

**Air Arabia PJSC  
and its subsidiaries**

**Consolidated financial statements**  
*31 December 2013*

# Air Arabia PJSC and its subsidiaries

## Consolidated financial statements

*for the year ended 31 December 2013*

<i>Contents</i>	<i>Pages</i>
Independent auditor's report	1
Consolidated statement of financial position	2
Consolidated income statement	3
Consolidated statement of comprehensive income	4
Consolidated statement of changes in equity	5
Consolidated statement of cash flows	6
Notes	7-51



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## **Independent auditors' reports**

The Shareholders  
Air Arabia PJSC

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

We have audited the accompanying consolidated financial statements of Air Arabia PJSC ("the Company") and its subsidiaries (collectively referred to as "the Group"), which comprise the consolidated statement of financial position as at 31 December 2013, the consolidated income statement, consolidated statement of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

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

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

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

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

#### ***Opinion***

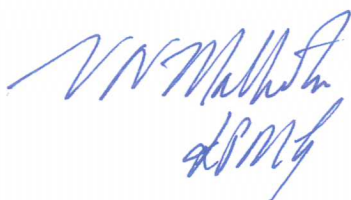
In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2013, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

#### ***Other matter***

The Group's consolidated financial statements as at 31 December 2012 were audited by another auditor whose report dated 14 February 2013 expressed an unqualified opinion.

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

As required by the UAE Federal Law No. 8 of 1984 (as amended), we further confirm that we have obtained all information and explanations necessary for our audit; the consolidated financial statements comply, in all material respects, with the applicable requirements of the UAE Federal Law No. 8 of 1984 (as amended) and the Articles of Association of the Company; that proper financial records have been kept by the Company; a physical count of inventories was carried out by the management in accordance with established principles; and the contents of the Directors' report which relate to these consolidated financial statements are in agreement with the Company's financial records. We are not aware of any violation of the above mentioned Law and the Articles of Association having occurred during the year ended 31 December 2013, which may have had a material adverse effect on the business of the Company or its consolidated financial position.



17 FEB 2014

# Air Arabia PJSC and its subsidiaries


## Consolidated statement of financial position as at 31 December 2013

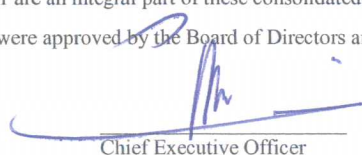
	Note	2013 AED'000	2012 AED'000 (restated)
<b>Assets</b>			
<b>Non-current assets</b>			
Property and equipment	5	4,332,127	3,263,363
Advance for new aircraft	6	707,987	649,800
Investment properties	7	162,897	163,647
Intangible assets	8	1,092,347	1,092,347
Goodwill	9	189,474	189,474
Deferred charges	10	8,740	4,392
Aircraft lease deposits	11	11,775	15,809
Available-for-sale investments	12	771,029	738,779
Trade and other receivables	13	32,579	16,292
Investment in joint ventures	14	55,667	64,756
Long term investment	16	50,000	-
<b>Total non-current assets</b>		<b>7,414,622</b>	<b>6,198,659</b>
<b>Current assets</b>			
Inventories		11,730	9,267
Due from related parties	15	79,114	69,396
Trade and other receivables	13	498,169	458,503
Cash at bank and in hand	16	1,391,066	1,306,776
<b>Total current assets</b>		<b>1,980,079</b>	<b>1,843,942</b>
<b>Total assets</b>		<b>9,394,701</b>	<b>8,042,601</b>
<b>Non-current liabilities</b>			
Provision for employees' end of service indemnity	20	48,011	38,467
Trade and other payables	21	109,835	42,972
Finance lease liabilities	22	1,951,054	1,259,443
<b>Total non-current liabilities</b>		<b>2,108,900</b>	<b>1,340,882</b>
<b>Current liabilities</b>			
Due to related parties	15	15,543	29,137
Deferred income		206,520	188,560
Short term borrowings	16.1	291,946	-
Trade and other payables	21	1,019,591	933,082
Finance lease liabilities	22	176,018	110,297
<b>Total current liabilities</b>		<b>1,709,618</b>	<b>1,261,076</b>
<b>Total liabilities</b>		<b>3,818,518</b>	<b>2,601,958</b>
<b>Capital and reserves</b>			
Share capital	17	4,666,700	4,666,700
Statutory reserve	18	264,411	222,337
General reserve	19	207,634	165,560
Fair value reserve		70,922	38,672
Retained earnings		345,591	335,669
<b>Equity attributable to owners of the Company</b>		<b>5,555,258</b>	<b>5,428,938</b>
Non-controlling interests		20,925	11,705
<b>Total equity</b>		<b>5,576,183</b>	<b>5,440,643</b>
<b>Total liabilities and equity</b>		<b>9,394,701</b>	<b>8,042,601</b>

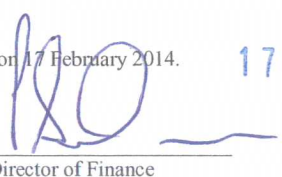
The accompanying notes on pages 7 to 51 are an integral part of these consolidated financial statements.

These consolidated financial statements were approved by the Board of Directors and authorised for issue on 17 February 2014.

17 FEB 2014

  
Chairman

  
Chief Executive Officer

  
Director of Finance

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

# Air Arabia PJSC and its subsidiaries

## Consolidated income statement for the year ended 31 December 2013

	<i>Note</i>	<b>2013</b> <b>AED'000</b>	2012 AED'000 (restated)
<b>Revenue</b>	23	<b>3,183,823</b>	2,832,483
Direct costs	24	<b>(2,681,269)</b>	(2,359,770)
		-----	-----
<b>Gross profit</b>		<b>502,554</b>	472,713
Selling and marketing expenses	25	<b>(54,361)</b>	(45,413)
General and administrative expenses	26	<b>(104,604)</b>	(100,155)
Interest income from bank deposits		<b>49,806</b>	57,263
Finance costs		<b>(43,183)</b>	(34,718)
Share of profit from joint ventures		<b>19,437</b>	27,455
Share of loss from associate		<b>-</b>	(26,684)
Other income	27	<b>65,552</b>	74,349
		-----	-----
<b>Profit for the year</b>		<b>435,201</b>	424,810
		=====	=====
<b>Attributable to:</b>			
Owners of the Company		<b>420,739</b>	419,549
Non-controlling interests		<b>14,462</b>	5,261
		-----	-----
		<b>435,201</b>	424,810
		=====	=====
<b>Basic earnings per share (AED)</b>	29	<b>0.09</b>	0.09
		===	===

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

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# Air Arabia PJSC and its subsidiaries

## Consolidated statement of comprehensive income for the year ended 31 December 2013

	<i>Note</i>	<b>2013</b> <b>AED '000</b>	2012 AED '000 (restated)
<b>Profit for the year</b>		<b>435,201</b> -----	424,810 -----
<b>Other comprehensive income</b>			
<i>Items that are or may be reclassified subsequently to profit or loss</i>			
Gain on revaluation of available-for-sale investments	12	<b>32,250</b>	49,407
Reclassification adjustment relating to available-for-sale investments impaired included in profit and loss		-	4,800
Transfer to consolidated income statement on sale of available-for-sale investments		-	(5,701)
		-----	-----
<i>Total other comprehensive income</i>		<b>32,250</b>	48,506
		-----	-----
<b>Total comprehensive income for the year</b>		<b>467,451</b> =====	473,316 =====
<b>Attributable to:</b>			
Owners of the Company		<b>452,989</b>	468,055
Non-controlling interests		<b>14,462</b> -----	5,261 -----
		<b>467,451</b> =====	473,316 =====

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

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# Air Arabia PJSC and its subsidiaries

## Consolidated statement of changes in equity

for the ended 31 December 2013

	Share capital AED'000	Statutory reserve AED'000	General reserve AED'000	Fair value reserve AED'000	Retained Earnings AED'000	Attributable to owners of the Company AED'000	Non-controlling interests AED'000	Total AED'000
Balance at 1 January 2012	4,666,700	180,382	180,382	(9,834)	223,255	5,240,885	8,552	5,249,437
Profit for the year	-	-	-	-	419,549	419,549	5,261	424,810
Other comprehensive income	-	-	-	48,506	-	48,506	-	48,506
	-----	-----	-----	-----	-----	-----	-----	-----
Total comprehensive income for the year	-	-	-	48,506	419,549	468,055	5,261	473,316
	-----	-----	-----	-----	-----	-----	-----	-----
Transfer to retained earnings (refer note 18)	-	-	(56,777)	-	56,777	-	-	-
Transfer to reserves	-	41,955	41,955	-	(83,910)	-	-	-
Increase in non- controlling interest	-	-	-	-	-	-	342	342
Dividend paid	-	-	-	-	(280,002)	(280,002)	(2,450)	(282,452)
	-----	-----	-----	-----	-----	-----	-----	-----
Balance at 31 December 2012	4,666,700	222,337	165,560	38,672	335,669	5,428,938	11,705	5,440,643
	=====	=====	=====	=====	=====	=====	=====	=====
Balance at 1 January 2013	4,666,700	222,337	165,560	38,672	335,669	5,428,938	11,705	5,440,643
Profit for the year	-	-	-	-	420,739	420,739	14,462	435,201
Other comprehensive income	-	-	-	32,250	-	32,250	-	32,250
	-----	-----	-----	-----	-----	-----	-----	-----
Total comprehensive income	-	-	-	32,250	420,739	452,989	14,462	467,451
	-----	-----	-----	-----	-----	-----	-----	-----
Transfer to reserves	-	42,074	42,074	-	(84,148)	-	-	-
Decrease in non-controlling interests	-	-	-	-	-	-	(342)	(342)
Dividend paid (refer note 33)	-	-	-	-	(326,669)	(326,669)	(4,900)	(331,569)
	-----	-----	-----	-----	-----	-----	-----	-----
<b>Balance at 31 December 2013</b>	<b>4,666,700</b>	<b>264,411</b>	<b>207,634</b>	<b>70,922</b>	<b>345,591</b>	<b>5,555,258</b>	<b>20,925</b>	<b>5,576,183</b>
	=====	=====	=====	=====	=====	=====	=====	=====

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

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

# Air Arabia PJSC and its subsidiaries

## Condensed consolidated statement of cash flows

for the year ended 31 December 2013

	Note	2013 AED '000	2012 AED '000 (restated)
<b>Operating activities</b>			
Profit for the year		435,201	424,810
<i>Adjustments for:</i>			
Depreciation of property and equipment	5	221,364	160,927
Depreciation of investment property	7	750	750
Amortisation of deferred charges	10	3,388	5,786
Provision for employees' end of service indemnity	20	12,366	9,550
Impairment loss on available for sale investments		-	4,800
Profit on sale of available for sale investments		-	(5,701)
Unrealised gain on derivative financial instruments	27	(37,692)	(13,785)
Share of profits from joint ventures	14	(19,437)	(27,455)
Share of loss from associate		-	26,684
Interest income from bank deposits		(49,806)	(57,263)
Dividend income		(172)	(34,894)
Finance costs		43,183	34,718
Rental income	27	(4,222)	(6,368)
		<u>604,923</u>	<u>522,559</u>
<i>Operating cash flows before working capital changes</i>			
<i>Changes in:</i>			
- Trade and other receivables	13	(18,606)	(43,599)
- Inventories		(2,463)	(2,307)
- Due from related parties	15	(9,718)	30,044
- Trade and other payables	21	153,372	349,459
- Deferred income		17,961	31,260
- Due to related parties	15	(13,594)	(15,420)
- Employees' end of service indemnity paid	20	(2,822)	(2,609)
		<u>729,053</u>	<u>869,387</u>
<b>Net cash from operating activities</b>			
<b>Investing activities</b>			
Acquisition of property and equipment	5	(91,068)	(283,466)
Payments for advances for new aircraft	6	(370,650)	(295,664)
Payments for deferred charges		(7,736)	(125)
Proceeds from sale of available for sale investments	12	-	43,649
Dividend received from joint ventures	14	28,526	26,508
Dividend received		172	34,894
Payments for investment in associate		-	(26,684)
Payments for aircraft lease deposits		4,034	12,924
Change in fixed and margin deposits	16	(45,821)	(47,026)
Interest income from bank deposits		49,806	57,263
Rental income received	27	4,222	6,368
		<u>(428,515)</u>	<u>(471,359)</u>
<b>Net cash used in investing activities</b>			
<b>Financing activities</b>			
Dividend paid to non-controlling interests		(4,900)	(2,450)
Dividend paid to shareholders		(326,669)	(280,002)
Payments of finance lease obligations	22	(129,263)	(78,204)
Payment of murabaha payable		-	(64,570)
Receipt from supplier finance facility	16.1	91,861	-
Finance cost paid		(43,183)	(34,718)
		<u>(412,154)</u>	<u>(459,944)</u>
<b>Net cash used in financing activities</b>			
<b>Net decrease in cash and cash equivalents</b>		<u>(111,616)</u>	<u>(61,916)</u>
Cash and cash equivalents at the beginning of the year		93,512	155,428
		<u>(18,104)</u>	<u>93,512</u>
<b>Cash and cash equivalents at the end of the year</b>			
<b>The details of cash and cash equivalents are as under:</b>			
Cash at bank and in hand	16	1,391,066	1,306,776
Fixed deposits with maturity over 3 months		(1,206,608)	(1,210,834)
Margin deposits with maturity over 3 months		(2,477)	(2,430)
		<u>181,981</u>	<u>93,512</u>
Bank overdraft		(200,085)	-
		<u>(18,104)</u>	<u>93,512</u>

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



# Air Arabia PJSC and its subsidiaries

## Notes

(forming part of the consolidated financial statements)

### 1 Reporting entity

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

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

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

The consolidated financial statements as at 31 December 2013 comprise the Company and its subsidiaries (collectively referred to as the “Group”) and the Group's interests in associates and jointly controlled entities.

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

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

<u>Name</u>	<u>Legal ownership interest</u>		<u>Country of incorporation</u>	<u>Principal Activities</u>
	<b>2013</b>	2012		
<b><i>Subsidiaries</i></b>				
COZMO Travel LLC and its subsidiaries	<b>51%</b>	51%	United Arab Emirates	Travel and tours, tourism and cargo services.
<b><i>Subsidiaries of COZMO Travel LLC:</i></b>				
COZMO Travel WLL	<b>100%</b>	100%	Qatar	Travel and tours, tourism and cargo services.
COZMO Travel Limited Company	<b>100%</b>	100%	Kingdom of Saudi Arabia	Travel and tours, tourism and cargo services.
<b><i>Jointly controlled entities</i></b>				
Alpha Flight Services UAE (L.L.C.)	<b>50%</b>	50%	United Arab Emirates	Flight and retail catering and ancillary services to the Air Arabia PJSC.
Sharjah Aviation Services (L.L.C.)	<b>50%</b>	50%	United Arab Emirates	Aircraft handling, passenger and cargo services at the Sharjah International Airport.
Information System Associates (FZC), U.A.E	<b>51%</b>	51%	United Arab Emirates	IT services to aviation industry
Air Arabia – Egypt Company (S.A.E.)	<b>50%</b>	50%	Egypt	International commercial air transportation.
<b><i>Associate</i></b>				
Air Arabia Maroc, S.A.	<b>40%</b>	40%	Morocco	International commercial air transportation.

# Air Arabia PJSC and its subsidiaries

Notes (*continued*)

## **2 Basis of preparation**

### **2.1 Statement of compliance**

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

### **2.2 Basis of measurement**

The consolidated financial statements have been prepared on the historical cost basis except for the following material items in the statement of financial position:

- Derivative financial instruments are measured at fair value; and
- Available-for-sale investments which are measured at their fair values.

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

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

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

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

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

In particular, information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements are described in note 36.

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

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

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

# Air Arabia PJSC and its subsidiaries

Notes (*continued*)

## **2 Basis of preparation (continued)**

### **2.5 Measurement of fair values (continued)**

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

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

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

Further information about assumptions made in measuring fair values is included in notes 12 and 34.5.

### **2.6 Change in accounting policies**

The Group has adopted the following new standards and amendments to standards, including any consequential amendments to other standards, with a date of initial application of 1 January 2013.

- Presentation of Items of Other Comprehensive Income (Amendments to IAS 1)
- IFRS 13: Fair Value Measurement
- IFRS 10: Consolidated Financial Statements
- IFRS 11: Joint Arrangements
- IFRS 12: Disclosure of Interests in Other Entities
- IAS 19 : Employee Benefits (2011)

The nature and effects of changes are explained below.

#### ***a) Presentation of Items of Other Comprehensive Income (Amendments to IAS 1)***

As a result of the amendments to IAS 1, the Group has modified the presentation of items of Other Comprehensive Income in its consolidated statement of comprehensive income, to present items that would be reclassified to profit or loss in the future separately from those that would never be. Comparative information has been re-presented on the same basis.

# Air Arabia PJSC and its subsidiaries

Notes (*continued*)

## 2 Basis of preparation (*continued*)

### 2.6 Change in accounting policies (*continued*)

#### *b) IFRS 13 Fair Value Measurement*

In accordance with the transitional provision of IFRS 13, the Group has applied the new definition of fair value as set out in note 34.5, prospectively. The change had no significant impact on the measurements of the Group's assets and liabilities, but the Group has included new disclosures in the consolidated financial statements, which are required under IFRS 13. These new disclosure requirements are not included in the comparative information. However, to the extent that disclosures were required by other standards before the effective date of IFRS 13, the Group has provided the relevant comparative disclosures under those standards.

#### *c) IFRS 10 Consolidated Financial Statements (2011)*

As a result of IFRS 10 (2011) the Group has changed its accounting policies for determining whether it has control over and consequently whether it consolidates other entities. IFRS 10 (2011) introduces a new control model that focuses on whether the Group has power over an investee, exposures or rights to variable returns from its involvement with the investee and ability to use its power to affect those returns.

The Group re-assessed the control conclusion for its investees as at 1 January 2013. Based on management's assessment, the control conclusion in respect of its investees remains the same. For the list of the Group's subsidiaries refer to note 1.

#### *d) IFRS 11: Joint Arrangements*

As a result of the adoption of IFRS 11, the Group has changed its accounting policy with respect to its interests in joint arrangements.

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

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

Based on this evaluation, the Group has concluded that its involvement in its joint arrangements is of the nature of a joint venture. Accordingly, the Group has changed its accounting for its interest in joint venture from proportionate consolidation to the equity accounting method.

The following table summarises the adjustments made to the Group's consolidated statements of financial position at 1 January 2012 and 31 December 2012, and its consolidated income statement for the year ended 1 January 2012 and 31 December 2012 and its consolidated cash flows statement for the year ended 31 December 2012 as a result of the adoption of equity method.

# Air Arabia PJSC and its subsidiaries

Notes (continued)

## 2 Basis of preparation (continued)

### 2.6 Change in accounting policies (continued)

#### d) IFRS 11: Joint Arrangements (continued)

#### Consolidated statement of financial position

	At 1 January 2012		
	As previously reported AED '000	Adjustments AED '000	As restated AED '000
Property and equipment	2,423,132	(38,989)	2,384,143
Deferred charges	11,088	(1,035)	10,053
Investment in joint venture	-	63,809	63,809
Inventories	9,092	(2,130)	6,962
Due from related parties	102,329	(2,890)	99,439
Trade and other receivables	416,200	(1,729)	414,471
Bank balances and cash	1,344,900	(23,236)	1,321,664
	-----	-----	-----
<b>Overall impact on total assets</b>		<b>(6,200)</b>	
		=====	
Provision for employees' end of service indemnity	36,987	(5,491)	31,496
Trade and other payables	649,284	(22,689)	626,595
Due to related parties	22,576	21,980	44,556
	-----	-----	-----
<b>Overall impact on total liabilities</b>		<b>(6,200)</b>	
		=====	

	At 31 December 2012		
	As previously reported AED '000	Adjustments AED '000	As restated AED '000
Property and equipment	3,301,569	(38,206)	3,263,363
Deferred charges	5,116	(724)	4,392
Investment in joint venture	-	64,756	64,756
Inventories	11,571	(2,304)	9,267
Due from related parties	68,660	736	69,396
Trade and other receivables	478,423	(3,628)	474,795
Bank balances and cash	1,329,752	(22,976)	1,306,776
	-----	-----	-----
<b>Overall impact on total assets</b>		<b>(2,346)</b>	
		=====	
Provision for employees' end of service indemnity	45,058	(6,591)	38,467
Trade and other payables	999,872	(23,818)	976,054
Due to related parties	1,074	28,063	29,137
	-----	-----	-----
<b>Overall impact on total liabilities</b>		<b>(2,346)</b>	
		=====	

# Air Arabia PJSC and its subsidiaries

Notes (continued)

## 2 Basis of preparation (continued)

### 2.6 Change in accounting policies (continued)

#### d) IFRS 11: Joint Arrangements (continued)

#### Consolidated income statement

	Year ended 1 January 2012		
	As previously reported AED '000	Adjustments AED '000	As restated AED '000
Revenue	2,434,660	(123,378)	2,311,282
Direct costs	(2,112,004)	71,017	(2,040,987)
General and administrative expenses	(105,561)	26,716	(78,845)
Interest income from bank deposits	71,553	(167)	71,386
Other income (refer note (i) below)	39,035	25,812	64,847

	For the year ended 31 December 2012		
	As previously reported AED '000	Adjustments AED '000	As restated AED '000
Revenue	2,942,428	(109,945)	2,832,483
Direct costs	2,418,412	(58,642)	2,359,770
General and administrative expenses	125,261	(25,106)	100,155
Interest income from bank deposits	57,616	(353)	57,263
Other income (refer note (i) below)	48,570	26,550	75,120

(i) The adjustments in other income include the share in profit/(loss) of investment in joint ventures and associates.

#### Statement of cash flows

	For the Year ended 31 December 2012		
	As previously reported AED '000	Adjustments AED '000	As restated AED '000
<i>Cash flows from:</i>			
Operating activities	882,596	(13,209)	869,387
Investing activities	(512,790)	41,431	(471,359)
Financing activities	(425,683)	(34,261)	(459,944)
<b>Effect on cash and cash equivalents</b>		<b>(6,039)</b>	

The adoption of the new and amended standards and interpretations other than those explained above did not have an impact on the financial position of the Group during the year.

# Air Arabia PJSC and its subsidiaries

## Notes (*continued*)

### **3 Significant accounting policies**

Except for the changes explained in note 2.6, the Group has consistently applied the following accounting policies to all periods presented in these consolidated financial statements.

#### **3.1 Basis of consolidation**

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

##### ***Business combinations***

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

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

The Group measures goodwill at the acquisition date as the fair value of the consideration transferred; plus the recognised amount of any non-controlling interests in the acquiree; less the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in profit or loss.

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

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

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

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

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

# Air Arabia PJSC and its subsidiaries

Notes (*continued*)

## **3 Significant accounting policies (continued)**

### **3.1 Basis of consolidation (continued)**

#### ***Subsidiaries***

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

#### ***Loss of control***

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

#### ***Interests in equity-accounted investees***

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

Associates are those entities in which the Group has significant influence, but not control or joint control, over the financial and operating policies. A joint venture is an arrangement in which the Group has joint control, whereby the Group has rights to the net assets of the arrangement, rather than rights to its assets and obligations for its liabilities.

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

#### ***Transactions eliminated on consolidation***

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



# Air Arabia PJSC and its subsidiaries

Notes (*continued*)

## **3 Significant accounting policies (continued)**

### **3.2 Revenue recognition**

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

#### *Rendering of services*

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

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

#### *Hotel revenue*

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

#### *Sale of goods*

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

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

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

### **3.3 Dividend income**

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

### **3.4 Finance income and finance costs**

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

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

# Air Arabia PJSC and its subsidiaries

## Notes (*continued*)

### **3 Significant accounting policies (continued)**

#### **3.4 Finance income and finance costs (continued)**

Foreign currency gains and losses are reported on a net basis as either finance income or finance cost depending on whether the foreign currency movements are in a net gain or net loss position.

#### **3.5 Rental income**

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

#### **3.6 Leasing**

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

##### *The Group as lessor*

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

##### *The Group as lessee*

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

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

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

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

# Air Arabia PJSC and its subsidiaries

## Notes (continued)

### 3 Significant accounting policies (continued)

#### 3.7 Foreign currencies

Transactions denominated in foreign currencies are translated to AED at exchange rates at the date of transactions. Monetary assets and liabilities denominated in foreign currencies are translated into AED at the exchange rates prevailing at the reporting date. Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into AED at the exchange rate when the fair value was determined. Realized and unrealized exchange gains and losses have been dealt with in the consolidated profit or loss.

#### 3.8 Property and equipment

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

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

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

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

	Years
Buildings and apartments	15 - 20
Aircraft	15
Aircraft engines	20
Aircraft rotables and equipment	3 - 10
Airport equipment and vehicles	3 - 15
Other property and equipment	3 - 7

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

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

#### 3.9 Government grants

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

# Air Arabia PJSC and its subsidiaries

Notes (*continued*)

## **3 Significant accounting policies (continued)**

### **3.10 Investment properties**

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

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

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

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

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

### **3.11 Goodwill**

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

Goodwill arising on the acquisition of a subsidiary or jointly controlled entity represents the excess of the cost of acquisition over the Group's assets in the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary or jointly controlled entity recognised at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

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

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

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

# Air Arabia PJSC and its subsidiaries

## Notes (continued)

### 3 Significant accounting policies (continued)

#### **Intangible assets**

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

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

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

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

#### **3.12 Deferred charges**

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

#### **3.13 Inventories**

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

#### **3.14 Employee benefits**

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

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

##### ***Defined contribution plans***

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

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

# Air Arabia PJSC and its subsidiaries

Notes (*continued*)

## **3 Significant accounting policies (continued)**

### **3.15 Aircraft maintenance**

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

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

### **3.16 Deferred income**

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

### **3.17 Provisions**

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

### **3.18 Financial instruments**

#### ***Non-derivative financial instruments***

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

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

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

# Air Arabia PJSC and its subsidiaries

## Notes (continued)

### 3 Significant accounting policies (continued)

#### 3.18 Financial instruments (continued)

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

##### *Financial assets*

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

The Group has classified the following financial assets as ‘loans and receivables’: cash and cash equivalents, fixed deposits, trade and other receivables (excluding prepaid aircraft lease rentals and prepaid expenses), due from related parties and aircraft lease deposits.

##### *Bank balances and cash*

Bank balances and cash include cash on hand and deposits held with banks (excluding deposits held under lien) with original maturities of more than three months.

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

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

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

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

##### *Loans and receivables*

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

##### *Impairment of financial assets*

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

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

# Air Arabia PJSC and its subsidiaries

Notes (*continued*)

## 3 Significant accounting policies (*continued*)

### 3.18 Financial instruments (*continued*)

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

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

##### *Impairment of financial assets (continued)*

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

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

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

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

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

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

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

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



# Air Arabia PJSC and its subsidiaries

Notes (continued)

## 3 Significant accounting policies (continued)

### 3.18 Financial instruments (continued)

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

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

##### *Impairment of financial assets (continued)*

##### *Derecognition of financial assets*

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

##### *Financial liabilities*

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

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

##### *Derecognition of financial liabilities*

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

##### *Derivative financial instruments*

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

# Air Arabia PJSC and its subsidiaries

Notes (continued)

## 3 Significant accounting policies (continued)

### 3.19 New standards and interpretations not yet adopted

*IFRS 9 Financial Instruments (2010), IFRS 9 Financial Instruments (2009)*

IFRS 9 (2009) introduces new requirements for the classification and measurement of financial assets. Under IFRS 9 (2009), financial assets are classified and measured based on the business model in which they are held and the characteristics of their contractual cash flows. IFRS 9 (2010) introduces additions relating to financial liabilities. The IASB currently has an active project to make limited amendments to the classification and measurement requirements of IFRS 9 and add new requirements to address the impairment of financial assets and hedge accounting.

IFRS 9 (2010 and 2009) are effective for annual periods beginning on or after 1 January 2015 with early adoption permitted. The adoption of IFRS 9 (2010) is expected to have an impact on the Group's financial assets, but not any impact on the Group's financial liabilities.

## 4 Financial risk management and capital management

### Overview

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

- Credit risk
- Liquidity risk
- Market risk

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

### 4.1 Credit risk

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

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

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

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

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

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

# Air Arabia PJSC and its subsidiaries

## Notes *(continued)*

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

#### **4.2 Liquidity risk**

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

#### **4.3 Market risk**

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

##### *4.3.1 Currency risk*

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

##### *4.3.2 Interest rate risk*

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

##### *4.3.3 Equity price risk*

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

##### *4.3.4 Fuel price risk*

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

#### **4.4 Capital management**

The Group's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. Management monitors the return on capital as well as the level of dividends to ordinary shareholders. No changes were made in the objectives, policies or processes during the years ended 31 December 2013.

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

# Air Arabia PJSC and its subsidiaries

Notes (continued)

## 5. Property and equipment

	Land AED '000	Buildings AED '000	Aircraft AED '000	Aircraft engines AED '000	Aircraft rotables and equipment AED '000	Airport equipments and vehicles AED '000	EDP equipment AED '000	Office equipment and furniture and fixtures AED '000	Capital work- in-progress AED '000	Total AED '000
<b>Cost</b>										
1 January 2012 (restated)	50,000	565,192	1,716,673	161,392	23,974	1,363	15,871	13,216	47,569	2,595,250
Additions during the year	-	2,568	975,185	39,530	2,552	309	1,414	1,738	16,787	1,040,083
Transfers	-	32,675	-	-	-	16,552	-	187	(49,414)	-
31 December 2012 (restated)	50,000	600,435	2,691,858	200,922	26,526	18,224	17,285	15,141	14,942	3,635,333
1 January 2013 (restated)	50,000	600,435	2,691,858	200,922	26,526	18,224	17,285	15,141	14,942	3,635,333
Additions during the year	-	1,114	1,222,198	43,743	2,664	695	1,807	1,911	15,996	1,290,128
<b>31 December 2013</b>	50,000	601,549	3,914,056	244,665	29,190	18,919	19,092	17,052	30,938	4,925,461
<b>Depreciation</b>										
1 January 2012 (restated)	-	19,028	144,129	22,451	7,327	776	9,928	7,404	-	211,043
Charge for the year	-	29,903	114,582	7,789	1,980	1,559	2,073	3,041	-	160,927
31 December 2012 (restated)	-	48,931	258,711	30,240	9,307	2,335	12,001	10,445	-	371,970
1 January 2013 (restated)	-	48,931	258,711	30,240	9,307	2,335	12,001	10,445	-	371,970
Charge for the year	-	30,379	174,270	9,292	2,214	1,053	1,721	2,435	-	221,364
<b>31 December 2013</b>	-	79,310	432,981	39,532	11,521	3,388	13,722	12,880	-	593,334
<b>Net book value</b>										
<b>31 December 2013</b>	<b>50,000</b>	<b>522,239</b>	<b>3,481,075</b>	<b>205,133</b>	<b>17,669</b>	<b>15,531</b>	<b>5,370</b>	<b>4,172</b>	<b>30,938</b>	<b>4,332,127</b>
31 December 2012(restated)	50,000	551,504	2,433,147	170,682	17,219	15,889	5,284	4,696	14,942	3,263,363

# Air Arabia PJSC and its subsidiaries

## Notes (continued)

### 5. Property and equipment (continued)

Depreciation is allocated as follows:

	<b>2013</b> <b>AED'000</b>	2012 AED'000 (restated)
Direct costs (refer note 24)	<b>214,234</b>	153,203
Administrative and general expenses (refer note 26)	<b>7,130</b>	7,724
	-----	-----
	<b>221,364</b>	160,927
	=====	=====

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

At 31 December 2013 aircraft with carrying amount of AED 2.9 billion (2012: AED 1.8 billion) are held under finance lease (refer note 22).

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

All of the Group's non-movable assets are located in the U.A.E., except for property and equipment with carrying amount of AED 2.1 million (2012: AED 0.9 million), located outside U.A.E.

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

### 6. Advance for new aircrafts

Advance for new aircraft represents pre-delivery payments made to suppliers for an amount of USD 194 million (equivalent to AED 707 million) (2012: USD 177.5 million (equivalent to AED 650 million)) made in respect of aircraft.

*Movement in the advance for new aircraft were as follows:*

	<b>2013</b> <b>AED'000</b>	2012 AED'000
At 1 January	<b>649,800</b>	596,935
Advances paid during the year	<b>472,987</b>	398,911
Adjusted against aircraft purchase	<b>(312,463)</b>	(242,799)
Refund of advance paid	<b>(102,337)</b>	(103,247)
	-----	-----
<b>At 31 December</b>	<b>707,987</b>	649,800
	=====	=====

# Air Arabia PJSC and its subsidiaries

Notes (continued)

## 7. Investment properties

	Investment property AED '000	Investment property under construction AED '000	Total AED '000
<b>Cost</b>			
1 January and 31 December 2012	54,040	115,795	169,835
	-----	-----	-----
1 January and 31 December 2013	54,040	115,795	169,835
	-----	-----	-----
<b>Depreciation</b>			
1 January 2012	5,438	-	5,438
Charge for the year	750	-	750
	-----	-----	-----
31 December 2012	6,188	-	6,188
Charge for the year	750	-	750
	-----	-----	-----
<b>31 December 2013</b>	<b>6,938</b>	<b>-</b>	<b>6,938</b>
	-----	-----	-----
<b>Net book value</b>			
<b>31 December 2013</b>	<b>47,102</b>	<b>115,795</b>	<b>162,897</b>
	=====	=====	=====
31 December 2012	47,852	115,795	163,647
	=====	=====	=====

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

The property rental income earned by the Group during the year amounted to AED 1.1 million (2012: AED 3.3 million) and direct operating expenses arising on the investment property amounted to AED 0.75 million (2012: AED 0.75 million).

Management anticipates the fair value of investment properties as at 31 December 2013 to be AED 167.8 million (2012: AED 167.8 million).

Investment property under construction comprise of a building located in Dubai, U.A.E.

# Air Arabia PJSC and its subsidiaries

## Notes (continued)

### 8. Intangible assets

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

	2013 AED'000	2012 AED'000
Trade name	395,410	395,410
Landing rights	468,273	468,273
Price benefit from related parties	180,281	180,281
Handling licence - Sharjah Aviation Services	48,383	48,383
	-----	-----
	<b>1,092,347</b>	<b>1,092,347</b>
	=====	=====

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

### 9. Goodwill

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

	2013 AED'000	2012 AED'000
Total fair value of Air Arabia Company L.L.C	1,400,000	1,400,000
Fair value of intangible assets (refer note 8)	(1,092,347)	(1,092,347)
Fair value of tangible assets (net)	(118,179)	(118,179)
	-----	-----
	<b>189,474</b>	<b>189,474</b>
	=====	=====

During the year, the Group has performed the impairment test on goodwill. The recoverable amount of cash-generating unit for impairment test has been determined using value in use calculation. For calculation purposes management prepared cash flow projections for 5 year period and applied a discount rate of between 10.98% to 11.1%.

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

# Air Arabia PJSC and its subsidiaries

Notes (continued)

## 10. Deferred charges

	<b>Aircraft upgrade costs AED'000</b>	<b>Landing permission charges AED'000</b>	<b>Total AED'000</b>
<b>Cost</b>			
1 January 2012 (restated)	22,028	51,745	73,773
Additions during the year	125	-	125
	-----	-----	-----
At 31 December 2012 (restated)	22,153	51,745	73,898
Additions during the year	7,736	-	7,736
	-----	-----	-----
<b>31 December 2013</b>	<b>29,889</b>	<b>51,745</b>	<b>81,634</b>
	-----	-----	-----
<b>Amortisation</b>			
1 January 2012 (restated)	18,452	45,268	63,720
Charge for the year	1,468	4,318	5,786
	-----	-----	-----
At 31 December 2012 (restated)	19,920	49,586	69,506
Charge for the year	1,229	2,159	3,388
	-----	-----	-----
<b>31 December 2013</b>	<b>21,149</b>	<b>51,745</b>	<b>72,894</b>
	-----	-----	-----
<b>Net book value</b>			
<b>31 December 2013</b>	<b>8,740</b>	<b>-</b>	<b>8,740</b>
	=====	=====	=====
31 December 2012 (restated)	2,233	2,159	4,392
	=====	=====	=====

## 11. Aircraft lease deposits

Aircraft lease deposits are placed with lessors for leasing aircraft.



# Air Arabia PJSC and its subsidiaries

Notes (continued)

## 12. Available-for-sale investments

	2013 AED '000	2012 AED '000
Quoted	16,358	7,312
Unquoted	754,671	731,467
	-----	-----
	771,029	738,779
	=====	=====
In U.A.E.	403,715	371,464
In other G.C.C. countries	367,314	367,315
	-----	-----
	771,029	738,779
	=====	=====
	2013 AED '000	2012 AED '000
<i>Movement in fair value during the year were as follows:</i>		
At 1 January	738,779	733,021
Disposed during the year	-	(43,649)
Change in fair value	32,250	49,407
	-----	-----
<b>At 31 December</b>	<b>771,029</b>	<b>738,779</b>
	=====	=====

The market rate as at 31 December 2013 is considered for the calculation of the fair value of the available-for-sale investments that are quoted in the stock exchange.

## 13. Trade and other receivables

	2013 AED '000	2012 AED '000 (restated)
<b>Current</b>		
Trade receivables	152,063	144,504
Allowance for doubtful debts	(333)	(503)
	-----	-----
	151,730	144,001
Prepaid aircraft lease rentals	13,705	17,991
Prepaid expenses – others	7,844	7,282
Advances and other receivables	276,476	262,544
Derivative financial instruments (refer note 28)	48,414	26,685
	-----	-----
	498,169	458,503
	=====	=====

# Air Arabia PJSC and its subsidiaries

## Notes (continued)

### 13. Trade and other receivables (continued)

	2013 AED '000	2012 AED '000 (restated)
<b>Non-current</b>		
Derivatives financial instruments (refer note 28)	<b>32,579</b> =====	16,292 =====

#### 13.1 Trade receivables

The average credit period ranges between 19-45 days (2012: 29 – 45 days). Trade receivables more than 180 days are provided for based on estimated irrecoverable amounts, determined by reference to past default experience in addition to specific provision made on identified customers. No interest is charged on trade receivables.

Before accepting any new customer the Group assesses the potential customers' quality and defines credit limits by customer. There are 5 customers (2012: 03 customers) who represent more than 5% of the total balance of trade receivables.

Trade receivables include receivable from Sales Agents amounting to AED 140.01 million (2012: AED 108.43 million), which is fully secured by bank guarantees.

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

### 14. Investment in joint ventures

Movement is as under;

	2013 AED '000	2012 AED '000 (restated)
Balance as 1 January	<b>64,756</b>	63,809
Add: Share of profit for the year	<b>19,437</b>	27,455
Less: Dividend received	<b>(28,526)</b>	(26,508)
	-----	-----
Balance at 31 December	<b>55,667</b> =====	64,756 =====

# Air Arabia PJSC and its subsidiaries

Notes (continued)

## 14. Investment in joint ventures

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

	Alpha Flight Services UAE (L.L.C.) -----		Sharjah Aviation Services (L.L.C.) -----		Information System Asscoiates (FZC), U.A.E -----		Total -----	
Percentage of interest	50%		50%		51%			
	2013 AED'000	2012 AED '000 (restated)	2013 AED '000	2012 AED '000 (restated)	2013 AED '000	2012 AED '000 (restated)	2013 AED '000	2012 AED '000 (restated)
Assets	36,556	36,078	127,776	141,794	15,554	11,732	179,886	189,604
Liabilities	(18,421)	(18,028)	(48,158)	(40,485)	(2,240)	(1,780)	(68,819)	(60,293)
<b>Net assets</b>	<b>18,135</b>	18,050	<b>79,618</b>	101,309	<b>13,314</b>	9,952	<b>111,067</b>	129,311
	=====	=====	=====	=====	=====	=====	=====	=====
Group's share in net assets as presented in the consolidated statement of financial position	9,068	9,025	39,809	50,655	6,790	5,076	55,667	64,756
Profit for the year	15,135	14,882	20,310	34,753	3,361	5,173	38,806	54,808
<b>Group's share of profit for the year</b>	<b>7,568</b>	7,441	<b>10,155</b>	17,376	<b>1,714</b>	2,638	<b>19,437</b>	27,455
Cash dividends received by the Group	(7,526)	(6,508)	(21,000)	(20,000)	-	-	(28,526)	(26,508)
	=====	=====	=====	=====	==	==	=====	=====

# Air Arabia PJSC and its subsidiaries

## Notes (continued)

### 15. Related party transactions

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

#### Transactions with related parties

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

	<b>2013</b> <b>AED '000</b>	2012 AED '000 (restated)
Rental income from investment property (refer note 7)	<b>1,100</b>	3,300
Rental income from aircraft operating lease – associates ( <i>Note 30.2</i> )	<b>77,436</b>	82,838
Expenses recharged by related parties	<b>30,574</b>	29,272
Revenue from related parties	<b>5,597</b>	13,628
Management fees from associate (refer note 27)	<b>7,981</b>	7,186
	=====	=====

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

#### Compensation of key management personnel:

	<b>2013</b> <b>AED '000</b>	2012 AED '000 (restated)
Short term benefits	<b>12,313</b>	9,337
Long term benefits	<b>2,250</b>	1,950
Board of Directors' remuneration	<b>3,850</b>	1,925
	=====	=====

	<b>2013</b> <b>AED '000</b>	2012 AED '000 (restated)
--	--------------------------------	--------------------------------

#### Due from related parties:

Receivable from associates and joint ventures	<b>77,485</b>	66,447
Others	<b>1,629</b>	2,949
	-----	-----
	<b>79,114</b>	69,396
	=====	=====

# Air Arabia PJSC and its subsidiaries

## Notes (continued)

### 15. Related party transactions (continued)

	2013 AED '000	2012 AED '000 (restated)
<b>Due from related parties:</b>		
Receivable from associates and joint ventures	77,485	66,447
Others	1,629	2,949
	-----	-----
	79,114	69,396
	=====	=====
	2013 AED '000	2012 AED '000 (restated)
<b>Due to related parties:</b>		
Sharjah Aviation Services	14,363	27,188
Others	1,180	1,949
	-----	-----
	15,543	29,137
	=====	=====

### 16. Cash and cash equivalents

	2013 AED '000	2012 AED '000 (restated)
Bank balances:		
Current accounts	159,156	88,896
Call deposits	21,260	3,156
Fixed deposits*	1,256,608	1,210,834
Margin deposits*	2,477	2,430
	-----	-----
Total bank balances	1,439,501	1,305,316
Cash in hand	1,565	1,460
	-----	-----
Total bank balances and cash	1,441,066	1,306,776
Less: long term fixed deposit*	(50,000)	-
	-----	-----
Total cash and cash equivalents	1,391,066	1,306,776
	=====	=====

\* These deposits carry interest rates ranging from 3% - 4.5% per annum.

# Air Arabia PJSC and its subsidiaries

## Notes (continued)

### 16.1. Short term borrowings

	2013 AED '000	2012 AED '000
Bank overdraft (refer note (i) below)	200,085	-
Supplier finance facility (refer note (ii) below)	91,861	-
	-----	-----
	291,946	-
	=====	=====

- (i) During the current year the Group availed overdraft facility from a lending bank. This overdraft facility carry interest at six months LIBOR+1.6% per annum.
- (ii) During the year, the Group entered into a factoring arrangement with the lending bank for the purpose of payments to a major fuel supplier. This factoring arrangement with the Group carry interest at one month EIBOR+2.25% per annum.

### 17. Share capital

	2013 AED '000	2012 AED '000
Authorised, issued and fully paid up share capital (of 4,666,700 thousand shares of AED 1 each)	4,666,700	4,666,700
	=====	=====

### 18. Statutory reserve

In accordance with the Articles of Association of entities in the Group and Article 255 of UAE Federal Law No. 8 of 1984 (as amended), 10% of the net profit for the year of the individual entities to which the law is applicable, has been transferred to a statutory reserve. Such transfers may be discontinued when the reserve equals 50% of the paid up share capital of these entities. This reserve is non-distributable except in certain circumstances as mentioned in the above Law. The consolidated statutory reserve reflects transfers made post acquisition for these subsidiary companies.

### 19. General reserve

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

At the Annual General Meeting held on 9 April 2012, the Shareholders approved a transfer of AED 56,777 thousand from general reserve to retained earnings.

# Air Arabia PJSC and its subsidiaries

## Notes (continued)

### 20. Provision for employees end of service indemnity

	2013 AED '000	2012 AED '000 (restated)
At 1 January	38,467	31,526
Charge for the year	12,366	9,550
Payments made during the year	(2,822)	(2,609)
	-----	-----
<b>At 31 December</b>	<b>48,011</b>	<b>38,467</b>
	=====	=====

### 21. Trade and other payables

	2013 AED '000	2012 AED '000 (restated)
Trade payables	124,458	108,646
Maintenance liabilities	420,071	292,417
Accrued expenses	230,061	245,368
Lease deposit payables	10,448	22,533
Other payables	344,388	307,090
	-----	-----
	1,129,426	976,054
Less: Amount due for settlement after 12 months (shown under non-current liabilities)	(109,835)	(42,972)
	-----	-----
Amount due for settlement within 12 months	1,019,591	933,082
	=====	=====

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

### 22. Finance lease liabilities

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

	2013 AED '000	2012 AED '000
Not later than one year	176,018	110,297
Later than one year but not later than five year	812,916	467,701
Later than five years	1,138,138	791,742
	-----	-----
	2,127,072	1,369,740
	=====	=====

# Air Arabia PJSC and its subsidiaries

## Notes (continued)

### 22. Finance lease liabilities (continued)

The finance charges are calculated based on average interest rate of 2.97% (2012: 2.6%).

Disclosed in the consolidated financial statements as:

	2013 AED '000	2012 AED '000
Current portion of finance lease liabilities	176,018	110,297
Non-current portion of finance lease liabilities	1,951,054	1,259,443
	-----	-----
	2,127,072	1,369,740
	=====	=====

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

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

### 23. Revenue

	2013 AED '000	2012 AED '000 (restated)
Passenger revenue	2,766,776	2,565,304
Baggage revenue	43,167	39,658
Cargo revenue	79,581	62,435
Service revenue	54,089	26,672
Revenue from hotel operations	67,248	57,371
Other airline related services	214,803	119,336
Sales commission and expenses	(41,841)	(38,293)
	-----	-----
	3,183,823	2,832,483
	=====	=====

### 24. Direct costs

	2013 AED '000	2012 AED '000 (restated)
Staff costs	373,251	315,859
Aircraft lease rentals (net)	104,054	99,713
Fuel	1,338,136	1,187,498
Aircraft maintenance expenses	240,068	235,028
Passenger, ground and technical handling charges	175,915	147,847
Landing and overflying charges	179,978	150,449
Insurance	14,824	21,100
Service costs	3,348	9,010
Depreciation of property and equipment (refer note 5)	214,234	153,203
Other operating costs	37,461	40,063
	-----	-----
	2,681,269	2,359,770
	=====	=====



# Air Arabia PJSC and its subsidiaries

Notes (continued)

## 25. Selling and marketing expenses

	2013 AED '000	2012 AED '000
Staff costs	24,734	22,189
Advertisement expenses	25,767	18,450
Reservation management expenses	3,860	4,774
	-----	-----
	54,361	45,413
	=====	=====

## 26. General and administrative expenses

	2013 AED '000	2012 AED '000 (restated)
Staff costs	40,310	41,098
Legal and professional fees	4,056	6,479
Travel and accommodation costs	321	4,085
Communication costs	4,406	3,616
Depreciation of property and equipment (refer note 5)	7,130	7,724
Rent	2,961	2,596
Bad debts written off	4,220	12,000
Other expenses	41,200	22,557
	-----	-----
	104,604	100,155
	=====	=====

## 27. Other income

	2013 AED '000	2012 AED '000 (restated)
Dividend income	172	34,894
Rental income	4,222	6,368
Exchange rate variance	4,096	35
Management fees from associate (refer note 15)	7,981	7,186
Unrealised gain on fuel derivatives (refer note 28)	37,692	13,785
Gain on disposal of available-for-sale investments	-	5,701
Impairment losses on available-for-sale investments	-	(4,800)
Other income	11,389	11,180
	-----	-----
	65,552	74,349
	=====	=====

# Air Arabia PJSC and its subsidiaries

## Notes (continued)

### 28. Derivative financial instruments

The Group uses derivative financial instruments for risk management purpose. These derivatives are linked to the underlying commodity, they do not meet the criteria for hedge accounting as defined by IAS 39 "Financial instruments: Recognition and measurement" and thus do not qualify for hedge accounting.

At 31 December 2013, the change in fair value of these derivatives amounting to gain of AED 37.7 million (2012: AED 13.8 million) (refer note 27) has been taken to the consolidated profit or loss for the year ended 31 December 2013.

### 29. Basic earnings per share

	2013 AED	2012 AED (restated)
Profit attributable to the owners of the Company (in AED '000)	420,739 =====	419,549 =====
Number of shares (in '000)	4,666,700 =====	4,666,700 =====
Basic earnings per share (AED)	0.09 =====	0.09 =====

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

### 30. Operating lease arrangements

#### 30.1 Where the Group is a lessee:

	2013 AED '000	2012 AED '000
Minimum lease payment under operating leases (excluding variable lease rental on the basis of flying hours) recognised in profit and loss for the year	181,461 =====	182,551 =====

The lease commitments for aircraft were as follows:

	2013 AED '000	2012 AED '000
Within one year	115,825	179,022
In the second to fifth years inclusive	59,241	175,066
	----- 175,066 =====	----- 354,088 =====

# Air Arabia PJSC and its subsidiaries

## Notes (continued)

### 30. Operating lease arrangements (continued)

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

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

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

#### 30.2 Where the Group is a lessor:

The Group has leased out 5 (2012: 7) aircraft under non-cancellable operating lease agreements to related parties.

##### Minimum lease payments:

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

	2013 AED '000	2012 AED '000
Within one year	43,819	83,175
In the second to fifth years inclusive	24,422	58,290
	-----	-----
	68,241	141,465
	=====	=====

The lease income amounting to AED 77,436 thousand (2012: AED 82,838 thousand) has been setoff with lease expenses in the profit and loss (refer note 24).

The Group has leased out 3 aircraft (2012: 4 aircraft) owned by the Group under operating leases (where the Group is the lessor) and the details as at reporting date are as follows:

	2013 AED '000	2012 AED '000
Net book value	374,731	488,662
	=====	=====
Accumulated depreciation	99,382	147,335
	=====	=====
Depreciation charge for the year	25,298	36,112
	=====	=====

# Air Arabia PJSC and its subsidiaries

## Notes (continued)

### 31. Contingent liabilities

	2013 AED '000	2012 AED '000
Letters of credit	34,036	70,984
Letters of guarantee	25,453	18,042
	=====	=====

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

### 32. Capital commitments

	2013 AED '000	2012 AED '000
<i>Authorised and contracted:</i>		
Aircraft fleet	6,465,167	7,162,794
Others	-	2,105
	-----	-----
	6,465,167	7,164,899
	=====	=====
<i>Authorised but not contracted:</i>		
Aircraft fleet	1,422,807	1,422,807
	=====	=====

### 33. Dividend

During the year, dividend of 7 fils per share (2012: 6 fils) was paid to the Shareholders.

The Directors propose that a dividend of AED 338,335,750, 7.25 fils per share (2012: AED 326,669,000, 7 fils per share) will be paid to the Shareholders in 2014. This dividend is subject to approval by the Shareholders at the Annual General Meeting and has not been included as a liability in these consolidated financial statements.

# Air Arabia PJSC and its subsidiaries

## Notes (continued)

### 34. Financial instruments

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

#### 34.1 Credit risk

##### *Exposure to credit risk*

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

##### 31 December 2013

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

##### 31 December 2012

Assets (restated)	Loans and Receivables AED '000	Financial assets		Total AED '000
		Available- for-sale AED '000	Designated as FVTPL AED '000	
Bank balances and cash	1,306,776	-	-	1,306,776
Trade and other receivables	406,545	-	42,977	449,522
Due from related parties	69,396	-	-	69,396
AFS	-	738,779	-	738,779
Aircraft lease deposits	15,809	-	-	15,809
<b>Total assets</b>	<b>1,798,526</b>	<b>738,779</b>	<b>42,977</b>	<b>2,580,282</b>

# Air Arabia PJSC and its subsidiaries

## Notes (continued)

### 34. Financial instruments (continued)

#### 34.2 Liquidity risk

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

	Carrying amount AED'000	Contractual cash flows AED'000	Less than one year AED'000	More than one year AED'000
<b>31 December 2013</b>				
<i>Non-derivative</i>				
<i>Financial liabilities</i>				
Trade and other payables	1,129,426	1,129,426	1,019,591	109,835
Finance lease liabilities	2,127,072	2,397,386	187,025	2,210,361
Short term borrowings	291,946	295,782	295,782	-
Due to related parties	15,543	15,543	15,543	-
	<u>3,563,987</u>	<u>3,838,137</u>	<u>1,517,941</u>	<u>2,320,196</u>
<b>31 December 2012</b> (restated)				
<i>Non-derivative</i>				
<i>Financial liabilities</i>				
Trade and other payables	976,054	976,054	933,082	42,972
Finance lease liabilities	1,369,740	1,503,588	113,163	1,390,425
Due to related parties	29,137	29,137	29,137	-
	<u>2,374,931</u>	<u>2,508,779</u>	<u>1,075,382</u>	<u>1,433,397</u>

#### 34.3 Equity price risk

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

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

	Effect on other comprehensive income AED'000	Effect on profit or loss AED'000
<b>31 December 2013</b>		
Effect of changes in AFS investments	77,103	-
	<u>=====</u>	<u>=====</u>
<b>31 December 2012</b>		
Effect of changes in AFS investments	73,878	-
	<u>=====</u>	<u>=====</u>

# Air Arabia PJSC and its subsidiaries

Notes (continued)

## 34. Financial instruments (continued)

### 34.4 Interest rate risk

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

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

	2013 AED'000	2012 AED'000 (restated)
<b>Fixed rate instruments</b>		
<i>Financial assets</i>		
Fixed deposits	1,256,608	1,210,834
Margin deposits	2,477	2,430
	=====	=====
	2013 AED'000	2012 AED'000
<b>Variable rate instruments</b>		
<i>Financial liabilities</i>		
Finance lease liabilities	2,127,072	1,369,739
Short term borrowings	291,946	-
	-----	-----
	2,419,018	1,369,739
	=====	=====

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

The Group does not account for any fixed rate financial assets and liabilities at fair value through profit or loss. Therefore a change in interest rates at the reporting date would not affect profit or loss.

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

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

	Income statement 100 bp increase AED'000	100 bp decrease AED'000
<b>31 December 2013</b>		
Variable rate instruments	24,190	(24,190)
	=====	=====
<b>31 December 2012 (restated)</b>		
Variable rate instruments	13,697	(13,697)
	=====	=====

# Air Arabia PJSC and its subsidiaries

## Notes (continued)

### 34. Financial instruments (continued)

#### 34.5 Fair values hierarchy

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

#### 31 December 2013

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

#### 31 December 2012

	Level 1 AED '000	Level 2 AED '000	Level 3 AED '000	Total AED '000
Derivative financial Instruments	-	42,977	-	42,977
<i>Available-for-sale Investments</i>				
FVTPL - Quoted investments	7,312	-	-	7,312
FVPTL - Unquoted Investments	-	731,467	-	731,467
	-----	-----	-----	-----
	7,312	774,444	-	781,756
	=====	=====	=====	=====



# Air Arabia PJSC and its subsidiaries

## Notes (continued)

### 35. Segment information

The Group has broadly one reportable segment “Airline” which is the Group’s strategic business unit.

Information regarding the operations of a segment is included below. Performance is measured based on segment profit as management believes that profit is the most relevant factor in evaluating the result of a segment relative to other entities that operate within these industries.

#### Primary reporting format - business segments

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

# Air Arabia PJSC and its subsidiaries

## Notes (continued)

### 35. Segment information (continued)

#### Primary reporting format – business segments (continued)

31 December 2012	Airline (restated) AED '000	Other segments (restated) AED '000	Eliminations (restated) AED '000	Total (restated) AED '000
Revenue				
External sales	2,748,440	84,043	-	2,832,483
Inter-segment sales	-	2,799	(2,799)	-
	-----	-----	-----	-----
	2,748,440	86,842	(2,799)	2,832,483
	=====	=====	=====	=====
Result				
Segment result	327,292	30,319	-	357,611
Share of profit from equity accounted investees				771
Finance costs				(34,718)
Interest income from bank deposits and other income				101,146
				-----
Profit for the year				424,810
				=====
Other information				
Additions to property and equipment and deferred charges	1,038,946	1,137	-	1,040,083
Depreciation and amortisation	165,074	2,389	-	167,463
Assets				
Segment assets	5,809,560	113,964	(18,994)	5,904,530
	-----	-----	-----	-----
Unallocated Group assets				2,138,071
				-----
Total assets				8,042,601
				=====
Liabilities				
Segment liabilities	2,576,165	44,787	(18,994)	2,601,958
	=====	=====	=====	=====

Inter-segment sales are charged at prevailing market prices.

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

# Air Arabia PJSC and its subsidiaries

## Notes (continued)

### 36. Significant accounting estimates and judgements

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

#### *Classification of investments*

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

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

#### *Fair value of derivative financial instruments*

At the reporting date, the Group has outstanding commodity swap as disclosed in note 28 to these consolidated financial statements. The fair value has been determined as such in accordance with best market practice and using observable market data.

#### *Valuation of unquoted investments*

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

#### *Impairment of AFS Investments*

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

Management has considered an amount of AED Nil (2012: AED 4.8 million) as impairment loss on available for sale investments based on impairment test performed during the year.

#### *Impairment of goodwill and intangible assets*

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

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

Management has concluded that no impairment of goodwill and intangible assets is required based on independent valuer's report on impairment test performed as of 31 December 2013.

# Air Arabia PJSC and its subsidiaries

## Notes (continued)

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

#### *Classification of leases*

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

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

#### *Leased aircraft maintenance costs*

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

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

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

#### *Accrual for aircraft flying costs*

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

# Air Arabia PJSC and its subsidiaries

## Notes (continued)

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

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

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

#### *Deferred charges*

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

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

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

### 37. Post balance sheet event

Air Arabia PJSC became the designated carrier for Ras-al-Kaimah in February 2014 following the demise of Ras-al-Kaimah airways.

The agreement with the government of Ras-al-Kaimah is for a period of ten years, extendable thereafter.