Air Arabia PJSC
and its subsidiaries

Consolidated financial statements
For the year ended December 31, 2019

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Consolidated Financial Statements
For the year ended December 31, 2019

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BoD Report 2019

The year 2019 was a challenging year for the aviation industry worldwide. The global economy endured a slowdown in key international markets including the eurozone while escalating geo-political pressures continued to impact the trading environment. Over seventeen airlines worldwide filed for bankruptcy in 2019 and oil price volatility continued throughout the year.

Despite all of that, we are proud that Air Arabia managed to deliver a track record in 2019. The financial and operational results for the full year ending 31 December 2019, reflected a record year of profitability and continued growth for the group.

Air Arabia managed in its sixteen years of young history to cross, for the first time, the AED 1 Billion mark in profitability. The track record profits were backed by 15% increase in turnover for the year 2019 reaching AED4.75 billion. The strong full year financial results were also backed by solid growth in passenger demand with Air Arabia serving more than 12 million passengers from its four hubs in the UAE, Morocco and Egypt, an increase of 10 per cent compared to the 11 million passengers carried last year. The average seat load factor – or passengers carried as a percentage of available seats – for the full year increased 2% at an impressive 83 per cent.

The remarkable profit that Air Arabia achieved in 2019 was complemented with lower fuel price in the last quarter as well as a less volatile currency movement compared to last year. The results were also supported by higher customer demand, stronger yield margins and was combined with higher fleet utilization and solid cost control measures adopted by the management team.

In 2019 Air Arabia received three brand new Airbus A321 neo LR airplanes bringing its total fleet size to 55 aircraft and added 16 new routes across its hubs. In the fourth quarter 2019, Air Arabia signed an agreement with Etihad Aviation Group to launch "Air Arabia Abu Dhabi", the capital's first low-cost carrier. Moreover, Air Arabia also placed a USD14 billion order with Airbus for 120 aircraft to support future growth.

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Our focus on expanding into new markets combined with improved operational efficiencies has led to another year of sustained growth and profitability for the airline. The strong performance in 2019 is a testament to the strength of the business model we operate and the carrier's management team. Going forward, we remain focused on driving operational efficiency across board, exploring opportunities and ventures that will best serve the airline's ambitious growth plans while delivering optimum value to our customers and shareholders.

Board of Directors

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Independent Auditor's Report
To the Shareholders of Air Arabia PJSC

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the 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 December 31, 2019, the consolidated statement of comprehensive income, the consolidated statement of other comprehensive income, the consolidated statement of changes in equity, and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2019, and its consolidated financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the "*Auditor's Responsibilities for the Audit of the Consolidated Financial Statements*" section of our report. We are independent of the Group in accordance with Code of Ethics as issued by International Ethics Standards Board for Accountants (IESBA), and we have fulfilled our other ethical responsibilities in accordance with the requirements of the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Matter

The consolidated financial statements of the Group for the year ended December 31, 2018 were audited by another auditor who expressed an unmodified opinion on those consolidated financial statements on February 13, 2019.

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Independent Auditor's Report
To the Shareholders of Air Arabia PJSC (continued)

Report on the Audit of the Consolidated Financial Statements (continued)

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the Group for the year ended December 31, 2019. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

i) Measurement of aircraft assets

As disclosed in Note 5 to the consolidated financial statements, the Group holds as at December 31, 2019 aircraft assets with a carrying value of AED 5.95 million. As explained in Note 4, the Group's accounting policy is to measure its aircraft assets at depreciated historical cost less impairment, if any. These aircraft assets are depreciated on a straight-line basis over their estimated useful life, to an estimated residual value at the end of its useful economic life. The estimation of residual value is a key management judgment in the application of the Group's accounting policy on depreciation and, therefore, any changes to residual value will directly impact the depreciation charge for the current and future years. Management also needs to consider if there are any impairment indicators such as the deterioration in current or forecast trade activity, the incurrence of losses or other factors indicating that the assets may be impaired.

If there are impairment indicators, management needs to perform an impairment test and write down the value of assets where the recoverable amount is lower than the carrying value.

We have performed the following audit procedures:

- We have assessed management's basis of estimating the residual values and depreciation rates of aircraft assets and tested these to supporting information for reasonableness, such as any publicly or other available information on estimated residual values and compared the depreciation rates to the rates applied by other airline companies;
- We have assessed whether there are any impairment indicators in respect of the aircraft assets; and
- We have assessed the adequacy of the Group's disclosure in these respects.

ii) Revenue recognition

The Group recognises revenue from various sources, notably sale of passenger airline seats, cargo, baggage capacity and other ancillary services. Passenger tickets sold can be of different types depending on the conditions of sale and type of fare purchased. Revenue from passenger and cargo is deferred and classified as a liability on the consolidated statement of financial position until the passenger or freight is lifted (i.e. service provided), at which time revenue is recognised in the consolidated statement of comprehensive income. This recognition principle requires the Group to develop assumptions to determine when to recognise revenue in respect of un-availed services relating to tickets not lifted at the anticipated date of travel.

The accounting for passenger revenue is susceptible to management override of controls through the recording of manual journal entries in the accounting records, the override of IT systems to accelerate revenue recognition, or manipulation of inputs used to calculate revenue recorded in respect of unused revenue documents.

Independent Auditor's Report

To the Shareholders of Air Arabia PJSC (continued)

Report on the Audit of the Consolidated Financial Statements (continued)

Key Audit Matters (continued)

ii) Revenue recognition (continued)

We have performed the following audit procedures:

- We have evaluated the Group's control environment and the application controls relating to the underlying systems associated with the revenue streams. In particular, we have considered whether the Group's controls relating to revenue are properly designed and implemented to ensure that those systems were accurately capturing the relevant data such as date of sale, date of the provision of the service to the customers and the sale amount;
- We have checked the reasonableness of the Group's accounting policy with respect to recognition of revenue in the period in which the service was provided to the customers;
- We have reviewed management's judgement and assumptions underpinning the estimates of when to recognise revenue in respect of un-availed services;
- We have checked the reasonableness of the Group's accounting policy with respect to recognition of revenue for expired tickets;
- For passenger revenue, we have performed analytical procedures by comparing the passenger revenue for 2019 with the passenger revenue for 2018 and understood the reasons for the variance taking into consideration key performance indicators for both 2019 and 2018;
- For cargo revenue, we have tested the revenue per ton carried for 2018 and developed an expectation for 2019 based on the tonnage carried and compared the results with the cargo revenue recognised and understood the reasons for the variance;
- We have also undertook other substantive audit procedures to corroborate our findings in respect of the audit tests above; and
- We have assessed the adequacy of the Group's disclosure on revenue recognition in the consolidated financial statements.

iii) Accounting for fuel hedge positions

The Group is significantly exposed to fluctuations in the price of jet fuel and manages this risk through derivative instruments to hedge its cash flows. The Group accounts for these hedge instruments in accordance with IFRS 9 which requires, amongst other things, that the Group establish a risk management framework that outlines a policy for the Group to conclude whether its hedging positions are effective or ineffective, at the date of their inception and at each reporting date. The Group has established controls around taking hedge positions and its risk management framework and policies.

The effective portion of changes in the fair value of the hedge instruments are recognised in the consolidated statement of other comprehensive income until the forecasted transaction occurs, whilst any ineffective portion is recognised directly in the consolidated statement of profit and loss. Judgment is exercised in arriving at this conclusion. As of December 31, 2019, the total fair value of the Group's cash flow hedge instruments, obtained from counterparties, is a net liability of AED 128.17 million.

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Independent Auditor's Report
To the Shareholders of Air Arabia PJSC (continued)

Report on the Audit of the Consolidated Financial Statements (continued)

Key Audit Matters (continued)

iii) Accounting for fuel hedge positions (continued)

We have performed the following audit procedures:

- We have evaluated the design and implementation of the Group's controls over taking hedge positions and application of its policies. This included testing the reasonableness of the Group's hedge positions at the date of inception and at each reporting date, along with Group's accounting for its hedge position;
- We have also involved our valuation specialist for assessing the Group's hedge accounting and for testing hedge effectiveness on sample basis; and
- We have assessed the adequacy of the Group's disclosure in these respects.

iv) Valuation of aircraft maintenance obligations

Note 21 to the consolidated financial statements shows a balance for maintenance liabilities amounted to AED 1,320 million as at December 31, 2019. The accounting for maintenance obligations, including the end of lease hand-back requirements, is subject to management assumptions. These assumptions include estimating maintenance accrual for major inspections and overhauls based on technical evaluation of the number of hours flown by each engine, airframe checks at fixed intervals and utilization cycles of landing gears, life limited parts and auxiliary power units. It also includes the cost of performing the required maintenance work at that future return date of leased aircrafts. There is a risk of maintenance and hand-back obligations included in lease agreements being accounted for inappropriately.

We have performed the following audit procedures:

- We have made enquiries of management to establish if there were any new lease or maintenance contracts entered during the year;
- For the ongoing maintenance work under flying hour agreements, we have confirmed that the expenses were recognised at the contractual flying hour rates and checked a sample of the actual flying hours to the Group's operating system to confirm that the expenses recognised were complete and accurate,
- We have validated that the cost drivers of major types of maintenance accrual for appropriateness and reasonableness;
- We have verified the utilization of maintenance accrual during the year for routine and non-routine expenses;
- We have validated the main reason for change in the maintenance accrual balance as at year end;
- We have evaluated the design and implementation of the Group's controls over the maintenance accrual made during the year; and,
- We have performed additional substantive audit procedures to corroborate our findings in respect of the audit tests above.

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Independent Auditor's Report

To the Shareholders of Air Arabia PJSC (continued)

Report on the Audit of the Consolidated Financial Statements (continued)

Other Information

Management is responsible for the other information. The other information comprises the information included in the Annual Report, but does not include the consolidated financial statements and our Auditor's Report thereon. We have obtained the Board of Directors' report prior to the date of our Auditor's Report, and we expect to obtain the remaining sections of the Annual Report after the date of our Auditor's Report.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we have obtained prior to the date of auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS and their preparation in compliance with the applicable provisions of the UAE Federal Law No. (2) of 2015, 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.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

Independent Auditor's Report

To the Shareholders of Air Arabia PJSC (continued)

Report on the Audit of the Consolidated Financial Statements (continued)

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (continued)

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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Independent Auditor's Report

To the Shareholders of Air Arabia PJSC (continued)

Report on the Audit of the Consolidated Financial Statements (continued)

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (continued)

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current year and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

Furthermore, as required by the UAE Federal Law No. (2) of 2015, we report that:

i) we have obtained all the information and explanations we considered necessary for the purposes of our audit;

ii) the consolidated financial statements have been prepared and comply, in all material respects, with the applicable provisions of UAE Federal Law No. (2) of 2015;

iii) the Group has maintained proper books of account;

iv) the financial information included in the Board of Directors' report, in so far as it relates to these consolidated financial statements, is consistent with the books of account of the Group;

v) as disclosed in note 25 to the consolidated financial statements, the Group has purchased new shares during the year ended December 31, 2019 (2018: Nil);

vi) Note 15 to the consolidated financial statements discloses related party transactions, and the terms under which they were conducted;

vii) based on the information that has been made available to us, nothing has come to our attention which causes us to believe that the Group has contravened during the financial year ended December 31, 2019 any of the applicable provisions UAE Federal Law No. (2) of 2015 or of its Articles of Association, which would materially affect its activities or its financial position as at December 31, 2019; and

viii) Note 28 to the consolidated financial statements discloses the social contributions made during the financial year ended December 31, 2019.

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Grant Thornton P.O. Box: 1620 DUBAI-U.A.E. Public Accountants

Osama El Bakry
Registration No. 935
Dubai, United Arab Emirates

09 FEB 2020

Air Arabia PJSC and its subsidiaries
Consolidated Financial Statements

Consolidated statement of financial position
As at December 31, 2019

	Notes	2019 AED'000	2018 AED'000
ASSETS			
Non-current assets			
Property and equipment	5	**6,866,167**	7,402,785
Right-of-use assets	6	**368,777**	-
Advance for new aircraft	7	**360,281**	-
Investment properties	8	**124,970**	124,970
Net investment in lease	14	**46,284**	-
Intangible assets	9	**1,312,472**	1,300,934
Deferred charges	10	**31,561**	24,135
Investments	11	**11,082**	10,191
Investments in associates and joint ventures	12	**77,593**	88,613
		9,199,187	8,951,628
Current assets			
Inventories		**23,496**	20,628
Trade and other receivables	14	**616,777**	631,938
Other investments	16.1	**168,374**	168,366
Bank balances and cash	16	**2,806,452**	1,645,014
		3,615,099	2,465,946
TOTAL ASSETS		**12,814,286**	11,417,574
EQUITY AND LIABILITIES			
Share capital	17	**4,666,700**	4,666,700
Statutory reserve	18	**577,475**	482,932
General reserve	19	**94,543**	426,155
Other reserves		**(122,753)**	(329,743)
Retained earnings/(accumulated losses)		**341,933**	(732,713)
Equity attributable to owners of the Company		**5,557,898**	4,513,331
Non-controlling interests		**-**	72,267
Total equity		**5,557,898**	4,585,598
Non-current liabilities			
Provision for staff termination benefits	20	**145,129**	129,744
Trade and other payables	21	**1,061,323**	1,255,311
Finance lease liabilities	23	**3,164,538**	3,260,328
		4,370,990	4,645,383
Current liabilities			
Deferred income		**351,525**	264,963
Trade and other payables	22	**1,653,721**	1,439,565
Short term bank borrowings	24	**352,216**	21,064
Finance lease liabilities	23	**527,936**	461,001
		2,885,398	2,186,593
Total liabilities		**7,256,388**	6,831,976
TOTAL EQUITY AND LIABILITIES		**12,814,286**	11,417,574

These consolidated financial statements were approved and authorised for issue by the Board of Directors on 09 FEB 2020 and signed on their behalf by:

Chairman *Chief Executive Officer* *Director of Finance*

The accompanying notes from 1 to 38 form an integral part of these consolidated financial statements.

Consolidated statement of profit or loss
For the year ended December 31, 2019

	Notes	2019 AED'000	2018 AED'000
Revenue	26	**4,758,499**	4,121,979
Direct costs	27	**(3,508,568)**	(3,344,079)
GROSS PROFIT		**1,249,931**	777,900
Impairment loss on investments	15	**-**	(1,134,408)
Administrative and general expenses	28	**(233,909)**	(205,677)
Selling and marketing expenses	29	**(83,474)**	(80,429)
Finance income		**95,574**	98,613
Finance costs		**(128,906)**	(126,519)
Share of profit on investments in associates and joint ventures	12	**32,415**	36,290
Other income, net	30	**76,444**	55,067
PROFIT/(LOSS) FOR THE YEAR		**1,008,075**	(579,163)
Profit/(loss) for the year attributable to:			
Owners of the Company		**990,168**	(609,469)
Non-controlling interests		**17,907**	30,306
		1,008,075	(579,163)
Basic and diluted earnings/(loss) per share (AED)	31	**0.21**	(0.13)

The accompanying notes from 1 to 38 form an integral part of these consolidated financial statements.

Consolidated statement of comprehensive income
For the year ended December 31, 2019

	Note	2019 AED'000	2018 AED'000
Profit/(loss) for the year		**1,008,075**	(579,163)
Other comprehensive income			
Items that will never reclassified subsequently to profit or loss:			
Change in fair value of investments measured at fair value through other comprehensive	11	**891**	(305,122)
Items that are or may be reclassified subsequently to profit or loss:			
Cash flow hedge			
Effective portion of changes in fair value		**206,099**	(141,611)
Total other comprehensive income/(loss) for the year		**206,990**	(446,733)
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR		**1,215,065**	(1,025,896)
Total comprehensive income/(loss) for the year attributable to:			
Owners of the Group		**1,197,158**	(1,056,202)
Non-controlling interests		**17,907**	30,306
		1,215,065	(1,025,896)

The accompanying notes from 1 to 38 form an integral part of these consolidated financial statements.

Consolidated statement of changes in equity
For the year ended December 31, 2019

	Share capital AED'000	Statutory reserve AED'000	General reserve AED'000	Other reserves: Cumulative change in FVOCI AED'000	Other reserves: Cash flow hedge reserve AED'000	(Accumulated losses)/ retained earnings AED'000	Total attributable to owners of the Company AED'000	Non-controlling interests AED'000	Total AED'000
As at January 1, 2019	4,666,700	482,932	426,155	4,530	(334,273)	(732,713)	4,513,331	72,267	4,585,598
Adjustment on initial application of IFRS 16 (Note 3)	-	-	-	-	-	(2,232)	(2,232)	-	(2,232)
Adjusted balance as at January 1, 2019	4,666,700	482,932	426,155	4,530	(334,273)	(734,945)	4,511,099	72,267	4,583,366
Profit for the year	-	-	-	-	-	990,168	990,168	17,907	1,008,075
Other comprehensive income for the year	-	-	-	891	206,099	-	206,990	-	206,990
Total comprehensive income for the year	-	-	-	891	206,099	990,168	1,197,158	17,907	1,215,065
Transfer to reserves	-	94,543	94,543	-	-	(189,086)	-	-	-
Ownership changes in a subsidiary (Note 25)	-	-	-	-	-	(150,359)	(150,359)	(86,641)	(237,000)
Deconsolidation of a subsidiary (Note 1)	-	-	-	-	-	-	-	(3,533)	(3,533)
Absorption of accumulated losses through general reserve (Note 19)	-	-	(426,155)	-	-	426,155	-	-	-
As at December 31, 2019	**4,666,700**	**577,475**	**94,543**	**5,421**	**(128,174)**	**341,933**	**5,557,898**	**-**	**5,557,898**

The accompanying notes from 1 to 38 form an integral part of these consolidated financial statements.

Consolidated statement of changes in equity (continued)
For the year ended December 31, 2019

				Other reserves					
	Share capital AED'000	Statutory reserve AED'000	General reserve AED'000	Cumulative change in FVOCI AED'000	Cash flow hedge reserve AED'000	Retained earnings/ (accumulated losses) AED'000	Total attributable to owners of the Company AED'000	Non-controlling interests AED'000	Total AED'000
As at January 1, 2018	4,666,700	482,932	426,155	60,351	(192,662)	592,727	6,036,203	66,461	6,102,664
Loss for the year	-	-	-	-	-	(609,469)	(609,469)	30,306	(579,163)
Other comprehensive loss for the year	-	-	-	(305,122)	(141,611)	-	(446,733)	-	(446,733)
Total comprehensive loss for the year	-	-	-	(305,122)	(141,611)	(609,469)	(1,056,202)	30,306	(1,025,896)
Transfer to accumulated losses on disposal/write off of investments measured at fair value through other comprehensive income	-	-	-	249,301	-	(249,301)	-	-	-
Transactions with owners									
Dividends (Note 17)	-	-	-	-	-	(466,670)	(466,670)	(24,500)	(491,170)
As at December 31, 2018	4,666,700	482,932	426,155	4,530	(334,273)	(732,713)	4,513,331	72,267	4,585,598

The accompanying notes from 1 to 38 form an integral part of these consolidated financial statements.

Consolidated statement of cash flows
For the year ended December 31, 2019

	Notes	2019 AED'000	2018 AED'000
OPERATING ACTIVITIES			
Profit/(loss) for the year		**1,008,075**	(579,163)
Adjustments to reconcile profit/ (loss) to net cash flows:			
Depreciation and amortisation	5,6,9,10	**558,947**	531,918
Provision for staff terminal benefits	20	**22,299**	25,118
Allowance for expected credit losses	28	**24,054**	77
Ineffective portion of cash flow hedge		**-**	(45,841)
Impairment loss on investments	15	**-**	1,134,408
Gain on sale of property and equipment	5	**(3,662)**	-
Share of profit on investments in associates and joint ventures	12	**(32,415)**	(36,290)
Finance income		**(95,574)**	(98,613)
Finance costs		**128,906**	126,519
Operating cash flows before changes in working capital		**1,610,630**	1,058,133
Changes in working capital:			
Inventories		**(2,867)**	(3,580)
Trade and other receivables		**122,246**	(79,250)
Trade and other payables		**283,581**	32,772
Deferred income		**86,562**	26,786
Cash from operations		**2,100,152**	1,034,861
Staff terminal benefits paid	20	**(6,914)**	(6,630)
Net cash flow from operating activities		**2,093,238**	1,028,231
INVESTING ACTIVITIES			
Acquisition of non-controlling interest in a subsidiary		**(237,000)**	-
Acquisition of property and equipment	5	**(50,093)**	(97,893)
Payments in relation to advances for new aircrafts-net	7	**(360,281)**	-
Payment for deferred charges	10	**(11,997)**	-
Dividends received from investments in associates and joint ventures	12	**47,112**	35,907
Proceeds from sale of property and equipment	5	**61,893**	-
Proceeds from disposal of investments measured at fair value through other comprehensive income		**-**	9,276
Payments in relation to aircraft lease deposits		**(3,122)**	-
Acquisition of intangible assets	9	**(14,446)**	(3,667)
Change in fixed and margin deposits		**(1,221,539)**	403,839
Finance income received		**37,857**	111,958
Other investments made		**(8)**	(375,500)
Net cash flow (used in)/from investing activities		**(1,751,624)**	83,920
FINANCING ACTIVITIES			
Dividends paid to non-controlling interests		**-**	(24,500)
Dividends paid to owners of the Company		**-**	(466,670)
Payments of finance lease liabilities	23	**(614,070)**	(450,871)
Net movement on the borrowings		**331,151**	(42,320)
Finance costs paid		**(117,590)**	(126,519)
Net cash flow used in financing activities		**(400,509)**	(1,110,880)
Net change in cash and cash equivalents		**(58,895)**	1,271
Cash and cash equivalents at the beginning of the year		**271,419**	270,148
Cash and cash equivalents at the end of the year		**212,524**	271,419
Adjustments for:			
Bank balances and cash	16	**2,806,452**	1,645,014
Fixed deposits with maturity over 3 months	16	**(2,593,928)**	(1,372,389)
Margin deposits with maturity over 3 months	16	**-**	(1,206)
		212,524	271,419

The accompanying notes from 1 to 38 form an integral part of these consolidated financial statements.

1 Legal status and principal activities

Air Arabia PJSC (the "Company") was incorporated on June 19, 2007 as a Public Joint Stock Company. 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 132, Sharjah, United Arab Emirates.

The consolidated financial statements for the year ended December 31, 2019 includes the consolidated financial performance and position of the Company and its subsidiaries (collectively referred to as the "Group") and the Group's interest 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, commercial brokerage, 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 details of the Group's ownership in its various subsidiaries, joint ventures and associates and their principal activities are as follows:

Name	Legal/ beneficial ownership interest 2019	2018	Country of operation and ownership	Principal activities
Subsidiaries				
Arabian Management Investment FZE	**100%**	-	United Arab Emirates	Business consultancy services
Information System Associates FZC	**100%**	100%	United Arab Emirates	IT services to aviation industry.
Action Hospitality	**100%**	100%	United Arab Emirates	Hospitality services, tourism, managing and operating restaurants and hotels.
COZMO Travel LLC and its Subsidiaries*	**100%**	51%	United Arab Emirates	Travel and tours, tourism and cargo services.
Subsidiaries of COZMO Travel LLC (sub-subsidiaries)				
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%**	100%	Kuwait	Travel and tours, tourism and cargo services.
COZMO Travel LLC	**100%**	100%	Bahrain	Travel and tours, tourism and cargo services.
COZMO Travel World	**100%**	100%	United Arab Emirates	Travel agent.
COZMO Travel (Private) Limited	**100%**	100%	India	Travel and tours, tourism and cargo services.
COZMO Travel World (Private) Limited	**100%**	100%	India	Travel and tours, tourism and cargo services.
Al Sayara limousine Passengers Transport Per Person Group Owner COZMO Travel LLC	**100%**	100%	United Arab Emirates	Passengers transport services by rented cars, buses and limousine.
Tune Protection Commercial Brokerage LLC**	-	51%	United Arab Emirates	Commercial brokers.

1 Legal status and principal activities (continued)

Name	Legal/ beneficial ownership interest 2019	2018	Country of operation and ownership	Principal activities
Joint ventures				
Alpha Flight Services UAE. LLC	**51%**	51%	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.	**40%**	50%	Egypt	International commercial air transportation.
Associates				
Air Arabia Maroc, S.A.	**40%**	40%	Morocco	International commercial air transportation.
Air Arabia Jordan LLC	**49%**	49%	Jordan	International commercial air transportation.
Tune Protection Commercial Brokerage LLC**	**51%**	-	United Arab Emirates	Commercial brokers.

* The Group holds 100% (directly and indirectly) of the equity of COZMO Travel LLC, a limited liability Company incorporated in the United Arab Emirates (Note 25).

** Effective July 1, 2019, the Group has lost control over Tune Protection Commercial Brokerage LLC, a former subsidiary as a result of losing majority of the investee's voting rights. However, the Group retains a significant influence in this investment and accordingly, the Group changed the method of accounting for this investment in Tune Protection Commercial Brokerage LLC from consolidation to equity method measured as per IAS 28 '*Investments in Associates and Joint Ventures*' and recognised at July 1, 2019 as investment in associates (Note 12).

2 Basis of preparation

(a) Statement of compliance

The consolidated financial statements of the Group have been prepared in accordance with the International Financial Reporting Standards (IFRSs) and with the applicable requirements of U.A.E Federal Law No. 2 of 2015.

(b) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for derivative financial instruments and investments measured at fair value through other comprehensive income (FVOCI), which are measured at their fair values.

(c) Functional and presentation currency

The consolidated financial statements are presented in Arab Emirates Dirham ("AED"), which is the Group's functional currency. All values are rounded to the nearest thousands ('000) except where noted otherwise.

3 New standards, interpretations, and amendments adopted by the Group

The accounting policies adopted in the preparation of these consolidated financial statements are consistent with those followed in the previous years, except for the adoption of IFRS 16: Leases, effective from January 1, 2019 as explained below:

IFRS 16 Leases

IFRS 16 supersedes IAS 17 Leases, IFRIC 4 "Determining whether an Arrangement contains a Lease", SIC-15 "Operating Leases-Incentives" and SIC-27 "Evaluating the Substance of Transactions Involving the Legal Form of a Lease". The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for most leases under a single on-balance sheet model.

Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17. Therefore, IFRS 16 did not have an impact for leases where the Group is the lessor.

Upon adoption of IFRS 16, the Group applied a single recognition and measurement approach for all leases that it is the lessee, except for short-term leases and leases of low-value assets. The Group recognised lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

The Group adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application of January 1, 2019 and accordingly, the comparative figures are not restated. The Group elected to use the transition practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application.

4 Summary of significant accounting policies

Overall considerations

These consolidated financial statements have been prepared using the measurement bases specified by IFRS for each type of asset, liability, income and expense. The significant accounting policies and measurement bases are more fully described in the accounting policies below and the following pages.

Foreign currency transactions and balances

Foreign currency transactions are translated into the functional currency, using the exchange rates prevailing at the dates of the transactions (spot exchange rate). Foreign exchange gains and losses resulting from the settlement of such transactions and from the re-measurement of monetary items denominated in foreign currency at period-end exchange rates are recognised in the consolidated statement of comprehensive income.

Non-monetary items are not re-translated at period-end and are measured at historical cost (translated using the exchange rates at the transaction date), except for non-monetary items measured at fair value which are translated using the exchange rates at the date when fair value was determined.

4 Summary of significant accounting policies (continued)

Foreign operations

In the consolidated financial statements, all assets, liabilities and transactions of the Group entities with a functional currency other than the AED (the Group's presentation currency) are translated into AED upon consolidation. The functional currency of the entities in the Group has remained unchanged during the reporting period.

On consolidation, assets and liabilities of foreign operations have been translated into AED at the closing rate prevailing at the reporting date. Income and expenses of foreign operations have been translated into the Group's presentation currency at the average rate over the reporting period. The exchange differences arising on translation for consolidation are recognised in other comprehensive income (OCI).

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at December 31, 2019. Control is achieved when the Company is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Specifically, the Company controls an investee if and only if the Company has:

a. power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
b. exposure, or rights, to variable returns from its involvement with the investee; and
c. the ability to use its power over the investee to affect its returns.

When the Company has less than a majority of the voting or similar rights of an investee, the Company considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

a. The contractual arrangement with the other vote holders of the investee;
b. Rights arising from other contractual arrangements; and
c. The Company's voting rights and potential voting rights.

The Company re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the date the Company gains control until the date the Company ceases to control the subsidiary.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation. Unrealised losses are also eliminated unless the transaction provides evidence of impairment of the assets transferred.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance.

The financial statements of the subsidiaries are prepared for the same reporting year as of the Company.

If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity, while any resultant gain or loss is recognised in the consolidated statement of comprehensive income. Any investment retained is recognised at fair value.

4 Summary of significant accounting policies (continued)

Business combination and goodwill

Business combinations are accounted for using the acquisition method. The cost of acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interests in the acquiree. For each business combination, the acquirer measures the non-controlling interests in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed and included in administrative and general expenses.

When the Group acquires a business, it assesses the financail assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embeded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquireee us remeasured to fair value at the acquisition date through the consolidated statement of comprehensive income.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset of liability will be recognised in accordance with IFRS 9 either in the consolidated statement of comprehensive income of as a change to other comprehensive income. If the contingent consideration is classified as equity, it should not be re-measured untill is finally settled within equity. Other contingent consideration that is not within the scope of IFRS 9, is measured at fair value at each reporting date wuth changes in fair value recognised in the consolidated statement of comprehensive income.

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests over the net identifiable assets aquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in the consolidated statement of comprehensive income.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill aquired in a business combination is, from the acquistion date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets ot liabilities of the acquireee are assigned to those units.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the fain or loss on disposal of the operation. 'goodwill disposed of in this cirmustances is measured basedon the relative values of the operation disposed of and portion of the cash-generating unit retained.

Property and equipment

Property and equipment are initially recognised at cost, including any costs directly attributable to bringing the assets to the location and condition necessary for it to be capable of operating in the manner intended by the Group's management.

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.

4 Summary of significant accounting policies (continued)

Property and equipment (continued)

Property and equipment are stated at cost less accumulated depreciation and any identified impairment losses.

The following estimated useful lives are applied:

• Buildings	15 – 20 years
• Aircrafts	15 years
• Aircraft engines	20 years
• Aircraft rotables and equipment	3 – 10 years
• Airport equipment	3 – 15 years
• Other property and equipment including engine driven pumps ("EDP")	3 – 5 years

Depreciation is charged so as to write off the cost of assets, other than capital work in progress and land, over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the consolidated statement of profit or loss.

Capital work in progress is stated at cost, less any recognised impairment loss. Depreciation of these assets, on the same basis as other property and equipment, commences when the assets are ready for their intended use.

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.

Leases and right-of-use assets

The Group has recorded right-of-use assets representing the right to use the underlying assets under property and equipment, net investment in lease representing the net present value of receivables from intermediate lease, and the corresponding lease liabilities to make lease payments under other liabilities.

IFRS 16 transition disclosures also requires the Group to present the reconciliation. The off-balance sheet lease obligations as of December 31, 2018 are reconciled as follows to the recognised the lease liabilities as at January 1, 2019:

	AED '000
Total operating lease commitments as of December 31, 2018	**100,501**
Discounted using incremental borrowing rate	**(14,809)**
Total lease liabilities recognised as at January 1, 2019	**85,692**

4 Summary of significant accounting policies (continued)

Leases and right-of-use assets (continued)

The change in accounting policy affected the following items in the consolidated statement of financial position on January 1, 2019:

- Right-of-use assets – Increase in net carrying value by AED 9.57 million
- Net investments in lease – Increase by AED 73.89 million;
- Finance lease liabilities – Increase by AED 85.69 million, and
- Accumulated losses – Increase by AED 2.23 million.

When measuring lease liabilities, the Group discounted lease payments using its incremental borrowing rates range from 2.26 % to 5 % as applicable as at January 1, 2019. Lease costs for the year ended December 31, 2019 relating to right-of-use assets amounted to AED 22.99 million and are included under depreciation expenses of right-of-use assets.

The accounting policies of the Group upon adoption of IFRS 16 are as follows:

The Group as a lessee

I. Right-of-use assets

The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any re-measurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets is depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term as follows:

- Aircrafts 8 years
- Hanger 15 years

Right-of-use assets are also subject to impairment.

II. Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset and is recognised under other liabilities in the consolidated statement of financial position.

The Group as a lessor

III. Net investments in leases

Leases in which the Group transfers substantially all the risks and rewards incidental to the ownership of an asset to the lessees are classified as finance leases. A receivable is recognised at an amount equal to the present value of the minimum lease payments under the lease agreement, including guaranteed residual value and unamortised initial direct cost which are included in the consolidated financial statements as "Net investments in leases" within trade and other receivables.

4 Summary of significant accounting policies (continued)

Leases and right-of-use assets (continued)

The Group as a lessor (continued)

IV. Interest income on net investments in leases

The Group follows the finance lease method in accounting for recognition of finance lease. The total unearned interest income, i.e. the excess of aggregate instalment contract receivables plus residual value over the cost of the leased asset is deferred and then amortised over the term of the lease, to produce a systematic return on net investments in leases.

V. The Group as an intermediate lessor

The Group acts as an intermediate lessor in a transaction for which an underlying asset is re-leased by the Group ('intermediate lessor') to a third party, and the lease ('head lease') between the head lessor and Group remains in effect.

The Group classifies the sublease as a finance lease or an operating lease as follows:

- If the head lease is a short-term lease that the entity, as a lessee, has accounted for by recognising the lease payments as an expense on a straight-line basis over the term of the lease, the sublease must be classified as an operating lease;
- Otherwise, the sublease must be classified by reference to the right-of-use asset arising from the head lease, rather than by reference to the economic useful life of the underlying asset (such as the item of property and equipment that is the subject of the lease).

Accounting policy applicable before January 1, 2019:

The Group as a lessee

Finance leases

Management applies judgment in considering the substance of a lease agreement and whether it transfers substantially all the risks and rewards incidental to ownership of the leased asset. Key factors considered include the length of the lease term in relation to the economic life of the asset, the present value of the minimum lease payments in relation to the asset's fair value, and whether the Group obtains ownership of the asset at the end of the lease term. For leases of aircrafts, the minimum lease payments are first allocated to each component based on the relative fair values of the respective lease interests. Each component is then evaluated separately for possible treatment as a finance lease. See note 4 for the depreciation methods and useful lives for assets held under finance leases. The interest element of lease payments is charged to profit or loss, as finance costs over the period of the lease.

Operating leases

All other leases are treated as operating leases. Where the Group is a lessee, payments on operating lease agreements are recognised as an expense on a straight-line basis over the lease term. Associated costs, such as maintenance and insurance, are expensed as incurred.

The Group as a lessor

Rental income is recognised on a straight-line basis over the term of the lease.

Investment properties

Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met; and excludes the costs of day to day servicing of an investment property.

4 Summary of significant accounting policies (continued)

Investment properties (continued)

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 consolidated statement of profit or loss in the year of retirement or disposal.

Transfers are made to investment property when, and only when, there is a change in use. For a transfer from investment property to owner occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under property and equipment up to the date of change in use.

Properties under construction

Properties under construction are carried at cost less any impairment in value. Costs are those expenses incurred by the Group that are directly attributable to the construction of asset.

The carrying values of properties under construction are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount.

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 arising out of the acquisition of Air Arabia LLC in 2007, have been estimated to be indefinite (Note 9).

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 the consolidated statement of profit or loss as incurred.

Intangible assets with indefinite useful lives are tested for impairment annually, or more frequently when there is indication of impairment.

Deferred charges

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

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.

Investments in associates and joint ventures

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control of joint control over those policies.

4 Summary of significant accounting policies (continued)

Investments in associates and joint ventures (continued)

A joint venture is a type of joint arrangement whereby the parties have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about relevant activities require unanimous consent of the parties sharing control. The consideration made in determining significant influence or joint control are similar to those necessary to determine control over subsidiaries.

The Group's investments in its associates and joint ventures are accounted for using the equity method. Under the equity method, the investment in an associate or joint venture is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Group's share of net assets of the associate or joint venture since the acquisition date. Goodwill relating to the associate or joint venture is included in the consolidated carrying amount of the investment and goodwill is neither amortised nor individually tested for impairment. The consolidated statement of profit or loss reflects the Group's share of the results of operations of the associates and joint ventures. Any change in other comprehensive income of those investees is presented as part of the Group's consolidated statement of other comprehensive income.

In addition, when there has been a change recognised directly in the equity of the associate or joint venture, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains/losses resulting from transaction between the Group and the associate or joint venture are eliminated to the extent of the interest in the associate or joint venture.

The aggregate of the Group's share of profit or loss of an associate and joint venture is shown on the face of the consolidated statement of profit or loss outside operating profit. The financial statements of the associate or joint venture are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on its investment in its associate or joint venture. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate or joint venture is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate or joint venture and its carrying value and then recognises the loss in the consolidated statement of profit or loss.

Upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in consolidated statement of profit or loss.

If the ownership interest in a joint venture or an associate is reduced but joint control or significant influence is retained; only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

Impairment of non-financial assets

At the end of the reporting date, the Group reviews the carrying amounts of tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

4 Summary of significant accounting policies (continued)

Impairment of non-financial assets (continued)

Recoverable amount is the higher of fair value less cost to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in the consolidated statement of profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

When an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in the consolidated statement of profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Financial instruments

Financial assets

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost and fair value through other comprehensive income (OCI).

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them.

In order for a financial asset to be classified and measured at amortised cost or fair value through OCI, it needs to give rise to cash flows that are 'solely payments of principal and interest (SPPI)' on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Subsequent measurement

For purposes of subsequent measurement, financial assets are classified in two categories:

- Financial assets at amortised cost (debt instruments); or
- Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments).

Financial assets at amortised cost (debt instruments)

This category is the most relevant to the Group. The Group measures financial assets at amortised cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows, and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

4 Summary of significant accounting policies (continued)

Financial instruments (continued)

Financial assets (continued)

Subsequent measurement (continued)

Financial assets at amortised cost (debt instruments) (continued)

Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in the consolidated statement of profit or loss when the asset is derecognised, modified or impaired.

The Group's financial assets at amortised cost includes trade and most other receivables, other investments, bank balances and cash and other non-current financial assets.

Financial assets designated at fair value through OCI (equity instruments)

Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity instruments designated at fair value through OCI when they meet the definition of equity under IAS 32 Financial Instruments: Presentation and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to the consolidated statements of profit or loss. Dividends are recognised as other income in the consolidated statement of profit or loss when the right of payment has been established, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in OCI. Equity instruments designated at fair value through OCI are not subject to impairment assessment.

Derecognition

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- The rights to receive cash flows from the asset have expired, or
- The Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a passthrough arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership.

When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of its continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

4 Summary of significant accounting policies (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets

The Group recognises an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL).

For trade receivables and contract assets, the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

The Group considers a financial asset in default when contractual payments are 60 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognised initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include finance lease liabilities, trade and most other payables, cash flow hedge liability (derivative) and short term borrowings.

Subsequent measurement

The measurement of financial liabilities depends on their classification, as described below:

Loans and borrowings

This is the category most relevant to the Group. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost. The effective interest method is the 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.

4 Summary of significant accounting policies (continued)

Financial instruments (continued)

Financial liabilities (continued)

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognised in the consolidated statement of profit or loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, to realise the assets and settle the liabilities simultaneously.

Fair value of financial instruments

The fair value of the financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

For financial intstruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include:

- Using recent arm's length market transactions;
- Reference to the current fair value of another instrument that is substantially the same; or
- A discounted cash flow analysis or other valuation models.

Derivative financial instruments

The management has applied hedge accounting for its derivative financial instruments. The management applies hedge accounting only if all of the following conditions are met:

- There is formal designation and written documentation at the inception of the hedge;
- The effectiveness of the hedging relationship can be measured reliably. This requires the fair value of the hedging instrument, and the fair value or cash flows of the hedged item with respect to the risk being hedged, to be reliably measurable;
- The hedge is expected to be highly effective in achieving fair value or cash flow offsets in accordance with the original documented risk management strategy; and
- The hedge is assessed and determined to be highly effective on an ongoing basis throughout the hedge relationship. A hedge is highly effective if changes in the fair value of the hedging instrument, and changes in the fair value or expected cash flows of the hedged item attributable to the hedged risk.

At inception of the hedge, the management designate hedge either as a cash flow hedge or as a fair value hedge. The designation is done at inception of the hedge. At inception of the hedge, the management establishes formal documentation of the hedge relationship. The method an entity adopts depends on its risk management strategy and hedge accounting systems and practices. The method that will be used in measuring hedge effectiveness is specified in the hedge documentation.

4 Summary of significant accounting policies (continued)

Derivative financial instruments (continued)

The hedge documentation prepared at inception includes a description of the followings:

- Risk management objective and strategy for undertaking the hedge;
- The nature of the risk being hedged;
- Clear identification of the hedged item - the asset, liability, firm commitment or cash flows arising from a forecast transaction - and the hedging instrument; and
- How hedge effectiveness will be assessed both prospectively and retrospectively. The entity describes the method and procedures in sufficient detail to establish a firm and consistent basis for measurement in subsequent periods for the particular hedge.

A hedging relationship meets the hedge effectiveness requirements if there is an economic relationship between the hedged item and the hedging instrument, the effect of credit risk does not dominate the value changes that result from the economic relationship and the hedge ratio of the hedging relationship is the same as that resulting from the quantities of the hedged item that the entity actually hedge and the hedging instrument uses to hedge that quantity of hedged item.

Under a cash flow hedge model, the effective portion of the fair value changes of the hedging instrument is recognised in consolidated statement of other comprehensive income (OCI) and the ineffective portion is recognised in the consolidated statement of profit or loss.

In a fair value hedge, any ineffectiveness is automatically recognised in the consolidated statement of comprehensive income because changes in the measurement of both the hedging instrument and the hedged item are reported through the consolidated statement of comprehensive income except if the hedging instrument hedges an equity investment for which the management has elected to present changes in fair value in OCI.

If a hedge no longer is effective, then hedge accounting is discontinued prospectively from the last date on which the hedge was proven to be effective. Hedge accounting is also discontinued when the hedged item or the hedging instrument is derecognised, the criteria are no longer met or upon voluntarily discontinuation.

If the hedging instrument is a derivative, then the hedging instrument is measured at fair value, with the effective portion of changes in its fair value recognised in OCI and presented within equity normally in a hedging reserve. The ineffective portion of the gain or loss on the hedging instrument is recognised immediately in the consolidated statement of profit or loss.

If hedge accounting is not applied to a derivative instrument that is entered into as an economic hedge, then derivative gains and losses are shown in the consolidated statements of other comprehensive income.

Provision for staff terminal benefits

Provision for employees' end of service benefits

Provision is made for the full amount of statutory gratuity due to employees for their period of service up to the reporting date in accordance with the applicable labour laws. The gratuity provision is shown under non-current liabilities in the consolidated statement of financial position.

4 Summary of significant accounting policies (continued)

Provision for staff terminal benefits (continued)

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.

Contributions for eligible UAE National employees are made to the Pension Authority, in accordance with the provisions of UAE labour Law No. (7) of 1999 relating to Pension and Social Security and charged to the consolidated statement of comprehensive income in the period in which they fall due.

Aircraft maintenance

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

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 the consolidated statement of profit or loss calculated by reference to the number of hours or cycles operated and engineering estimates.

Deferred income

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

Provisions and contingent liabilities

Provisions are recognised when present obligations as a result of a past event will probably lead to an outflow of economic resources from the Group and amounts can be estimated reliably. Timing or amount of the outflow may still be uncertain. A present obligation arises from the presence of a legal or constructive commitment that has resulted from past events, for example, legal disputes or onerous contracts. Provisions are not recognised for future operating losses. Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the reporting date, including the risks and uncertainties associated with the present obligation. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. Provisions are discounted to their present values, where the time value of money is material.

Revenue recognition

Revenue from contracts with customers

The Group's revenue primarily derives from transportation services for both passengers and cargo, ticket selling, accommodation income and dividend income. Revenue is recognized when the transportation, tickets or accommodation are provided. The Group considers whether it is an agent or a principal in relation to transportation services by considering whether it has a performance obligation to provide services to the customer or whether the obligation is to arrange for the services to be provided by a third party.

4 Summary of significant accounting policies (continued)

Revenue recognition (continued)

Rendering of services
Passenger tickets are generally paid for in advance of transportation and are recognised, net of discounts as deferred revenue on ticket sales in current liabilities until the customer has flown. Unused tickets are recognised as revenue after the contracted date of departure using estimates regarding the timing of recognition based on the terms and conditions of the ticket and statistical analysis of historical trends. Other revenue including maintenance; handling; hotel and holiday and commissions is recognized as the related performance obligation is satisfied over time using an appropriate methodology which reflects the activity that has been undertaken to satisfy the related obligation.

Hotel revenue
Income from room hire is recognised on a pro-rata basis over the period of occupancy. Revenue from sale of goods, food and beverages is recognised upon issuance of related sales invoices on delivery to guests and customers.

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

Finance income and finance costs

Finance income mainly comprises interest income on fixed deposits and investments. Interest income is recognised in the consolidated statement of profit or loss as it accrues, using the effective interest rate method.

Finance costs mainly comprises interest expense on bank borrowings and finance lease obligations. All borrowing costs are recognised in the consolidated statement of comprehensive income 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.

Operating expenses

Operating expenses are recognised in the consolidated statement of profit or loss upon utilisation of the service or at the date of their origin.

Segmental reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-makers, who is responsible for resource allocation and assessing performance of the operating segments, are the Board of Directors and the Chief Executive Officer.

Significant management judgment, estimates and assumptions in applying accounting policies

When preparing the consolidated financial statements, management undertakes a number of judgment, estimates and assumptions about recognition and measurement of assets, liabilities, income and expenses. The actual results may differ from the judgment, estimates and assumptions made by management, and will seldom equal the estimated results.

Information about significant judgment, estimates and assumptions that have the most significant effect on recognition and measurement of assets, liabilities, income and expenses is provided on the following page:

4 Summary of significant accounting policies (continued)

Significant management judgment, estimates and assumptions in applying accounting policies (continued)

Impairment of goodwill and intangible assets

Goodwill and intangible assets with indefinite useful lives are 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.

The recoverability of these assets is based on the Group's projected financial performance which are underpinned by a number of assumptions. Such assumptions inherently involve significant judgments.

Impairment of non-financial assets

Impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The fair value less costs to sell calculation is based on available data from binding sales transactions in arm's length transactions of similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the asset's performance of the CGU being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes.

Aircraft maintenance costs

The Group incurs liabilities for maintenance costs in respect of its owned aircrafts and leased aircraft. A charge is made in the consolidated statement of 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 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.

In case of operating lease aircraft, 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

The 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.

4 Summary of significant accounting policies (continued)

Significant management judgment, estimates and assumptions in applying accounting policies (continued)

Current versus non-current classification

The Group presents assets and liabilities in the consolidated statement of financial position based on current/non-current classification.

An asset is current when it is:

- Expected to be realised or intended to be sold or consumed in the normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be realised within twelve months after the reporting period; or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current.

A liability is current when:

- It is expected to be settled in the normal operating cycle;
- It is held primarily for the purpose of trading;
- It is due to be settled within twelve months after the reporting period; or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

All other liabilities are classified as non-current.

Estimated useful life and residual value of property and equipment, right-of-use assets and intangible assets

The Group estimates the useful lives of property and equipment (except land), right-of-use assets and intangible assets based on the period over which the assets are expected to be available for use. The estimated useful lives of property and equipment, right-of-use assets and intangible assets are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets.

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.

Allowance for expected credit losses for trade receivables and amounts due from related parties

The expected credit losses is based on assumption about risk of default and expected loss rates. The Group uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the Group's past history, existing market conditions as well as forward looking estimates at the end of each reporting period.

Notes to the consolidated financial statements (continued)
For the year ended December 31, 2019

5 Property and equipment

2019	Land AED '000	Buildings AED '000	Aircrafts AED '000	Aircraft engines AED '000	Aircraft rotables and equipment AED '000	Airport equipment AED '000	EDP equipment AED '000	Office equipment, furniture, fixtures and motor vehicles AED '000	Capital work-in-progress AED '000	Total AED '000
Gross carrying amount										
At January 1, 2019	89,040	674,638	8,745,533	405,056	78,231	18,919	29,281	80,816	12,952	10,134,466
Additions	-	764	-	-	24,338	-	5,482	11,034	8,475	50,093
Disposals	-	-	(156,188)	-	-	-	-	-	-	(156,188)
Transfers	-	-	-	8,721	-	-	-	-	(8,721)	-
At December 31, 2019	89,040	675,402	8,589,345	413,777	102,569	18,919	34,763	91,850	12,706	10,028,371
Accumulated depreciation										
At January 1, 2019	-	242,603	2,271,520	102,802	30,181	7,803	23,755	53,017	-	2,731,681
Charge for the year	-	35,564	461,360	16,484	5,578	883	2,015	6,596	-	528,480
Disposals	-	-	(97,957)	-	-	-	-	-	-	(97,957)
At December 31, 2019	-	278,167	2,634,923	119,286	35,759	8,686	25,770	59,613	-	3,162,204
Net carrying amounts at December 31, 2019	**89,040**	**397,235**	**5,954,422**	**294,491**	**66,810**	**10,233**	**8,993**	**32,237**	**12,706**	**6,866,167**

Notes to the consolidated financial statements (continued)
For the year ended December 31, 2019

5 Property and equipment (continued)

2018	Land AED '000	Buildings AED '000	Aircrafts AED '000	Aircraft engines AED '000	Aircraft rotables and equipment AED '000	Airport equipment AED '000	EDP equipment AED '000	Office equipment, furniture, fixtures and motor vehicles AED '000	Capital work-in-progress AED '000	Total AED '000
Gross carrying amount										
At January 1, 2018	89,040	674,347	8,268,707	359,336	70,055	18,919	29,281	63,719	-	9,573,404
Additions	-	291	476,826	45,720	8,176	-	-	17,097	12,952	561,062
At December 31, 2018	89,040	674,638	8,745,533	405,056	78,231	18,919	29,281	80,816	12,952	10,134,466
Accumulated depreciation										
At January 1, 2018	-	206,817	1,815,436	87,530	25,755	6,920	21,614	41,352	-	2,205,424
Charge for the year	-	35,786	456,084	15,272	4,426	883	2,141	11,665	-	526,257
At December 31, 2018	-	242,603	2,271,520	102,802	30,181	7,803	23,755	53,017	-	2,731,681
Net carrying amounts at December 31, 2018	89,040	432,035	6,474,013	302,254	48,050	11,116	5,526	27,799	12,952	7,402,785

The amount of depreciation computed on property and equipment is presented as follows:

	2019 AED '000	2018 AED '000
Direct costs (Note 27)	**514,465**	511,279
Administrative and general expenses (Note 28)	**14,015**	14,978
	528,480	526,257

5 Property and equipment (continued)

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

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

As at December 31, 2019, work in progress represents various capital projects, mainly related to offices refurbishment in Alpha Academy and Information System Association, amounting to AED 12.7 million (2018: AED 12.9 million).

All of the Group's non-movable assets are located in the UAE, except for property and equipment with carrying amount of AED 2.1 million (2018: AED 2.2 million), located outside UAE.

At December 31, 2019, aircrafts with carrying amount of AED 5.7 billion (2018: AED 5.2 billion) are held under finance lease (Note 23).

The Group's management conducted an internal assessment of its aircraft assets and considered if there are any impairment indicators such as a deterioration in current or forecast trade activity, the incurrence of losses or other factors indicating that the assets may be impaired. Based on their assessment, the Group's management is of the view that no indicators of impairment arose during 2019 (2018: AED Nil).

6 Right-of-use assets

Movement in right-of-use assets is summarised as follows:

2019	Aircrafts AED '000	Hangar AED '000	Total AED '000
Gross carrying amount			
At January 1, 2019	-	-	-
Impact of implementation of IFRS 16	-	16,650	16,650
Additions	382,191	-	382,191
At December 31, 2019	382,191	16,650	398,841
Accumulated depreciation			
At January 1, 2019	-	-	-
Impact of implementation of IFRS 16	-	7,076	7,076
Charge for the year	22,086	902	22,988
At December 31, 2019	22,086	7,978	30,064
Net carrying amounts at December 31, 2019	**360,105**	**8,672**	**368,777**

The amount of depreciation computed on right-of-use assets is presented as follows:

	2019 AED '000	2018 AED '000
Direct costs (Note 27)	**22,086**	-
Administrative and general expenses (Note 28)	**902**	-
	22,988	-

7 Advance for new aircraft

Advance for new aircrafts represents pre-delivery payments made to suppliers for an amount of AED 360.3 million in respect of new aircraft.

Movement in the advance for new aircraft was as follows:

	2019 AED '000	2018 AED '000
At January 1,	-	172,739
Advances paid during the year	360,281	-
Advances adjusted against aircraft purchased during the year	-	(172,739)
At December 31,	360,281	-

8 Investment properties

	2019 AED '000	2018 AED '000
As at December 31,	124,970	124,970

Investment properties represent under construction certain units in a building located in Dubai Marina, United Arab Emirates, which is approximately 50% complete.

Management estimates the fair value of investment properties as at December 31, 2019 to be AED 467 million (2018: AED 238 million).

9 Intangible assets

	2019 AED '000	2018 AED '000
Intangible assets *	1,113,950	1,102,412
Goodwill **	198,522	198,522
At December 31,	1,312,472	1,300,934

During the year ended December 31, 2019, intangible assets and goodwill were subject to impairment tests and management concluded that they are not impaired (2018: AED Nil).

* The movement in the intangible assets during the year can be reconciled as follows:

	2019 AED '000	2018 AED '000
At January 1,	1,102,412	1,100,528
Additions during the year	14,446	3,667
Amortisation during the year	(2,908)	(1,783)
At December 31,	1,113,950	1,102,412

9 Intangible assets (continued)

Certain intangible assets were arised from the acquisition of Air Arabia LLC in 2007, determined by an independent valuer, summaried as follows:

	2019 AED '000	2018 AED '000
Trade name	**395,410**	395,410
Landing rights	**468,273**	468,273
Price benefit from related parties	**180,281**	180,281
Handling license - Sharjah Aviation Services	**48,383**	48,383
	1,092,347	1,092,347

** Goodwill comprises of the following:

	2019 AED '000	2018 AED '000
Goodwill on acquisition of Air Arabia LLC ***	**189,474**	189,474
Goodwill on step acquisition of Information Systems Associates FZC	**9,048**	9,048
At December 31,	**198,522**	198,522

*** Goodwill arising on of the acquisition of Air Arabia LLC in 2007, determined by an independent valuer, was as follows:

	AED '000
Total fair value of Air Arabia LLC	**1,400,000**
Fair value of intangible assets	**(1,092,347)**
Fair value of tangible assets – net	**(118,179)**
	189,474

The Group, with support from an independent professional services firm performed impairment tests on goodwill and intangible assets with indefinite useful lives as of December 31, 2019 and 2018. The recoverable amount of goodwill and intangible assets for impairment test purpose has been determined using value-in-use calculations. For calculation purposes the Group's management prepared cash flow projections for 5 years period and applied a discount rate of between 10.01% to 10.55 % (2018: 8.94% to 10.05 %).

Cash flow projections during the forecast period are based on the expected gross margins. The Group 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 the Group is of the view that goodwill and intangible assets are not impaired.

Notes to the consolidated financial statements (continued)
For the year ended December 31, 2019

10 Deferred charges

2019	Landing permission charges AED'000	Aircraft upgrade Costs AED'000	Processing fee and commission costs AED'000	BFE AED'000	Total AED'000
Gross carrying amount					
At January 1, 2019	51,745	35,073	27,086	-	113,904
Additions during the year	-	-	-	11,997	11,997
At December 31, 2019	51,745	35,073	27,086	11,997	125,901
Accumulated amortisation					
At January 1, 2019	51,745	28,573	9,451	-	89,769
Charge for the year	-	1,506	2,372	693	4,571
At December 31, 2019	51,745	30,079	11,823	693	94,340
Net carrying amounts as at December 31, 2019	**-**	**4,994**	**15,263**	**11,304**	**31,561**

2018	Landing permission charges AED'000	Aircraft upgrade Costs AED'000	Processing fee and commission costs AED'000	BFE AED'000	Total AED'000
Gross carrying amount					
At January 1, 2018	51,745	35,073	27,086	-	113,904
At December 31, 2018	51,745	35,073	27,086	-	113,904
Accumulated amortisation					
At January 1, 2018	51,745	27,067	7,079	-	85,891
Charge for the year	-	1,506	2,372	-	3,878
At December 31, 2018	51,745	28,573	9,451	-	89,769
Net carrying amounts as at December 31, 2018	-	6,500	17,635	-	24,135

BFE: Buyer-Furnished Equipment

11 Investments

	2019 AED '000	2018 AED '000
Investments measured at fair value through other comprehensive income (Note 11.1)	**11,082**	10,191
Investment measured at amortised cost (Note 11.2)	-	367,315
Impairment loss	-	(367,315)
	11,082	10,191

11.1 Investments measured at fair value through other comprehensive income

	2019 AED '000	2018 AED '000
Quoted in UAE	**11,082**	10,191

11 Investments (continued)

11.1 Investments measured at fair value through other comprehensive income

Movements during the year were as follow:

	2019 AED '000	2018 AED '000
Opening balance	**10,191**	324,589
Disposal of investment during the year	**-**	(9,276)
Change in fair value	**891**	(305,122)
	11,082	10,191

The market rate as at December 31, 2019 is considered for the calculation of the fair value of the investments that are quoted on the stock exchange market.

11.2 Investment measured at amortised cost

This represents an investment in the preference shares in an equity, formed to invest in one of the funds being managed by Abraaj Group. This investment has been fully impaired during the year ended December 31, 2018 (Note 15).

12 Investments in associates and joint ventures

	2019 AED'000	2018 AED'000
Investment in associates (Note 12.1)	**32,879**	49,994
Investment in joint ventures (Note 12.2)	**44,714**	38,619
	77,593	88,613

12.1 Investment in associates

Investment in associates represents share in net assets of the associates at the reporting date as per equity accounting principles and the movements during the year are summarised as follows:

	2019 AED'000	2018 AED'000
At January 1,	**49,994**	48,348
Additional investment in Tune Protection Commercial Brokerage LLC	**3,677**	-
Share of loss of Air Arabia Jordan LLC *	**-**	(2,510)
Share of profit of Air Arabia Maroc S.A.	**11,927**	27,063
Share of loss of Tune Protection Commercial Brokerage LLC	**(607)**	-
Dividend received during the year from Air Arabia Morocco S.A.	**(32,112)**	(22,907)
At December 31,	**32,879**	49,994

* In 2018, The share of losses from the investment in Air Arabia Jordan LLC has fully absorbed the remaining initial investment value which was AED 2.5 million; accordingly, the Group has reflected only an amount of AED 2.5 million from 2018 share of loss of the associate. In 2019, the Group continued in not reflecting any additional share of loss.

Notes to the consolidated financial statements (continued)
For the year ended December 31, 2019

12 Investments in associates and joint ventures (continued)

12.2 Investment in joint ventures

Investment in joint ventures represents share in net assets of the joint ventures at the reporting date as per equity accounting principles and the movements during the year are summarised as follows:

	2019 AED'000	2018 AED'000
At January 1,	**38,619**	39,882
Share of profit of Alpha Flight Services UAE. LLC	**13,261**	11,737
Share of profit of Sharjah Aviation Services LLC	**7,834**	-
Dividends received from Alpha Flight Services UAE. LLC	**(12,000)**	(13,000)
Dividends received from Sharjah Aviation Services LLC	**(3,000)**	-
At December 31,	**44,714**	38,619

	Alpha Flight Services UAE LLC		Sharjah Aviation Services LLC		Total	
Percentage of interest	51%	51%	50%	50%		
	2019 AED'000	2018 AED'000	**2019 AED'000**	2018 AED'000	**2019 AED'000**	2018 AED'000
Assets	**46,825**	45,057	**132,103**	209,915	**178,928**	254,972
Liabilities	**(33,941)**	(31,377)	**(68,007)**	(146,631)	**(101,948)**	(178,008)
Net assets	**12,884**	13,680	**64,096**	63,284	**76,980**	76,964
Group's share in net assets as presented in the consolidated statement of financial position	**7,832**	6,977	**36,882**	31,642	**44,714**	38,619
Profit for the year	**26,003**	18,429	**15,668**	4,676	**45,965**	23,105
Group's share of profit for the year	**13,261**	9,399	**7,834**	2,338	**22,813**	11,737
Dividends received by the Group	**(12,000)**	(10,000)	**(3,000)**	(3,000)	**(15,000)**	(13,000)

Investment in Air Arabia Egypt Company S.A.E is fully impaired in the previous years.

13 Categories of financial assets and liabilities

Note 4 to the consolidated financial statements provide a description of each classification and measurement of financial assets and financial liabilities and the related accounting policies. The carrying amounts of financial assets and financial liabilities in each category are as follows:

	2019 AED'000	2018 AED'000
Financial assets at amortised cost		
Trade and other receivables	**589,223**	617,221
Bank balances and cash	**2,806,452**	1,645,014
Other investment	**168,374**	168,366
Financial assets at fair value through other comprehensive income		
Investments measured at fair value through other comprehensive income	**11,082**	10,191
	3,575,131	2,440,792
Financial liabilities at amortised cost		
Trade and other payables	**2,562,017**	2,203,578
Short term borrowings	**352,216**	21,064
Finance lease liabilities	**3,692,474**	3,721,329
Cash flow hedge liabilities (derivative)	**128,174**	456,129
	6,734,881	6,402,100

A description of the Group's financial statements risk, including risk management objectives and policies is given in Note 35 and methods used to measure fair value are described in Note 36.

14 Trade and other receivables

	2019 AED'000	2018 AED'000
Current assets		
Financial assets:		
Trade receivables, gross	**273,410**	283,046
Allowance for expected credit losses	**(19,553)**	(827)
Trade receivables, net	**253,857**	282,219
Net investment in lease *	**13,957**	-
Amounts due from related parties (Note 15)	**115,980**	67,886
Advances and other receivables	**205,429**	267,116
	589,223	617,221
Non-financial assets:		
Prepaid aircraft lease rentals	**5,724**	1,265
Prepaid expenses — others	**21,830**	13,452
	616,777	631,938
Non-current asset		
Financial assets:		
Net investment in lease *	**46,284**	-
	663,061	631,938

*Net investment in lease represents the present value of the minimum lease payment receivables. The Group subleases one aircraft to Air Arabia Maroc, S.A., an associate. The Group has classified the subleases as finance lease because the subleases are for the whole of the remaining term of head lease.

14 Trade and other receivables (continued)

The following table sets out the lease receivables related to the subleases:

	2019 AED'000	2018 AED'000
Not later than one year	**13,957**	-
Later than one year but not later than five year	**46,284**	-
Later than five years	**-**	-
At December 31,	**60,241**	-

As at December 31, 2019, all of the Group's trade and other receivables have been reviewed for indicators of impairment. Certain trade receivables were found to be impaired amounting to AED 19.6 million (2018: AED 0.83 million).

The movement in allowance for expected credit losses of trade receivables can be reconciled as follows:

	2019 AED'000	2018 AED'000
As at January 1,	**827**	1,621
Allowance for expected credit losses of trade receivables (Note 28)	**24,054**	77
Written off during the year	**(5,328)**	(871)
As at December 31,	**19,553**	827

The ageing of trade receivables which are not impaired at the reporting date are as follows:

		Not	*Past due but not impaired*		
	Total AED'000	past due nor Impaired AED'000	<60 Days AED'000	60-90 Days AED'000	>90 Days AED'000
2019	**253,857**	**170,084**	**25,386**	**7,616**	**50,771**
2018	282,219	208,842	56,444	11,288	5,645

Trade receivables are non-interest bearing and are generally settled in within normal credit terms of 45 to 60 days after which they are considered to be past due. Unimpaired accounts receivable are expected, on the basis of past experience, to be recoverable. Before accepting any new customer, the Group assesses the potential customers' quality and defines credit limits for customer. There are 3 customers (2018: 3 customers) who represent more than 16% (2018: 12%) of the total balance of trade receivables.

Majority of the trade receivables are from sales agents which are secured mainly by bank guarantees and deposits.

The concentration of credit risk is limited due to the customer base being large and unrelated.

15 Related parties

The Group in the normal course of business carries on transactions with other enterprises that fall within the definition of related party. The Group's related parties include key management personnel, entities held under common control, associates, joint ventures and others. Transactions with related parties are carried out in the normal course of business and are measured at exchange amounts, being the amounts agreed by both the Board of Directors and the respected related party.

Transactions with related parties included in the consolidated statement of profit or loss are as follows:

	2019	2018
	AED'000	AED'000
Rental income from aircraft operating lease (Note 26)	**144,635**	143,809
Expenses recharged by related parties	**54,695**	62,892
Revenue from related parties	**44,890**	34,619
Management fees from joint ventures and associates (Note 30)	**23,906**	15,590
Income from investments	**32,415**	32,459

Compensation of key management personnel

A number of key management personnel hold positions in the Group that result in them having control or significant influence over the financial or operating activities. Compensation of key management personnel are as follows:

	2019	2018
	AED'000	AED'000
Short term benefits	**11,105**	13,246
Long term benefits	**592**	592
Board of Directors' remuneration	**5,125**	5,875

Balances with related parties included in the consolidated statement of financial position are as follows:

	2019	2018
	AED'000	AED'000
Amounts due from related parties: (Note 14)		
Receivable from associates and joint ventures, net of allowance for expected credit losses	**115,980**	67,886

	2019	2018
	AED'000	AED'000
Amounts due to related parties: (Note 21)		
Payable to a joint venture	**3,927**	3,875
Other related parties	**24,224**	21,345
	28,151	25,220

Outstanding balances at year-end arise in the normal course of business. In 2019, the Company's has recorded an allowance for expected credit losses of amounts due from related parties amounting to AED 10 million (2018: AED 10 million). This assessment is undertaken each financial year through examining the financial position of the related party and the market the related party operates.

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

In 2018, The Abraaj Group and entities related to it were related parties of the Air Arabia Group by reference to International Accounting Standard 24 "Related Party Disclosures" by virtue of a director of the Air Arabia Group having in substance the control of Abraaj Group during previous years. However, this director resigned as a director of the Air Arabia Group in July 2018, at which point the Abraaj Group and entities related to it ceased to be related parties to the Air Arabia Group.

15 Related parties (continued)

On June 18, 2018, two entities (the "Abraaj Entities") in the Abraaj Group (defined here as Abraaj Holdings Limited and its subsidiaries) filed for voluntary liquidation and, consequently, they are under the management of court-appointed joint provisional liquidators ("joint provisional liquidators"). As at December 31, 2018, the joint provisional liquidators were in the process of determining the realisable value of assets of the Abraaj Entities to settle its liabilities towards its investors and creditors. The latest report of the joint provisional liquidators indicated that the Abraaj Entities have insufficient assets to fully honour their respective financial obligations.

Accordingly, and as at December 31, 2018, the Group has recognised an impairment loss against all investments that were related to the Abraaj Group which are summarised as follows:

	2018 AED'000
Short term investments at amortised cost	734,634
Investments measured at fair value through other comprehensive income	367,315
Interest receivables on short term investments	32,459
	1,134,408

16 Bank balances and cash

	2019 AED'000	2018 AED'000
Bank balances		
Fixed deposits*	**2,593,928**	1,372,389
Current accounts	**168,117**	238,014
Call deposits	**38,972**	28,666
Margin deposits*	**-**	1,206
	2,801,017	1,640,275
Cash in hand	**5,435**	4,739
Bank balances and cash	**2,806,452**	1,645,014

*These deposits carry interest rates ranging from 3% - 4.5% (2018: 3% - 4.5%) per annum.

16.1 Other investments at amortised cost

	2019 AED '000	2018 AED '000
National Bonds *	**150,000**	150,000
Others	**18,374**	18,366
	168,374	168,366

Movement of Investment in National Bonds during the year can be reconciled as follows:

	2019 AED '000	2018 AED '000
As at January 1,	**150,000**	50,000
Additions during the year	**-**	100,000
As at December 31,	**150,000**	150,000

Other investments earn interest at 4% (2018: 4%) per annum.

17 Share capital

	2019 AED'000	2018 AED'000
Authorised, issued and fully paid up share capital (4,666,700 thousand shares of AED 1 each)	**4,666,700**	4,666,700

Dividends

At the Annual General Meeting held on March 17, 2019, Board of Directors did not propose any dividends for the year ended December 31, 2018. However, on March 13, 2018, the shareholders approved dividends of AED 10 fils per share for the year ended December 31, 2017 totaling to AED'000 466,670.

18 Statutory reserve

In accordance with the Company's Articles of Association and Article 103 of UAE Federal Law No. 2 of 2015, a minimum of 10% of the net profit for the year has to be transferred to the statutory reserve. Such transfers are required to be made until the balance on the statutory reserve equals one half of the Company's paid-up share capital. The reserve is not available for distribution except as provided for in the UAE Federal Law.

19 General reserve

In accordance with the Company's Articles of Association, an amount equal to 10% of the net 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 Group. This reserve shall be utilised for the purposes determined by the General Assembly at an ordinary meeting upon recommendation by the Board of Directors.

On the General Assembly dated March 17, 2019, the Board of Directors proposed, and the Shareholders resolved to utilise the general reserve balance of AED'000 426,155 to absorb a portion of the accumulated losses carried forward from the prior year.

20 Provision for staff terminal benefits

	2019 AED'000	2018 AED'000
At January 1,	**129,744**	111,256
Charge for the year	**22,299**	25,118
Payments made during the year	**(6,914)**	(6,630)
At December 31,	**145,129**	129,744

21 Trade and other payables

	2019 AED'000	2018 AED'000
Financial liabilities		
Maintenance liabilities	**1,320,706**	1,225,327
Accrued expenses	**633,474**	277,004
Other payables	**510,258**	510,848
Cash flow hedge liability (Note 22)	**128,174**	456,129
Lease deposit payables	**44,703**	19,212
Amounts due to related parties (Note 15)	**28,151**	25,220
Trade payables	**24,725**	149,023
	2,690,191	2,662,763
Nom-financial liabilities		
Advances from customers	**24,853**	32,113
	2,715,044	2,694,876
Less:		
Non-current liabilities		
Maintenance liabilities	**981,422**	1,039,156
Cash flow hedge liability (Note 22)	**79,901**	216,155
	1,061,323	1,255,311
Current liabilities	**1,653,721**	1,439,565

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

22 Derivative financial instruments

Fuel derivatives

The Group uses derivative financial instruments for risk management purposes.

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 the consolidated statement of other comprehensive income, as part of the cash flow hedge reserve in line with provisions of IFRS 9.

No gain or loss was recognised in December 31, 2019 relating to the ineffective portion of trade deals and the settlement of the same in the consolidated statement of profit or loss, as part of fuel costs (2018: loss of AED 3.7 million) (Note 27).

Cash flow hedge liability is categorised into the following:

	2019 Term	2019 AED'000	2018 Term	2018 AED'000
Non-current liabilities				
Commodity swaps, forwards options and others	**2021-2024**	**79,901**	2020-2023	216,155
Current liabilities				
Commodity swaps, forwards options and others	**2020**	**48,273**	2019	239,974
Total (Note 21)		**128,174**		456,129

23 Finance lease liabilities

The Group has entered into leasing arrangements with leasing companies to finance the purchase of the aircraft. The terms of the leases are 8 - 15 years and for aircrafts and hangar:

	2019 AED '000	2018 AED '000
As at January 1,	**3,721,329**	3,881,770
Adjustment as at January 1, 2019 (upon adoption of IFRS 16)	**85,692**	-
Lease liabilities for the year	**499,523**	417,285
Payments made during the year	**(614,070)**	(577,726)
	3,692,474	3,721,329

Finance lease liabilities are disclosed in the consolidated statement of financial position as follows:

	2019 AED'000	2018 AED'000
Non-current portion of finance lease liabilities	**3,164,538**	3,260,328
Current portion of finance lease liabilities	**527,936**	461,001
	3,692,474	3,721,329

The finance lease liabilities are secured by the associated leased aircraft (Note 5).

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

	2019 AED'000	2018 AED'000
Not later than one year	**527,936**	461,001
Later than one year but not later than five year	**2,043,318**	1,878,186
Later than five years	**1,121,220**	1,382,142
At December 31,	**3,692,474**	3,721,329

The finance charges are calculated based on average interest rate of 2.98% (2018: 2.90%).

24 Short term bank borrowings

	2019 AED'000	2018 AED'000
Short term bank borrowings	**352,216**	21,064

The Group has availed short term borrowing facilities from banks. These facilities carried interest at 0.50% + 1-month LIBOR per annum (2018: 2.24% per annum).

25 Ownership changes in a subsidiary

On July 1, 2019, the Group acquired indirectly an additional 49% in Cozmo Travel LLC, a subsidiary, increasing its ownership interest to 100% through the acquisition of 100% of Arabian Management Investment (FZE), a branch of a foreign company incorporated in United Arab Emirates which used to hold the remaining 49% ownership interest in Cozmo Travel LLC. A cash consideration of AED 237 million was paid to the shareholders of Arabian Management Investment (FZE).

	2019 AED'000
Cash consideration paid to non-controlling interests	**237,000**
Carrying amount of the additional interest in Cozmo Travel LLC	**(86,641)**
Difference recognised in retained earnings	**150,359**

26 Revenue

	2019 AED'000	2018 AED'000
Passenger revenue	**3,997,430**	3,368,982
Other airline related services	**273,028**	246,791
Service revenue	**173,292**	180,336
Aircraft lease rentals - net (Note 15)	**144,635**	150,654
Cargo revenue	**113,248**	107,425
Revenue from hotel operations	**61,115**	69,345
Baggage revenue	**54,651**	50,150
Sales commission and expenses	**(58,900)**	(51,704)
	4,758,499	4,121,979

27 Direct costs

	2019 AED'000	2018 AED'000
Fuel costs (Note 22)	**1,312,194**	1,241,077
Staff costs	**600,157**	574,733
Depreciation of property and equipment (Note 5)	**514,465**	511,279
Aircraft maintenance expenses *	**387,343**	406,103
Passenger, ground and technical handling charges	**283,537**	267,925
Landing and overflying charges	**296,026**	277,247
Other operating costs	**79,967**	52,339
Depreciation of right-of-use assets (Note 6)	**22,086**	-
Insurance	**10,573**	9,183
Service costs	**2,220**	4,193
	3,508,568	3,344,079

*Aircraft maintenance expenses include net losses on forward currency transactions of AED 61 million (2018: AED 161 million) relating to depreciation of Euro against the USD. The Group takes out forward contracts, principally to hedge against the payment of engine maintenance costs. These forward currency contracts get settled on a daily basis and hence, the open positions relating to these forward currency contracts is not significant at the reporting date.

Notes to the consolidated financial statements (continued)
For the year ended December 31, 2019

28 Administrative and general expenses

	2019 AED'000	2018 AED'000
Staff costs	**105,654**	94,900
Other administrative and general expenses *	**43,290**	63,190
Allowance for expected credit losses of trade receivables (Note 14)	**24,054**	77
Legal and professional fees	**20,798**	9,358
Depreciation of property and equipment (Note 5)	**14,015**	14,978
Rent	**10,796**	11,054
Travel and accommodation costs	**8,286**	6,681
Communication costs	**6,114**	5,439
Depreciation of right-of-use assets (Note 6)	**902**	-
	233,909	205,677

*Other administrative and general expenses include contributions paid by the Group for corporate social responsibility.

29 Selling and marketing expenses

	2019 AED'000	2018 AED'000
Advertisement expenses	**47,635**	43,681
Staff costs	**34,742**	35,110
Reservation management expenses	**1,097**	1,638
	83,474	80,429

30 Other income, net

	2019 AED'000	2018 AED'000
This mainly comprises:		
Management fees from joint ventures and associates (Note 15)	**23,906**	15,590
Foreign currency exchange gains	**19,722**	9,476
Simulator and pilot/crew training income	**14,319**	15,743
Dividend income from others	**2,311**	1,755

31 Basic and diluted profit/(loss) per share

	2019 AED'000	2018 AED'000
Profit/(loss) attributable to the owners of the Company	**990,168**	(609,469)
Weighted average number of shares (in '000)	**4,666,700**	4,666,700
Basic and diluted earnings/(loss) per share (AED)	**0.21**	(0.13)

32 Operating lease commitments

32.1 The Group is a lessee:

	2019 AED '000	2018 AED '000
Minimum lease payments under operating leases (excluding variable lease rental on the basis of flying hours) recognised in the consolidated statement of profit or loss for the period	-	11,384

The lease commitments for aircraft are as follow:

	2019 AED '000	2018 AED '000
Within one year	-	18,338
Between 2 and 5 years	-	66,625
Above 5 years	-	15,538
	-	100,501

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 withour the prior consent of the lessor and no security interest may be created by the Group on the leased aircraft.

32.2 The Group is a lessor:

As at December 31, 2019, the Group has leased out 12 aircrafts (2018: 12) under non-cancellable operating lease agreements to the related parties.

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

	2019 AED '000	2018 AED '000
Within one year	**126,150**	148,201
Between 2 and 5 years	**291,876**	329,487
Above 5 years	-	2,983
	418,026	480,671

The carrying amount of the leased aircrafts owned by the Group under operating leases at the reporting date are as follow:

	2019 AED '000	2018 AED '000
Net book value	**1,170,113**	1,138,016
Accumulated depreciation	**791,032**	647,090
Depreciation charge for the year	**104,647**	95,253

33 Contingent liabilities

	2019 AED'000	2018 AED'000
Letters of guarantee	**91,724**	94,149
Letters of credit	**-**	73,400

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

34 Capital commitments

	2019 AED'000	2018 AED'000
Authorised and contracted:		
Aircraft fleet	**23,815,664**	-

35 Financial instruments and risk management objectives and policies

The Group is exposed to various risks in relation to financial instruments. The main types of risks are market risk, credit risk and liquidity risk.

The Group's risk management is coordinated at Group level, in close cooperation with the Board of Directors, and focuses on actively securing the Group's short to medium-term cash flows by minimising the exposure to financial markets.

The Group does not actively engage in the trading of financial assets for speculative purposes nor does it write options. The most significant financial risks to which the Group is exposed are described below:

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in market prices whether those changes are caused by factors specific to the individual security or its issuer or factors affecting all securities traded in the market.

The Group is exposed to market risk through its use of financial instruments and specifically to interest rate risk and price risks, which result from both its operating and investing activities.

Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates.

The Group is exposed to changes in market interest rates through fixed deposits, margin deposits, investments, finance lease liabilities and short-term borrowings at variable interest rates.

35 Financial instruments and risk management objectives and policies (continued)

Market risk (continued)

Interest rate risk (continued)

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

	2019 AED'000	2018 AED'000
Fixed rate		
Financial assets		
Fixed deposits	**2,593,928**	1,372,389
Investments	**168,374**	168,366
Call deposits	**38,972**	28,666
Margin deposits	**-**	1,206
	2,801,274	1,570,627
Variable rate		
Financial liabilities		
Finance lease liabilities	**3,692,474**	3,721,329
Short-term bank borrowings	**352,216**	21,064
	4,044,690	3,742,393

The following table illustrates the sensitivity of the Group's profit and closing equity to a reasonably possible change in interest rates of ±1% (2018: ±1%). These changes are considered to be reasonably possible based on observation of current market conditions. Positive figures represent an increase in profit or equity. The analysis below excludes interest capitalized and assumes that all other variables remain constant.

	Effect on Profit for the year		Effect on Equity	
	AED'000 +1%	AED'000 -1%	AED'000 +1%	AED'000 -1%
2019	**(40,447)**	**40,447**	**(40,447)**	**40,447**
2018	(37,424)	37,424	(37,424)	37,424

Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

The Group is exposed to this risk for various financial instruments, for example trade receivables from customers, placing deposits, etc. The Group's maximum exposure to credit risk is limited to the carrying amount of financial assets recognised at the reporting date, as summarised below.

	2019 AED'000	2018 AED'000
Bank balances and deposits	**2,801,016**	1,640,275
Trade and other receivables	**589,223**	617,221
Other investments	**168,374**	168,366
Investments measured at fair value through OCI	**11,081**	10,191
	3,569,694	2,436,053

35 Financial instruments and risk management objectives and policies (continued)

Credit risk (continued)

The following policy and procedure are in place to mitigate the Company's exposure to credit risk:

Trade and other receivables

The Group seeks to limit its credit risk with respect to trade receivables by continuously monitoring the terms of the payments for the outstanding amounts. Trade and other receivables consist of a large number of customers, spread across diverse industries and geographical areas.

Bank balances and deposits

The Group seeks to limit its credit risk with respect to banks by only dealing with reputable banks.

Equity price risk

The Group is exposed to equity price risk in respect of its listed equity securities (see note 11.1). For the listed equity securities, an average volatility of 10% has been observed during 2018 (2018: 10%). This volatility figure is considered to be a suitable basis for estimating how profit or loss and equity would have been affected by changes in market risk that were reasonably possible at the reporting date. If the quoted stock price for these securities increased or decreased by that amount, consolidated statements of other comprehensive income and equity would have changed by AED 177,853 million (2019: AED 1.02 million). The listed securities are classified as investments at fair value through other comprehensive income.

Jet fuel risk

The Group is exposed to volatility in the price of jet fuel and closely monitors the actual cost against the forecast cost. To manage the price risk, the Group considers the use of commodity futures, options and swaps to achieve a level of control over higher jet fuel costs so that profitability is not adversely affected.

Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities. Liquidity requirements are monitored on a regular basis and management ensures that sufficient funds are available to meet any future commitments.

The Group's risk to liquidity is a result of the funds available to cover future commitments. The Group manages liquidity risk through an on-going review of future commitments and credit facilities. The Group has 30 to 90 days credit period from its vendors.

Summarised below in the table is the maturity profile of financial liabilities and net settled derivative financial liabilities based on the remaining period at the end of reporting period to the contractual maturity date. The amounts disclosed are the contractual undiscounted cash flows.

		Contractual cash flows		
	Carrying amount AED'000	Within 1 year AED'000	More than 1 year AED'000	Total AED'000
2019				
Finance lease liabilities	**3,692,474**	**527,936**	**3,164,538**	**3,692,474**
Trade and other payables	**2,562,017**	**1,580,595**	**981,422**	**2,562,017**
Cash flow hedge liability	**128,174**	**48,273**	**79,901**	**128,174**
Short-term bank borrowings	**352,216**	**352,216**	**-**	**352,216**
Total	**6,734,881**	**1,981,084**	**1,061,323**	**3,042,407**

35 Financial instruments and risk management objectives and policies (continued)

Liquidity risk (continued)

	Carrying amount AED'000	Contractual cash flows Within 1 year AED'000	More than 1 year AED'000	Total AED'000
2018				
Finance lease liabilities	3,721,329	474,370	4,089,779	4,564,149
Trade and other payables	2,206,634	1,167,478	1,039,156	2,206,634
Cash flow hedge liability	456,129	239,974	216,155	456,129
Short-term bank borrowings	21,064	21,906	-	21,906
Total	6,405,156	1,903,728	5,345,090	7,248,818

36 Fair value measurement

Assets and liabilities measured at fair value in the consolidated statement of financial position are grouped into three levels of fair value hierarchy. This grouping is determined based on the lowest level of significant inputs used in fair value measurement, 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 the inputs used to measure the fair value of an asset or a liability fall into 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.

The Group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

The following table shows the Levels within the hierarchy of financial assets and liabilities measured at fair value on a recurring basis at December 31, 2019 and December 31, 2018.

	Level 1 AED'000	Level 2 AED'000	Level 3 AED'000
At December 31, 2018			
Financial asset			
Investments at fair value through other comprehensive income	**11,082**	-	-
Financial liability			
Cash flow hedge liability	-	**128,174**	-
	11,082	**128,174**	-

36 Fair value measurement (continued)

	Level 1 AED	Level 2 AED	Level 3 AED
At December 31, 2017			
Financial asset			
Investments at fair value through other comprehensive income	10,191	-	-
Financial liability			
Cash flow hedge liability	-	(456,129)	-
	10,191	(456,129)	-

37 Segment Reporting

For management purposes, the Group is organised into two major reportable segments as follows:

- ***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.

The following table presents revenue and profit information for the Group's operating segments for the year ended December 31, 2019 and December 31, 2018, respectively:

December 31, 2019	Airline AED '000	Other segments AED '000	Eliminations AED '000	Total AED '000
Revenue				
External sales	**4,524,092**	**234,407**	**-**	**4,758,499**
Inter-segment sales		**14,013**	**(14,013)**	**-**
Total revenue	**4,524,092**	**248,420**	**(14,013)**	**4,758,499**
Result				
Segment result	**937,581**	**38,079**	**-**	**975,660**
Share of profit of investments in associates and joint ventures				**32,415**
Proft for the year				**1,008,075**
Other information				
Additions to property and equipment and deferred charges	**43,858**	**18,232**	**-**	**62,090**
Depreciation and amortisation	**547,162**	**11,787**	**-**	**558,949**

37 Segment Reporting (continued)

December 31, 2018	Airline AED '000	Other segments AED '000	Eliminations AED '000	Total AED '000
Revenue				
External sales	3,878,426	243,553	-	4,121,979
Inter-segment sales	-	13,900	(13,900)	-
Total revenue	3,878,426	257,453	(13,900)	4,121,979
Result				
Segment result	(701,260)	85,807	-	(615,453)
Share of profit of investments in associates and joint ventures				36,290
Profit for the year				(579,163)
Other information				
Additions to property and equipment, investment properties and deferred charges	537,026	24,036	-	561,062
Depreciation and amortisation	517,270	14,648	-	531,918

The following table presents assets and liabilities information for the Group's operating segments as at December 31, 2019 and December 31, 2018, respectively:

	Airline AED '000	Other segments AED '000	Eliminations AED '000	Total AED '000
December 31, 2019				
Assets				
Segment assets	**9,957,307**	**403,703**	**(570,752)**	**9,790,258**
Unallocated assets				**3,024,028**
Total assets				**12,814,286**
Liabilities				
Segment liabilities	**7,556,313**	**270,827**	**(570,752)**	**7,256,388**

	Airline AED '000	Other segments AED '000	Eliminations AED '000	Total AED '000
December 31, 2018				
Assets				
Segment assets	9,368,416	489,073	(163,584)	9,693,905
Unallocated assets				1,723,669
Total assets				11,417,574
Liabilities				
Segment liabilities	6,750,161	245,399	(163,584)	6,831,976

37 Segment Reporting (continued)

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 4. Segment result represents the profit earned by each segment without considering share of profit/(loss) on equity accounted investments. Segment assets do not include fixed deposits, investments, investment properties and investment in subsidiaries, joint ventures and associate. Goodwill and intangible assets have been allocated to the Airline segment.

38 Capital management policies and procedures

The primary objective of the Group's capital management is to ensure that it maintains healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustment to it, in light of changes in business and economic conditions or to respond to any financial covenants. To maintain or adjust the capital structure, the Group may adjust the dividends payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or process during the years ended December 31, 2019 and December 31, 2018. Capital includes share capital, statutory reserve, general reserve, other reserves and retained earnings, and measure at AED'000 5,557,898 as at December 31, 2019 (2018: AED'000 4,513,331)