabilities	9	190,431	176,018
Total current liabilities		2,164,644	1,709,618
Total liabilities		4,455,623	3,818,518
Equity			
Share capital	10	4,666,700	4,666,700
Statutory reserve		264,411	264,411
General reserve		207,634	207,634
Fair value reserve		95,985	70,922
Retained earnings		78,913	345,591
Equity attributable to owners of the Company		5,313,643	5,555,258
Non-controlling interests		16,815	20,925
Total equity		5,330,458	5,576,183
Total liabilities and equity		9,786,081	9,394,701

The accompanying notes on pages 7 to 19 are an integral part of this condensed consolidated interim financial information.

This condensed consolidated interim financial information was approved by the Board of Directors and authorized for issue on


Chairman


Chief Executive Officer


Director of Finance

12 MAY 2014

The independent auditors' report on the condensed consolidated interim financial information is set out on page 1.

Air Arabia PJSC and its subsidiaries

Condensed consolidated income statement for the three month period ended 31 March 2014

	<i>Note</i>	Three month period ended 31 March 2014 (unaudited) AED '000	Three month period ended 31 March 2013 (unaudited) AED '000
Revenue		826,609	721,809
Direct costs		(718,250)	(647,612)
Gross profit		108,359	74,197
Selling and marketing expenses		(12,873)	(15,938)
General and administrative expenses		(33,672)	(24,162)
Interest income from bank deposits		14,423	13,053
Finance costs		(6,795)	(9,009)
Share of profits from joint ventures		2,930	5,942
Other income (net)	<i>11</i>	2,526	14,540
Profit for the period		74,898	58,623
Profit attributable to:			
Owners of the Company		71,658	55,393
Non-controlling interests		3,240	3,230
		74,898	58,623
Basic earnings per share (in AED)	<i>12</i>	0.02	0.01

The accompanying notes on pages 7 to 19 are an integral part of this condensed consolidated interim financial information.

The independent auditors' report on the condensed consolidated interim financial information is set out on page 1.

Air Arabia PJSC and its subsidiaries

Condensed consolidated statement of profit or loss and other comprehensive income
for the three month period ended 31 March 2014

	Three month period ended 31 March 2014 (unaudited) AED '000	Three month period ended 31 March 2013 (unaudited) AED '000
Profit for the period	74,898	58,623
	-----	-----
Other comprehensive income:		
<i>Items that are or may be reclassified subsequently to profit or loss</i>		
- Gain/(loss) on revaluation of available-for-sale investments	25,061	(6,180)
	-----	-----
Total comprehensive income for the period	99,959	52,443
	=====	=====
Total comprehensive income attributable to:		
Owners of the Company	96,719	49,213
Non-controlling interests	3,240	3,230
	-----	-----
	99,959	52,443
	=====	=====

The accompanying notes on pages 7 to 19 are an integral part of this condensed consolidated interim financial information.

The independent auditors' report on the condensed consolidated interim financial information is set out on page 1.

Air Arabia PJSC and its subsidiaries

Condensed consolidated statement of changes in equity for the three month period ended 31 March 2014

	Share capital AED '000	Statutory reserve AED '000	General reserve AED '000	Fair value reserve AED '000	Retained earnings AED '000	Attributable to owners of the Company AED '000	Non- controlling interests AED '000	Total AED '000
Balance at 1 January 2013 (audited)	4,666,700	222,336	165,560	38,672	335,669	5,428,937	11,705	5,440,642
Profit for the period	-	-	-	-	55,393	55,393	3,230	58,623
Other comprehensive income for the period	-	-	-	(6,180)	-	(6,180)	-	(6,180)
Total comprehensive income for the period	-	-	-	(6,180)	55,393	49,213	3,230	52,443
Transactions with owners directly in equity								
Dividend paid (refer to note 18)	-	-	-	-	(326,669)	(326,669)	(4,900)	(331,569)
Other movement	-	-	-	-	-	-	(342)	(342)
Balance at 31 March 2013 (unaudited)	<u>4,666,700</u>	<u>222,336</u>	<u>165,560</u>	<u>32,492</u>	<u>64,393</u>	<u>5,151,481</u>	<u>9,693</u>	<u>5,161,174</u>
Balance at 1 January 2014 (audited)	4,666,700	264,411	207,634	70,922	345,591	5,555,258	20,925	5,576,183
Profit for the period	-	-	-	-	71,658	71,658	3,240	74,898
Other comprehensive income for the period	-	-	-	25,063	-	25,063	-	25,063
Total comprehensive income for the period	-	-	-	25,063	71,658	96,721	3,240	99,961
Transactions with owners directly in equity								
Dividend declared (refer to note 18)	-	-	-	-	(338,336)	(338,336)	(7,350)	(345,686)
Balance at 31 March 2014 (unaudited)	<u>4,666,700</u>	<u>264,411</u>	<u>207,634</u>	<u>95,985</u>	<u>78,913</u>	<u>5,313,643</u>	<u>16,815</u>	<u>5,330,458</u>

The accompanying notes on pages 7 to 19 are an integral part of this condensed consolidated interim financial information.

Air Arabia PJSC and its subsidiaries
Condensed consolidated statement of cash flows
for the three month period ended 31 March 2014

	Three month period ended 31 March	
	2014	2013
	(unaudited)	(unaudited)
	AED '000	AED '000
Operating activities		
Profit for the period	74,898	58,623
<i>Adjustments for:</i>		
Depreciation of property and equipment	65,359	68,323
Depreciation of investment property	187	187
Amortisation of deferred charges	265	1,354
Gain on fair valuation of investment in joint venture acquired	(4,614)	-
Provision for employees' end of service indemnity	6,848	4,128
Unrealised loss/(gain) on derivative financial instruments	16,208	(8,927)
Share of profits from joint ventures	(2,930)	(5,942)
Interest income from bank deposits	(14,423)	(13,053)
Dividend income	(167)	-
	-----	-----
<i>Operating cash flows before working capital changes</i>	141,631	104,693
<i>Changes in:</i>		
- Trade and other receivables	21,702	(36,798)
- Inventories	(1,317)	(487)
- Due from related parties	(20,578)	(32,211)
- Trade and other payables	15,785	35,373
- Deferred income	13,591	10,710
- Due to related parties	(13,319)	(16,433)
Employees' end of service indemnity paid	(1,035)	(589)
	-----	-----
Net cash from operating activities	156,460	64,258
	=====	=====
Investing activities		
Acquisition of property and equipment	(44,416)	(165,718)
Change in advances for new aircraft	(143,436)	(13,615)
Payments for deferred charges	(71)	(690)
Dividend received from joint ventures	-	20,999
Step acquisition of a subsidiary, net	(1,395)	-
Change in intangible assets	(126)	-
Change in fixed and margin deposits	457,169	85,422
Interest income from bank deposits	14,423	13,053
Change in short term investment	(367,308)	-
	-----	-----
Net cash used in investing activities	(85,160)	(60,549)
	-----	-----
Financing activities		
Dividend paid to non-controlling interests	(7,350)	(4,900)
Payments of finance lease obligations	(44,535)	(35,795)
Dividend received	167	-
	-----	-----
Net cash used in financing activities	(51,718)	(40,695)
	-----	-----
Net increase/(decrease) in cash and cash equivalents	19,582	(36,986)
Cash and cash equivalents at the beginning of the period	(18,104)	93,511
	-----	-----
Cash and cash equivalents at the end of the period	1,478	56,525
	=====	=====
The details of cash and cash equivalents is as under:		
Bank balances and cash	1,053,451	1,184,367
Fixed deposits with maturity over 3 months	(749,428)	(1,125,412)
Margin deposits with maturity over 3 months	(2,488)	(2,430)
	-----	-----
	301,535	56,525
Bank overdraft	(300,057)	-
	-----	-----
	1,478	56,525
	=====	=====

The accompanying notes on pages 7 to 19 are an integral part of this condensed consolidated interim financial information.

Air Arabia PJSC and its subsidiaries

Notes to the condensed consolidated interim financial information for the three month period ended 31 March 2014

1. Reporting entity

Air Arabia PJSC (the “Company”) was incorporated on 19 June, 2007 as a Public Joint Stock Company in accordance with 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 condensed consolidated interim financial information as at 31 March 2014 comprises the Company and its subsidiaries (collectively referred to as the “Group”) and the Group’s interests in associates and jointly controlled entities.

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.

2. Basis of preparation

2.1 Statement of compliance

The condensed consolidated interim financial information has been prepared in accordance with the International Accounting Standard (“IAS”) 34, Interim Financial Reporting. Selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the last annual consolidated financial statements as at and for the year ended 31 December 2013. The condensed consolidated interim financial information does not include all of the information required for full annual consolidated financial statements prepared in accordance with International Financial Reporting Standards (“IFRS”), and should be read in conjunction with the annual consolidated financial statements of the Group as at and for the year ended 31 December 2013.

2.2 Basis of measurement

The condensed consolidated interim financial information has 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

This condensed consolidated interim financial information is presented in United Arab Emirates Dirham (“AED”), which is the Group’s functional currency.

3. Significant accounting policies

The accounting policies applied by the Group in this condensed consolidated interim financial information are the same as those applied by the Group in its consolidated financial statements as at and for the year ended 31 December 2013.

Air Arabia PJSC and its subsidiaries

Notes to the condensed consolidated interim financial information (*continued*)
for the three month period ended 31 March 2014

3. Significant accounting policies (continued)

3.1 Available-for-sale financial assets

Listed shares held by the Group that are traded in an active market are classified as being available-for-sale 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 available-for-sale financial assets and stated at fair value because management considers that their fair value can be reliably measured. Gains and losses arising from changes in fair value are recognised in other comprehensive income and accumulated in the fair value reserve with the exception of impairment losses, which are recognised in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the fair value reserve is reclassified to profit or loss.

Dividends on available-for-sale equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established.

The fair value of available-for-sale 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 profit or loss, and other changes are recognised in other comprehensive income.

3.2 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 the profit and loss in the period of retirement or disposal.

Air Arabia PJSC and its subsidiaries

Notes to the condensed consolidated interim financial information *(continued)*
for the three month period ended 31 March 2014

3. Significant accounting policies (continued)

3.3 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:

	Years
Buildings and apartments	15 - 20
Aircraft	15
Aircraft engines	20
Aircraft rotables and equipment	3 - 10
Airport equipment 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 Company and the cost of the item can be reliably measured. All other repairs and maintenance are charged to 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 profit or loss.

3.4 Basis of consolidation

This condensed consolidated financial information comprises the condensed consolidated statement of financial position and the condensed 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.

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.

Air Arabia PJSC and its subsidiaries

Notes to the condensed consolidated interim financial information *(continued)*
for the three month period ended 31 March 2014

3. Significant accounting policies (continued)

3.4 Basis of consolidation (continued)

Business combinations (continued)

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 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.

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.

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.

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.

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 the condensed consolidated financial information from the date on which control commences until the date on which control ceases.

Air Arabia PJSC and its subsidiaries

Notes to the condensed consolidated interim financial information *(continued)*
for the three month period ended 31 March 2014

3. Significant accounting policies (continued)

3.4 Basis of consolidation (continued)

Subsidiaries (continued)

Details of the Company's subsidiaries at 31 March 2014 are as follows:

<u>Name of Subsidiary</u>	<u>Place of incorporation and operation</u>	<u>Proportion of ownership interest</u>	<u>Proportion of voting power held</u>	<u>Principal Activity</u>
COZMO Travel LLC and its subsidiaries (a)	Sharjah - U.A.E.	51%	51%	Travel, travel and tours, tourism and cargo services
Information Systems Associates (Private) Limited ("ISA") (note 17)	Sharjah – U.A.E	100%	100%	Trading in IT products and providing IT services
Action Hospitality (b)	Sharjah – U.A.E	100%	100%	Hospitality services, tourism, managing and operating restaurants and hotels

(a) COZMO Travel LLC has wholly-owned subsidiaries which comprise COZMO Travel WLL, a limited liability company incorporated in Qatar and COZMO Travel Limited Company, a limited liability company incorporated in the Kingdom of Saudi Arabia. The principal activities of these subsidiaries are travel and tours, tourism and cargo services.

(b) Action Hospitality is a 100% subsidiary of the Group and has been incorporated in Sharjah, UAE. The principal activities of this subsidiary are providing hospitality services, tourism, managing and operating restaurants and hotels.

Interests in equity-accounted investees

The Group's interests in equity-accounted investees comprise interests in associates and a joint venture.

Associates are those entities in which the Group has significant influence, but not control or joint control, over the financial and operating policies. 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 associates and the joint venture are accounted for using the equity method. They are recognised initially at cost, which includes transaction costs. Subsequent to initial recognition, the condensed consolidated financial information includes the Group's share of the profit or loss and other consolidated comprehensive income of equity accounted investees, until the date on which significant influence or joint control ceases.

Air Arabia PJSC and its subsidiaries

Notes to the condensed consolidated interim financial information *(continued)*
for the three month period ended 31 March 2014

3. Significant accounting policies (continued)

3.5 Application of new and revised International Financial Reporting Standards (IFRSs)

New and revised IFRSs applied with no material effect on the condensed consolidated interim financial information

The following revised IFRSs have been adopted in these condensed consolidated interim financial information. The application of these revised IFRSs has not had any material impact on the amounts reported for the current and prior periods but may affect the accounting for future transactions or arrangements.

- Amendments to IFRS 10 *Consolidated Financial Statements - amendments for investment entities*
- Amendments to IFRS 12 *Disclosure of interests in Other Entities - amendments for investment entities*
- Amendments to IAS 27 *Separate Financial Statements (as amended in 2011) - amendments for investment entities*
- Amendments to IAS 32 *Financial instruments: Presentation - amendments relating to the offsetting of assets and liabilities*
- Amendments to IAS 36 *Impairment of Assets – Amendments arising from Recoverable Amount Disclosures for Non-Financial Asset*
- Amendments to IAS 39 *Financial Instruments: Recognition and Measurement – Amendments for novation of derivatives*

New and revised standards in issue but not yet effective

The Group has not early adopted the following new and revised standards that have been issued but are not yet effective:

<u>New and revised IFRSs</u>	<u>Effective for annual periods beginning on or after</u>
• <i>Amendments to IFRS 2 Shared-based Payment – Definition of ‘vesting condition’</i>	1 July 2014
• <i>Amendments to IFRS 3 Business Combinations – Accounting for contingent consideration and scope exception for joint ventures</i>	1 July 2014
• <i>Amendments to IFRS 13 Fair Value Measurement – Scope of the portfolio exception</i>	1 July 2014
• <i>Amendments to IAS 16 Property, Plant and Equipment – Proportionate restatement of accumulated depreciation on revaluation</i>	1 July 2014
• <i>Amendments to IAS 19 Employee Benefits – Amended to clarify the requirements that relate to how contributions from employees or third parties that are linked to service should be attributed to periods of service</i>	1 July 2014
• <i>Amendments to IAS 24 Related Party Disclosures – Management entities</i>	1 July 2014
• <i>Amendments to IAS 38 Intangible Assets – Proportionate restatement of accumulated depreciation on revaluation</i>	1 July 2014
• <i>Amendments to IAS 40 Investment Property – Interrelationship between IFRS 3 and IAS 40</i>	1 July 2014

As of date of issuance of this condensed consolidated interim financial information management is in the process of evaluating the impact of these new and revised standards.

Air Arabia PJSC and its subsidiaries

Notes to the condensed consolidated interim financial information *(continued)*
for the three month period ended 31 March 2014

4. Accounting estimates and judgments

The preparation of condensed consolidated interim financial information in conformity with IAS 34 requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

The significant judgments made by the management in applying the Group's accounting policies and the key sources of estimation of uncertainty were the same as those that were applied in preparation of the consolidated financial statements of the Group as at and for the year ended 31 December 2013.

5. Investment properties

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 and an apartment building under progress located in Dubai, UAE.

6. Available-for-sale investments

	31 March 2014 (unaudited) AED '000	31 December 2013 (audited) AED '000
Quoted	19,604	16,358
Unquoted	776,488	754,671
	<u>796,092</u>	<u>771,029</u>
In UAE	428,778	403,715
Outside UAE	367,314	367,314
	<u>796,092</u>	<u>771,029</u>

7. Investment in joint ventures and associates

Investment in joint ventures

The following are the joint arrangements of the Group classified as joint ventures and accounted for using equity method:

- Alpha Flight Services UAE (L.L.C.) ("AFS") – AFS is incorporated as a limited liability company in the UAE. The registered office of AFS is PO Box 71232 Sharjah, UAE. AFS' principal activities are providing flight and retail catering and ancillary services to the Company.
- Sharjah Aviation Services (L.L.C.) ("SAS") – SAS is incorporated as a limited liability company in the UAE. The registered office of SAS is PO Box 8 Sharjah, UAE. SAS' principal activities are providing aircraft handling, passenger and cargo services at the Sharjah International Airport.
- Air Arabia Egypt, S.A.E ("Air Arabia Egypt") - Air Arabia Egypt is incorporated as a Joint Stock Company in Egypt. Air Arabia Egypt's principal activities are international commercial air transportation.

Air Arabia PJSC and its subsidiaries

Notes to the condensed consolidated interim financial information *(continued)*
for the three month period ended 31 March 2014

7. Investment in joint ventures and associates (continued)

Investment in joint ventures (continued)

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 material joint ventures.

Percentage of interest	AFS		SAS	
	50%		50%	
	31 March 2014 (unaudited) AED '000	31 December 2013 (audited) AED '000	31 March 2014 (unaudited) AED '000	31 December 2013 (audited) AED '000
Assets	39,482	36,556	184,938	127,776
Liabilities	(18,124)	(18,421)	(102,347)	(48,158)
Net assets	21,358	18,135	82,591	79,618
Group's share in net assets as presented in the consolidated statement of financial position	10,679	9,068	41,295	39,809
Profit for the period/year	3,222	15,135	2,972	20,310
Group's share of profit for the period/year	1,611	7,568	1,486	10,155
Cash dividends received by the Group	-	(7,526)	-	(21,000)

Investment in associates

Details of the Group's associates at the reporting date are as follows:

<u>Name of associate</u>	<u>Place of incorporation and operation</u>	<u>Proportion of ownership interest</u>	<u>Proportion of voting power held</u>	<u>Principal activities</u>
Air Arabia Maroc, S.A.	Morocco	40%	40%	International commercial air transportation

Air Arabia PJSC and its subsidiaries

Notes to the condensed consolidated interim financial information *(continued)*
for the three month period ended 31 March 2014

8. Bank balances and cash

	31 March 2014 (unaudited) AED'000	31 December 2013 (audited) AED'000
Bank balances:		
- Current accounts	292,224	159,156
- Call deposits	6,335	21,260
- Fixed deposits	799,428	1,256,608
- Margin deposits	2,488	2,477
Total bank balances	1,100,475	1,439,501
Cash on hand	2,976	1,565
Total bank balances and cash	1,103,451	1,441,066
Less: long term fixed deposit	(50,000)	(50,000)
Total	1,053,451	1,391,066

9. Finance lease liabilities

The Group has entered into a leasing arrangement with a third party to finance the purchase of 21 aircraft. The term of the lease is 12 years. The finance lease liabilities are secured by these 21 aircraft leased (2013: 19 aircraft leased).

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

10. Share capital

	31 March 2014 (unaudited) AED '000	31 December 2013 (audited) AED '000
Authorised, issued and fully paid up share capital (of 4,666,700 thousand shares of AED 1 each)	4,666,700	4,666,700

11. Other income (net)

	Three month period ended	
	31 March 2014 (unaudited) AED '000	31 March 2013 (unaudited) AED '000
<i>This mainly includes:</i>		
Unrealised (loss)/gain on derivative financial instruments	(16,208)	8,927
Management fees (refer note 16)	1,701	1,687
Gain on fair valuation of investment in joint venture acquired during the period (refer note 3.4 (b))	4,614	-
Insurance commission	964	1,277

Air Arabia PJSC and its subsidiaries

Notes to the condensed consolidated interim financial information *(continued)*
for the three month period ended 31 March 2014

12. Basic earnings per share

	31 March 2014 (unaudited) AED '000	31 March 2013 (unaudited) AED '000
Profit attributable to the owners of the Company (in AED '000)	71,658 =====	55,393 =====
Number of shares (in '000)	4,666,700 =====	4,666,700 =====
Basic earnings per share (AED)	0.02 =====	0.01 =====

13. Operating aircraft lease commitments

a) Where the Group is a lessee:

	31 March 2014 (unaudited) AED '000	31 December 2013 (audited) AED '000
Within one year	97,366	115,825
Between two and five years	37,919 =====	59,241 =====

b) Where the Group is a lessor:

	31 March 2014 (unaudited) AED '000	31 December 2013 (audited) AED '000
Within one year	49,410	43,819
Between two and five years	36,225 =====	24,422 =====

14. Contingent liabilities

	31 March 2014 (unaudited) AED '000	31 December 2013 (audited) AED '000
Letters of credit	34,036	34,036
Letters of guarantee	26,227 =====	25,453 =====

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

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Notes to the condensed consolidated interim financial information *(continued)*
for the three month period ended 31 March 2014

15. Capital commitments

The Group has entered into the following capital commitments:

	31 March 2014 (unaudited) AED '000	31 December 2013 (audited) AED '000
Authorised and contracted:		
Aircraft fleet	5,857,524	6,465,167
	=====	=====
Authorised but not contracted:		
Aircraft fleet	1,422,807	1,422,807
	=====	=====

16. Related party transactions

During the period, the Group entered into the following transactions with related parties:

	<u>Three months period ended 31 March</u>	
	2014 (unaudited) AED '000	2013 (unaudited) AED '000
Rental income from aircraft operating lease provided to an associate and a joint venture	18,531	20,082
Management fees	1,701	1,687
Expenses recharged by related parties	7,314	6,998
Revenue from related parties	1,870	1,236

Transactions with related parties were carried out at terms agreed by the management.

17. Acquisition of subsidiary

On 25 February 2014, the Group acquired 49% of the shares and voting interests in Information Systems Associates (Private) Limited ("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 remeasurement 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 (see note 11).

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

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

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Notes to the condensed consolidated interim financial information *(continued)*
for the three month period ended 31 March 2014

17. 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.

18. Segment information

Primary reporting format - business segments

Three month period ended 31 March 2014 (unaudited)	Airline AED '000	Other segments AED '000	Eliminations AED '000	Total AED'000
Revenue				
External sales	784,990	41,619	-	826,609
Inter-segment sales	-	1,481	(1,481)	-
Total revenue	<u>784,990</u>	<u>43,100</u>	<u>(1,481)</u>	<u>826,609</u>
Result				
Segment result	38,019	16,679	-	54,698
Share of profit on equity accounted entities				2,930
Finance costs				(6,795)
Interest income from bank deposits and other income				<u>24,065</u>
Profit for the period				<u>74,898</u>
Other information				
Additions to property and equipment and deferred charges	378,452	7,386		385,909
Depreciation and amortisation	63,967	1,657		65,624
31 March 2014 (unaudited)				
Assets				
Segment assets	<u>7,495,007</u>	<u>179,190</u>	<u>(59,528)</u>	<u>7,614,669</u>
Unallocated Group assets				<u>2,171,412</u>
Total assets				<u>9,786,081</u>
Liabilities				
Segment liabilities	<u>4,442,772</u>	<u>72,379</u>	<u>(59,528)</u>	<u>4,455,623</u>

Air Arabia PJSC and its subsidiaries

Notes to the condensed consolidated interim financial information *(continued)*
for the three month period ended 31 March 2014

18. Segment information (continued)

Primary reporting format - business segments (continued)

Three month period ended	Airline	Other	Eliminations	Total
31 March 2013 (unaudited)	AED '000	Segments AED '000	AED '000	AED'000
Revenue				
External sales	692,242	29,567	-	721,809
Inter-segment sales	447	2,859	(3,306)	-
	-----	-----	-----	-----
Total revenue	692,689	32,426	(3,306)	721,809
	=====	=====	=====	=====
Result				
Segment result	31,422	16,430	-	47,852
Share of profit on equity accounted entities				5,942
Finance costs				(9,009)
Interest income from bank deposits and other income				13,838

Profit for the period				58,623
				=====
Other information				
Additions to property and equipment and deferred charges	387,226	78	-	387,304
Depreciation and amortisation	69,370	307	-	69,677
31 December 2013 (audited)				
Assets				
Segment assets	7,070,647	154,427	(45,872)	7,179,202
	-----	-----	-----	-----
Unallocated Group assets				2,215,499

Total assets				9,394,701
				=====
Liabilities				
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 as at and for the year ended 31 December 2013. Segment result represents the profit earned by each segment without considering share of profit/(loss) on equity accounted entities, finance cost, profit from bank deposits 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.

19. Dividend

At the Annual General Meeting held on 16 March 2014, the shareholders approved a cash dividend of AED 338,335,750 at AED 7.25 fils per share. This dividend was not paid at the reporting period and has been included as a liability in this condensed consolidated interim financial information.