

Air Arabia PJSC  
and its subsidiaries

Consolidated financial statements  
*31 December 2015*

# Air Arabia PJSC and its subsidiaries

## Consolidated financial statements *for the year ended 31 December 2015*

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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 ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2015, the consolidated statements of profit or loss, 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 their preparation in compliance with the applicable provisions of the UAE Federal Law No. 2 of 2015, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### ***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 2015, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.



## **Independent auditors' reports (continued)**

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

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

- i) we have obtained all the information and explanations we considered necessary for the purposes of our audit;
- ii) the consolidated financial statements have been prepared and comply, in all material respects, with the applicable provisions of the UAE Federal Law No. 2 of 2015;
- iii) the Group has maintained proper books of account;
- iv) the financial information included in the Directors' report, in so far as it relates to these consolidated financial statements, is consistent with the books of account of the Group;
- v) As disclosed in note 1 to the consolidated financial statements, the Group has purchased shares during the year ended 31 December 2015;
- vi) note 16 to the consolidated financial statements discloses material related party transactions and the terms under which they were conducted;
- vii) based on the information that has been made available to us nothing has come to our attention which causes us to believe that the Company and its subsidiaries incorporated in UAE have contravened during the financial year ended 31 December 2015 any of the applicable provisions of the UAE Federal Law No. 2 of 2015 or in respect of the Articles of Association of the respective companies, which would materially affect the Group's activities or its consolidated financial position as at 31 December 2015; and
- viii) note 27 to the consolidated financial statements discloses the social contributions made during the year.

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

07 FEB 2016



# Air Arabia PJSC and its subsidiaries

## Consolidated statement of financial position

as at 31 December 2015

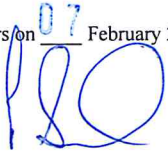
|                                                                                                                  | Note  | 2015<br>AED'000   | 2014<br>AED'000   |
|------------------------------------------------------------------------------------------------------------------|-------|-------------------|-------------------|
| <b>Assets</b>                                                                                                    |       |                   |                   |
| <b>Non-current assets</b>                                                                                        |       |                   |                   |
| Property and equipment                                                                                           | 5     | 6,353,710         | 5,643,598         |
| Advance for new aircraft                                                                                         | 6     | 344,067           | 578,817           |
| Investment properties                                                                                            | 7     | 170,572           | 162,147           |
| Intangible assets                                                                                                | 8     | 1,097,687         | 1,095,165         |
| Goodwill                                                                                                         | 9     | 198,522           | 198,522           |
| Deferred charges                                                                                                 | 10    | 33,078            | 8,446             |
| Aircraft lease deposits                                                                                          | 11    | -                 | 3,675             |
| Investments                                                                                                      | 12    | 664,398           | 703,824           |
| Investment in joint ventures                                                                                     | 14    | 43,436            | 50,152            |
| Investment in associates                                                                                         | 15    | 15,382            | 10,417            |
| Long-term portion of other investments                                                                           | 17.1  | -                 | 100,000           |
| <b>Total non-current assets</b>                                                                                  |       | <b>8,920,852</b>  | <b>8,554,763</b>  |
| <b>Current assets</b>                                                                                            |       |                   |                   |
| Inventories                                                                                                      |       | 17,154            | 17,423            |
| Due from related parties                                                                                         | 16    | 25,774            | 48,298            |
| Trade and other receivables                                                                                      | 13    | 502,867           | 396,053           |
| Short-term portion of other investments                                                                          | 17.1  | 333,654           | 233,654           |
| Bank balances and cash                                                                                           | 17    | 1,598,559         | 1,324,250         |
| <b>Total current assets</b>                                                                                      |       | <b>2,478,008</b>  | <b>2,019,678</b>  |
| <b>Total assets</b>                                                                                              |       | <b>11,398,860</b> | <b>10,574,441</b> |
| <b>Non-current liabilities</b>                                                                                   |       |                   |                   |
| Provision for staff terminal benefits                                                                            | 22    | 79,655            | 65,301            |
| Trade and other payables                                                                                         | 23    | 951,465           | 655,004           |
| Non-current portion of finance lease liabilities                                                                 | 24    | 3,173,589         | 2,635,031         |
| <b>Total non-current liabilities</b>                                                                             |       | <b>4,204,709</b>  | <b>3,355,336</b>  |
| <b>Current liabilities</b>                                                                                       |       |                   |                   |
| Due to related parties                                                                                           | 16    | 6,953             | 7,040             |
| Deferred income                                                                                                  |       | 268,354           | 254,820           |
| Short-term borrowings                                                                                            | 17.2  | -                 | 183,657           |
| Trade and other payables                                                                                         | 23    | 1,598,352         | 1,426,030         |
| Current portion of finance lease liabilities                                                                     | 24    | 322,653           | 266,542           |
| <b>Total current liabilities</b>                                                                                 |       | <b>2,196,312</b>  | <b>2,138,089</b>  |
| <b>Total liabilities</b>                                                                                         |       | <b>6,401,021</b>  | <b>5,493,425</b>  |
| <b>Capital and reserves</b>                                                                                      |       |                   |                   |
| Share capital                                                                                                    | 18    | 4,666,700         | 4,666,700         |
| Statutory reserve                                                                                                | 19    | 370,827           | 319,702           |
| General reserve                                                                                                  | 20    | 314,050           | 262,925           |
| Fair value reserve                                                                                               | 2.6.1 | -                 | 48,590            |
| Cumulative change in fair value of investments measured at fair value through other comprehensive income (FVOCI) | 2.6.1 | 32,845            | -                 |
| Cash flow hedge reserve                                                                                          | 21    | (865,163)         | (692,977)         |
| Retained earnings                                                                                                |       | 442,555           | 449,585           |
| <b>Equity attributable to owners of the Company</b>                                                              |       | <b>4,961,814</b>  | <b>5,054,525</b>  |
| <b>Non-controlling interests</b>                                                                                 |       | <b>36,025</b>     | <b>26,491</b>     |
| <b>Total equity</b>                                                                                              |       | <b>4,997,839</b>  | <b>5,081,016</b>  |
| <b>Total liabilities and equity</b>                                                                              |       | <b>11,398,860</b> | <b>10,574,441</b> |

The accompanying notes on pages 8 to 57 are an integral part of these consolidated financial statements.

These consolidated financial statements were approved and authorised for issue by the Board of Directors on 07 February 2016 and signed on its behalf by;

  
Chairman

  
Chief Executive Officer

  
Director of Finance

The independent auditors' report on the consolidated financial statements is set out on pages 1 and 2.

# Air Arabia PJSC and its subsidiaries

## Consolidated statement of profit or loss for the year ended 31 December 2015

|                                       | Note | 2015<br>AED'000  | 2014<br>AED'000 |
|---------------------------------------|------|------------------|-----------------|
| <b>Revenue</b>                        | 25   | <b>3,825,859</b> | 3,728,793       |
| Direct costs                          | 26   | (3,023,943)      | (3,045,873)     |
| <b>Gross profit</b>                   |      | <b>801,916</b>   | 682,920         |
| General and administrative expenses   | 27   | (171,204)        | (148,207)       |
| Selling and marketing expenses        | 28   | (66,631)         | (51,792)        |
| Finance income                        |      | 79,406           | 65,547          |
| Finance costs                         |      | (74,203)         | (66,046)        |
| Share of profit from joint ventures   | 14   | 7,284            | 18,608          |
| Share of loss from associates         | 15   | (8,159)          | -               |
| Other (loss)/income-net               | 29   | (37,821)         | 64,798          |
| <b>Profit for the year</b>            |      | <b>530,588</b>   | 565,828         |
| <i>Profit attributable to:</i>        |      |                  |                 |
| Owners of the Company                 |      | 511,254          | 552,912         |
| Non-controlling interests             |      | 19,334           | 12,916          |
|                                       |      | <b>530,588</b>   | 565,828         |
| <b>Basic earnings per share (AED)</b> | 30   | <b>0.11</b>      | 0.12            |

The accompanying notes on pages 8 to 57 are an integral part of these consolidated financial statements.

The independent auditors' report on the consolidated financial statements is set out on pages 1 and 2.

# Air Arabia PJSC and its subsidiaries

## Consolidated statement of comprehensive income for the year ended 31 December 2015

|                                                                                                                                  | Note  | 2015<br>AED '000 | 2014<br>AED '000 |
|----------------------------------------------------------------------------------------------------------------------------------|-------|------------------|------------------|
| <b>Profit for the year</b>                                                                                                       |       | <b>530,588</b>   | <b>565,828</b>   |
| <b>Other comprehensive income</b>                                                                                                |       |                  |                  |
| <i>Items that will never be subsequently transferred to consolidated statement of profit or loss:</i>                            |       |                  |                  |
| Fair value movement in investments measured at FVOCI                                                                             | 12(b) | (23,049)         | -                |
| <i>Items that are or may be reclassified subsequently to the consolidated statement of profit or loss</i>                        |       |                  |                  |
| <i>Fair value reserve (available-for-sale investments)</i>                                                                       |       |                  |                  |
| Net change in fair value                                                                                                         | 12(a) | 11,273           | (10,202)         |
| Fair valuation reserve reclassified to the consolidated statements profit and loss on disposal of available-for-sale investments | 29    | -                | (12,130)         |
| <i>Cash flow hedge</i>                                                                                                           |       |                  |                  |
| Cash flow hedges – effective portion of changes in fair value                                                                    | 21    | (172,186)        | (692,977)        |
| <b>Total other comprehensive loss</b>                                                                                            |       | <b>(183,962)</b> | <b>(715,309)</b> |
| <b>Total comprehensive income/(loss) for the year</b>                                                                            |       | <b>346,626</b>   | <b>(149,481)</b> |
| <b>Total comprehensive income/(loss) attributable to:</b>                                                                        |       |                  |                  |
| Owners of the Company                                                                                                            |       | 327,292          | (162,397)        |
| Non-controlling interests                                                                                                        |       | 19,334           | 12,916           |
|                                                                                                                                  |       | <b>346,626</b>   | <b>(149,481)</b> |

The accompanying notes on pages 8 to 57 are an integral part of these consolidated financial statements.

The independent auditors' report on the consolidated financial statements is set out on pages 1 and 2.

# Air Arabia PJSC and its subsidiaries

## Consolidated statement of changes in equity

### for the year ended 31 December 2015

|                                                                                                                          | Share capital<br>AED'000 | Statutory<br>reserve<br>AED'000 | General<br>reserve<br>AED'000 | Fair value<br>reserve<br>AED'000 | Cumulative<br>change in fair<br>value of<br>investments<br>measured at<br>FVOCI<br>AED'000 | Cash flow hedge<br>reserve<br>AED'000 | Retained<br>earnings<br>AED'000 | Attributable to<br>owners of the<br>Company<br>AED'000 | Non-controlling<br>interests<br>AED'000 | Total<br>AED'000 |
|--------------------------------------------------------------------------------------------------------------------------|--------------------------|---------------------------------|-------------------------------|----------------------------------|--------------------------------------------------------------------------------------------|---------------------------------------|---------------------------------|--------------------------------------------------------|-----------------------------------------|------------------|
| Balance at 1 January 2014                                                                                                | 4,666,700                | 264,411                         | 207,634                       | 70,922                           | -                                                                                          | -                                     | 345,591                         | 5,555,258                                              | 20,925                                  | 5,576,183        |
| <b>Total comprehensive income for the year</b>                                                                           |                          |                                 |                               |                                  |                                                                                            |                                       |                                 |                                                        |                                         |                  |
| Profit for the year                                                                                                      | -                        | -                               | -                             | -                                | -                                                                                          | -                                     | 552,912                         | 552,912                                                | 12,916                                  | 565,828          |
| Other comprehensive loss                                                                                                 | -                        | -                               | -                             | (22,332)                         | -                                                                                          | (692,977)                             | -                               | (715,309)                                              | -                                       | (715,309)        |
| <b>Total comprehensive income</b>                                                                                        | -                        | -                               | -                             | (22,332)                         | -                                                                                          | (692,977)                             | 552,912                         | (162,397)                                              | 12,916                                  | (149,481)        |
| Transfer to reserves                                                                                                     | -                        | 55,291                          | 55,291                        | -                                | -                                                                                          | -                                     | (110,582)                       | -                                                      | -                                       | -                |
| Transactions with owners, recorded directly<br>in equity                                                                 | -                        | -                               | -                             | -                                | -                                                                                          | -                                     | (338,336)                       | (338,336)                                              | (7,350)                                 | (345,686)        |
| Dividend paid                                                                                                            | -                        | -                               | -                             | -                                | -                                                                                          | -                                     | 449,585                         | 5,054,525                                              | 26,491                                  | 5,081,016        |
| Balance at 31 December 2014                                                                                              | 4,666,700                | 319,702                         | 262,925                       | 48,590                           | -                                                                                          | (692,977)                             | 449,585                         | 5,054,525                                              | 26,491                                  | 5,081,016        |
| Balance at 1 January 2015                                                                                                | 4,666,700                | 319,702                         | 262,925                       | 48,590                           | -                                                                                          | (692,977)                             | 449,585                         | 5,054,525                                              | 26,491                                  | 5,081,016        |
| <b>Total comprehensive income for the year</b>                                                                           |                          |                                 |                               |                                  |                                                                                            |                                       |                                 |                                                        |                                         |                  |
| Profit for the year                                                                                                      | -                        | -                               | -                             | -                                | -                                                                                          | -                                     | 511,254                         | 511,254                                                | 19,334                                  | 530,588          |
| Other comprehensive income                                                                                               | -                        | -                               | -                             | 11,273                           | (23,049)                                                                                   | (172,186)                             | -                               | (183,962)                                              | -                                       | (183,962)        |
| Transfers to retained earnings on disposal of<br>investment measured at fair-value through<br>other comprehensive income | -                        | -                               | -                             | -                                | (3,969)                                                                                    | -                                     | 3,969                           | -                                                      | -                                       | -                |
| Reclassification upon adoption of IFRS 9 (refer<br>to note 2.6.1)                                                        | -                        | -                               | -                             | (59,863)                         | 59,863                                                                                     | -                                     | -                               | -                                                      | -                                       | -                |
| <b>Total comprehensive income</b>                                                                                        | -                        | -                               | -                             | (48,590)                         | 32,845                                                                                     | (172,186)                             | 515,223                         | 327,292                                                | 19,334                                  | 346,626          |
| Transfer to reserves                                                                                                     | -                        | 51,125                          | 51,125                        | -                                | -                                                                                          | -                                     | (102,250)                       | -                                                      | -                                       | -                |
| Transactions with owners, recorded directly<br>in equity                                                                 | -                        | -                               | -                             | -                                | -                                                                                          | -                                     | (420,003)                       | (420,003)                                              | (9,800)                                 | (429,803)        |
| Dividend paid (refer note 35)                                                                                            | -                        | -                               | -                             | -                                | -                                                                                          | -                                     | 442,555                         | 4,961,814                                              | 36,025                                  | 4,997,839        |
| Balance at 31 December 2015                                                                                              | 4,666,700                | 370,827                         | 314,050                       | -                                | 32,845                                                                                     | (865,163)                             | 442,555                         | 4,961,814                                              | 36,025                                  | 4,997,839        |

The accompanying notes on pages 8 to 57 are an integral part of these consolidated financial statements.



# Air Arabia PJSC and its subsidiaries

## Consolidated statement of cash flows

for the year ended 31 December 2015

|                                                                                | Note | 2015<br>AED '000        | 2014<br>AED '000        |
|--------------------------------------------------------------------------------|------|-------------------------|-------------------------|
| <b>Operating activities</b>                                                    |      |                         |                         |
| Profit for the year                                                            |      | 530,588                 | 565,828                 |
| <i>Adjustments for:</i>                                                        |      |                         |                         |
| Depreciation of property and equipment                                         | 5    | 386,474                 | 302,680                 |
| Depreciation of investment properties                                          | 7    | 750                     | 750                     |
| Amortisation of deferred charges                                               | 10   | 3,956                   | 1,652                   |
| Provision for staff terminal benefits                                          | 22   | 19,702                  | 21,766                  |
| Gain on disposal of available-for-sale investments                             | 29   | -                       | (12,130)                |
| Ineffective portion/unrealised (gain)/loss on derivative financial instruments | 29   | 84,098                  | 37,522                  |
| Share of profit of joint ventures                                              | 14   | (7,284)                 | (18,608)                |
| Share of loss of associates                                                    | 15   | 8,159                   | -                       |
| Gain on fair valuation of investment in joint venture acquired                 |      | -                       | (4,614)                 |
| Reversal of provision for impairment                                           | 29   | (4,591)                 | (20,417)                |
| Finance income                                                                 |      | (79,406)                | (65,547)                |
| Dividend income                                                                | 29   | (5,533)                 | (244)                   |
| <i>Operating cash flows before working capital changes</i>                     |      | <u>936,913</u>          | <u>808,638</u>          |
| <i>Changes in:</i>                                                             |      |                         |                         |
| - Trade and other receivables                                                  | 13   | (106,814)               | 138,228                 |
| - Inventories                                                                  |      | 269                     | (5,693)                 |
| - Due from related parties                                                     | 16   | 27,115                  | 30,816                  |
| - Trade and other payables                                                     | 23   | 212,500                 | 218,753                 |
| - Deferred income                                                              |      | 13,534                  | 48,300                  |
| - Due to related parties                                                       | 16   | (87)                    | 1,497                   |
| Staff terminal benefits paid                                                   | 22   | (5,348)                 | (4,476)                 |
| <b>Net cash from operating activities</b>                                      |      | <u><u>1,078,082</u></u> | <u><u>1,236,063</u></u> |
| <b>Investing activities</b>                                                    |      |                         |                         |
| Acquisition of property and equipment                                          | 5    | (59,668)                | (72,411)                |
| Receipts/(payments) in relation to advances for new aircraft                   | 6    | 95,172                  | (418,186)               |
| Addition in investment properties                                              | 7    | (9,175)                 | -                       |
| Payment for deferred charges                                                   |      | (28,588)                | (1,358)                 |
| Proceeds from sale of available-for-sale investments                           | 12   | 27,650                  | 57,003                  |
| Dividend received from joint ventures                                          | 14   | 14,000                  | 17,500                  |
| Acquisition of intangible assets                                               |      | (2,522)                 | (1,421)                 |
| Payment for acquisition of a subsidiary-net                                    |      | -                       | (1,395)                 |
| Payment for investment in associate                                            | 15   | (13,124)                | -                       |
| Dividend received                                                              |      | 5,533                   | 244                     |
| Payments for aircraft lease deposits                                           |      | 3,675                   | 8,100                   |
| Change in fixed and margin deposits                                            | 17   | (290,059)               | 131,390                 |
| Finance income received                                                        |      | 79,406                  | 65,547                  |
| Other investments made                                                         |      | -                       | (283,654)               |
| <b>Net cash used in investing activities</b>                                   |      | <u><u>(177,700)</u></u> | <u><u>(498,641)</u></u> |
| <b>Financing activities</b>                                                    |      |                         |                         |
| Dividend paid to non-controlling interests                                     |      | (9,800)                 | (7,350)                 |
| Dividend paid to owners of the company                                         |      | (420,003)               | (338,336)               |
| Payments of finance lease liabilities                                          | 24   | (302,672)               | (218,788)               |
| Change in short-term borrowings                                                | 17.2 | -                       | (91,946)                |
| <b>Net cash used in financing activities</b>                                   |      | <u><u>(732,475)</u></u> | <u><u>(656,420)</u></u> |
| <b>Net increase in cash and cash equivalents</b>                               |      | <u>167,907</u>          | <u>81,002</u>           |
| Cash and cash equivalents at the beginning of the year                         |      | <u>62,898</u>           | <u>(18,104)</u>         |
| <b>Cash and cash equivalents at the end of the year</b>                        |      | <u><u>230,805</u></u>   | <u><u>62,898</u></u>    |
| <b>The details of cash and cash equivalents are as under:</b>                  |      |                         |                         |
| Cash at bank and in hand                                                       | 17   | 1,598,559               | 1,324,250               |
| Fixed deposits with maturity over 3 months                                     |      | (1,365,987)             | (1,074,392)             |
| Margin deposits with maturity over 3 months                                    |      | (1,767)                 | (3,303)                 |
|                                                                                |      | <u>230,805</u>          | <u>246,555</u>          |
| Bank overdraft                                                                 | 17.2 | -                       | (183,657)               |
|                                                                                |      | <u><u>230,805</u></u>   | <u><u>62,898</u></u>    |

The accompanying notes on pages 8 to 57 are an integral part of these consolidated financial statements.

The independent auditors' report on the consolidated financial statements is set out on pages 1 and 2.



# Air Arabia PJSC and its subsidiaries

## Notes (forming part of the consolidated financial statements)

### 1. Reporting entity

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

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

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

The consolidated financial statements as at 31 December 2015 include the financial performance and position of the Company and its subsidiaries (collectively referred to as "the Group") and the Group's interests in associates and joint ventures.

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

The 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>                                                           |
|-------------------------------------------|---------------------------------|------|---------------------------------|---------------------------------------------------------------------------------------|
|                                           | 2015                            | 2014 |                                 |                                                                                       |
| <i>Subsidiaries</i>                       |                                 |      |                                 |                                                                                       |
| COZMO Travel LLC and its subsidiaries     | 51%                             | 51%  | United Arab Emirates            | Travel and tours, tourism and cargo services.                                         |
| <u>Subsidiaries of COZMO Travel LLC:</u>  |                                 |      |                                 |                                                                                       |
| COZMO Travel WLL                          | 100%                            | 100% | Qatar                           | Travel and tours, tourism and cargo services.                                         |
| COZMO Travel Limited Company              | 100%                            | 100% | Kingdom of Saudi Arabia         | Travel and tours, tourism and cargo services.                                         |
| COZMO Travel LLC                          | 100%                            | 100% | Kuwait                          | Travel and tours, tourism and cargo services.                                         |
| COZMO Travel LLC                          | 100%                            | 100% | Bahrain                         | Travel and tours, tourism and cargo services.                                         |
| COZMO World Travel*                       | 100%                            | -    | United Arab Emirates            | Travel Agent                                                                          |
| COZMO Travel LLC*                         | 100%                            | -    | India                           | Travel and tours, tourism and cargo services.                                         |
| Tune Protection Commercial Brokerage LLC* | 51%                             | -    | United Arab Emirates            | Commercial brokers                                                                    |
| Information System Associates FZC         | 100%                            | 51%  | United Arab Emirates            | IT services to aviation industry                                                      |
| Action Hospitality                        | 100%                            | 100% | United Arab Emirates            | Hospitality services, tourism, managing and operating restaurants and hotels          |
| <i>Joint ventures</i>                     |                                 |      |                                 |                                                                                       |
| Alpha Flight Services UAE LLC             | 50%                             | 50%  | United Arab Emirates            | Flight and retail catering and ancillary services to the Air Arabia PJSC.             |
| Sharjah Aviation Services LLC             | 50%                             | 50%  | United Arab Emirates            | Aircraft handling, passenger and cargo services at the Sharjah International Airport. |
| Air Arabia – Egypt Company (S.A.E.)       | 50%                             | 50%  | Egypt                           | International commercial air transportation.                                          |
| <i>Associates</i>                         |                                 |      |                                 |                                                                                       |
| Air Arabia Morocco, S.A.                  | 40%                             | 40%  | Morocco                         | International commercial air transportation.                                          |
| Air Arabia Jordan*                        | 49%                             | -    | Jordan                          | International commercial air transportation.                                          |

(\*) Established in the current year.

# Air Arabia PJSC and its subsidiaries

Notes *(continued)*

## **2. Basis of preparation**

### **2.1 Statement of compliance**

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) and comply with the relevant Articles of the Company and the UAE Federal Law No. 2 of 2015.

UAE Federal Law No. 2 of 2015 being the Commercial Companies Law (“UAE Companies Law of 2015”) was issued on 1 April 2015 and has come into force on 1 July 2015. Companies are allowed to ensure compliance with the new UAE Companies Law of 2015 by 30 June 2016 as per the transitional provisions contained therein.

### **2.2 Basis of measurement**

The consolidated financial statements have been prepared on the historical cost basis except for derivative financial instruments, available-for-sale investments and investments measured at fair value through other comprehensive income (“FVOCI”), which are measured at their fair values in the statement of financial position.

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

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

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

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

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

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

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

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

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



# Air Arabia PJSC and its subsidiaries

Notes (continued)

## 2. Basis of preparation (continued)

### 2.5 Measurement of fair values (continued)

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

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

If inputs used to measure the fair value of an asset or liability fall into different levels of 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.

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

#### 2.6.1 New standards and amendments to standards

##### Early adoption of IFRS 9: Financial Instruments

With effect from 1 July 2015, the Group has early adopted IFRS 9: Financial Instruments (2014) for financial instruments. All financial assets on or after 1 July 2015 are accounted for by applying the provisions of IFRS 9. IFRS 9 requires that an entity subsequently measures its financial instruments at either amortised cost or fair value depending on the entity's business model for managing the financial instruments and the contractual cash flow characteristics of the financial instruments. Until 30 June 2015, the Group applied the provisions of IAS 39: Financial Instruments Recognition and Measurement for accounting its financial instruments.

##### Impact of early adoption of IFRS 9

On early adoption of IFRS 9, there has been no significant impact on the Group's financial position. As per the transitional provisions of IFRS 9, the Group has elected not to restate comparative information. Previously, the Group's financial assets and financial liabilities were classified as follows:

##### *Financial assets:*

##### *Available-for-sale investments:*

- The fair value of investments classified as available-for-sale (AFS) under IAS 39 amounted to AED 347.8 million as of 30 June 2015 has been reclassified as investments measured at fair value through other comprehensive income ("FVOCI") on adoption of IFRS 9.

Furthermore, an amount of AED 59.9 million representing fair value reserve pertaining to AFS investments has been reclassified to cumulative change in fair value of investments measured at fair value through other comprehensive income on adoption of IFRS 9. Also refer note 12.

# Air Arabia PJSC and its subsidiaries

Notes *(continued)*

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

### 2.6 Application of new and revised International Financial Reporting Standards (IFRSs) *(continued)*

#### 2.6.1 New standards, amendments to standards and interpretations issued and adopted *(continued)*

##### **Impact of early adoption of IFRS 9 *(continued)***

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

##### *Available-for-sale investments (continued):*

Gains and losses on such investments are never reclassified to the consolidated statement of profit or loss and no impairment of them is recognised in the consolidated statement of profit or loss.

- The fair value of investment classified as AFS under IAS 39 amounted to AED 367.3 million has also been reclassified as investment measured at amortised cost using effective interest method, on adoption of IFRS 9.

##### *Other financial assets*

After the adoption of IFRS 9, all other financial assets continued to be measured at amortised cost, and there were no reclassifications to or from the amortised cost measurement category. These financial assets are also included in the same line items in the consolidated statement of financial position as at 31 December 2014.

##### *Financial liabilities*

After the adoption of IFRS 9, all financial liabilities continued to be measured at amortised cost, and there were no reclassifications to or from the amortised cost measurement category. These financial liabilities are also included in the same line items in the consolidated statement of financial position as at 31 December 2014.

##### *Hedge accounting*

Under IAS 39, impact of time value of money is recognised in the consolidated statement of profit or loss as entities usually designate changes in the intrinsic value of the derivative as the hedge instrument. The application of IFRS 9 general hedge accounting principles will result in the volatility of the hedging instruments being transferred from the consolidated statement of profit or loss to consolidated statement of comprehensive income.



# Air Arabia PJSC and its subsidiaries

Notes (continued)

## 2. Basis of preparation (continued)

### 2.6 Application of new and revised International Financial Reporting Standards (IFRSs) (continued)

#### 2.6.2 New standards, amendments to standards and interpretations issued but not adopted

A number of new standards, amendments to standards and interpretations are effective for annual periods beginning after 1 January 2015 and earlier application is permitted; however, the Group has not early applied the following new standards, amendments to standards and interpretations in preparing these consolidated financial statements.

- *IFRS 15 Revenue from Contracts with Customers*

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes. IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.

- Accounting for acquisitions of interests in joint operations (amendments to IFRS 11).
- Clarification of acceptable methods of depreciation and amortisation (amendments to IAS 16 and IAS 38).

The Group management is assessing the impact on its consolidated financial statements resulting from the application of standards, amendments to standards and interpretations.

## 3. Significant accounting policies

The Group has consistently applied the following accounting policies to all periods presented in these consolidated financial statements (except for the early adoption of IFRS 9 as disclosed in note 2.6).

### 3.1 Basis of consolidation

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

#### *Business combinations*

The Group accounts for business combinations using the acquisition method when control is transferred to the Group. The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Any gain on a bargain purchase is recognised in the consolidated 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 consolidated 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 the consolidated profit or loss.

# Air Arabia PJSC and its subsidiaries

Notes (continued)

## 3. Significant accounting policies (continued)

### 3.1 Basis of consolidation (continued)

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

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

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

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

NCI's 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.

#### *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 the consolidated profit or loss. Any interest retained in the former subsidiary is measured at fair value when control is lost.

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

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

#### *Interests in joint arrangements*

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



# Air Arabia PJSC and its subsidiaries

Notes (continued)

## 3. Significant accounting policies (continued)

### 3.1 Basis of consolidation (continued)

#### *Interests in joint arrangements (continued)*

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

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

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

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

#### *Interests in associates*

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

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

#### *Transactions eliminated on consolidation*

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

### 3.2 Revenue recognition

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

#### *Rendering of services*

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



# Air Arabia PJSC and its subsidiaries

## Notes (continued)

### 3. Significant accounting policies (continued)

#### 3.2 Revenue recognition (continued)

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

##### *Hotel revenue*

Income from room hire is recognised on a pro-rata basis 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.

#### 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 investments. Interest income is recognised in consolidated profit or loss as it accrues, using the effective interest rate method.

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

#### 3.5 Rental income

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

#### 3.6 Leasing

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

##### *The Group as lessor*

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

# Air Arabia PJSC and its subsidiaries

Notes (continued)

## 3. Significant accounting policies (continued)

### 3.6 Leasing (continued)

#### *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 the consolidated profit or loss. Contingent rentals are recognised as expenses in the periods in which they are incurred.

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

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

### 3.7 Foreign currencies

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

### 3.8 Property and equipment

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

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



# Air Arabia PJSC and its subsidiaries

Notes (continued)

## 3. Significant accounting policies (continued)

### 3.8 Property and equipment (continued)

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                       | 15 - 20 |
| Aircraft                        | 15      |
| Aircraft engines                | 20      |
| Aircraft rotables and equipment | 3 - 10  |
| Airport equipment               | 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 expenses are charged to the consolidated profit or loss when incurred.

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

### 3.10 Investment properties

Investment properties are accounted under the cost model of IAS 40. Investment properties, 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.



# Air Arabia PJSC and its subsidiaries

Notes (continued)

## 3. Significant accounting policies (continued)

### 3.10 Investment properties (continued)

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

### 3.11 Goodwill

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

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

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

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

### 3.12 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 the consolidated profit or loss as incurred.

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

### 3.13 Deferred charges

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

# Air Arabia PJSC and its subsidiaries

Notes (continued)

## 3. Significant accounting policies (continued)

### 3.14 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.

### 3.15 Provision for staff terminal benefits

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

Provision is made for the full amount of end of service benefit due to non UAE national employees in accordance with the UAE Labour Law and is based on current remuneration and their period of service at the end of the reporting period. Provision for staff terminal benefits for the employees working with the entities domiciled in other countries is 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 Government managed retirement pension and social security benefit scheme pursuant to UAE 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 the consolidated profit or loss.

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

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

### 3.17 Deferred income

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

### 3.18 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



# Air Arabia PJSC and its subsidiaries

## Notes (continued)

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. Significant accounting policies (continued)

#### 3.19 Non-derivative financial instruments

##### Policy applicable from 1 July 2015 due to early adoption of IFRS 9

Non-derivative financial instruments comprise investments, aircraft lease deposits, deposits with banks, cash and bank balances, trade and other receivables and payables, due from/to related parties, finance lease liabilities and short-term borrowings.

The Group initially recognises loans, advances and deposits on the date at which they are originated. All other financial assets and liabilities are initially recognised on the trade date at which the Group becomes party to the contractual provision of the instrument.

##### **Financial assets**

A financial asset is initially measured at fair value plus, for an item not at fair value through consolidated profit or loss (FVTPL), transaction costs that are directly attributable to its acquisition or issue.

At inception financial assets are classified as measured at cost or fair value. Subsequent to the initial recognition, financial assets measured at either amortised cost or fair value.

Non derivative financial assets are classified into the following categories;

##### - *Financial assets measured at amortised cost*

A financial asset qualifies for amortised cost measurement only if it meets both of the following two conditions:

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

If a financial asset does not meet both of these conditions, then it is measured at fair value.

The Group makes an assessment of a business model at portfolio level as this reflect the best way the business is managed and information is provided to the management.

In making an assessment of whether an asset is held within a business model whose objective is to hold assets in order to collect contractual cash flows, the Group considers:

- Management's stated policies and objectives for the portfolio and the operation of those policies in practice;
- how management evaluates the performance of the portfolio;
- whether management's strategy focus on earning contractual interest revenue;
- the degree of frequency of any expected asset sales;
- the reason of any asset sales; and
- whether assets that are sold are held for an extended period of time relative to their contractual maturity or are sold shortly after acquisition or an extended time before maturity.



# Air Arabia PJSC and its subsidiaries

Notes (continued)

## 3. Significant accounting policies (continued)

### 3.19 Non-derivative financial instruments

*Policy applicable from 1 July 2015 due to early adoption of IFRS 9 (continued)*

#### *Financial assets (continued)*

##### - *Financial assets measured at FVOCI*

At initial recognition the Group can make an irrevocable election (on an instrument-by-instrument basis) to designate investments in certain equity instruments as at FVOCI. Designation to FVOCI is not permitted if the equity instrument is held for trading.

Dividend in these equity instruments are recognised in the consolidated profit or loss when the Group's right to receive the dividends is established, unless the dividends clearly represents a recovery of part of the cost of the investment.

Gains and losses on such equity instruments are never reclassified to the consolidated profit or loss and no impairment is recognised in the consolidated profit or loss.

Financial assets are not reclassified subsequent to their initial recognition, except when the Group changes its business model for managing financial assets.

##### - *Financial assets measured at FVTPL*

Financial assets held for trading, are not held within a business model whose objective is to hold the asset in order to collect contractual cash flows.

The Group has not designated any financial asset at fair value through consolidated profit or loss.

##### - *Cash and cash equivalents*

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

Cash and cash equivalents are carried at amortised cost in the statement of financial position.

#### *Financial liabilities*

Financial liabilities 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.

# Air Arabia PJSC and its subsidiaries

Notes (continued)

## 3. Significant accounting policies (continued)

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

*Policy applicable from 1 January 2015 before early adoption of IFRS 9*

#### *Financial assets*

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

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

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

#### *Loans and receivables*

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

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

#### *Financial liabilities*

The Group had classified the following financial liabilities as 'other financial liabilities': finance lease liabilities, trade and other payables, short-term borrowings and due to related parties. Financial liabilities used to be initially measured at fair value, net of transaction costs and were 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.

#### **De-recognition of financial assets and financial liabilities**

The Group derecognises a financial asset when the contractual right to the cash flows from the financial asset expire, or when it transfers the financial asset in a transaction in which substantially all the risk and rewards of the ownership are transferred or in which the Group neither transfers nor retains substantially all the risks and rewards of ownership and it does not retain control over the transferred asset. Any interest in transferred financial assets that qualify for derecognition that is carried or retained by the Group is recognised as separate asset or liability in the consolidated statement of financial position. On derecognition of financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset transferred), and consideration received (including any new asset obtained less any new liability assumed) is recognised in the consolidated profit or loss.



# Air Arabia PJSC and its subsidiaries

Notes (continued)

## 3. Significant accounting policies (continued)

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

#### De-recognition of financial assets and financial liabilities (continued)

The Group enters into transactions whereby it transfers assets recognised on its consolidated statement of financial position, but retains either all or substantially all of the risks and rewards of the financial assets or a portion of them. If all or substantially all risks and rewards are retained, then the transferred assets are not derecognised. Transfer of assets with retention of all or substantially all risks and rewards include, securities lending and repurchase transactions.

In transactions in which the Group neither retains nor transfers substantially all the risks and rewards of ownership of a financial asset and it retains control over the asset, the Group continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

In certain transactions the Group retains the obligation to service the transferred financial asset for a fee. The transferred asset is derecognised if it meets the derecognition criteria. An asset or liability is recognised for the servicing contract, depending on whether the servicing fee is more than adequate asset or is less than adequate liability for performing the services.

The Group derecognises a financial liability when its contractual obligation are discharged or cancelled or expire.

### 3.20 Derivative financial instruments

#### Policy applicable from 1 July 2015 due to early adoption of IFRS 9

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

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

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



# Air Arabia PJSC and its subsidiaries

Notes (continued)

## 3. Significant accounting policies (continued)

### 3.20 Derivative financial instruments (continued)

*Policy applicable from 1 July 2015 due to early adoption of IFRS 9 (continued)*

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

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

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

Under a cash flow hedge model, the effective portion of the fair value changes of the hedging instrument is recognised in OCI and the ineffective portion is recognised in consolidated profit or loss. Moreover, the ineffective portion of such hedges is calculated separately.

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

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

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

*Policy applicable from 1 January 2015 before early adoption of IFRS 9*

Derivatives financial instruments used to be initially recognised at fair value at the date a derivative contract was entered into and were subsequently re-measured to their fair value at the end of each reporting period. All the derivatives financial instruments were carried at their fair values as financial assets where the fair values were positive and as financial liabilities where the fair values were negative. The resulting gain or loss was recognised in the consolidated profit and loss immediately unless the derivative was designated and effective as a hedging instrument, in which event the timing of the recognition in the consolidated profit and loss depends on the nature of hedge relationship.

# Air Arabia PJSC and its subsidiaries

Notes (continued)

## 3. Significant accounting policies (continued)

### 3.20 Derivative financial instruments (continued)

*Policy applicable from 1 January 2015 before early adoption of IFRS 9 (continued)*

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

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

If the hedging derivative expires or was sold, terminated or exercised, or the hedge no longer met the criteria for cash flow hedge accounting, or the hedge designation was revoked, then hedge accounting was discontinued prospectively. If a derivative was not held for trading, and was not designated in a qualifying hedge relationship, then all changes in its fair value were recognised immediately in the consolidated profit or loss.

### 3.21 Impairment

*Financial assets*

A financial asset is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Company on terms that the Company would not consider otherwise, indications that a debtor or issuer will enter bankruptcy and the disappearance of an active market for a security.

The Group considers evidence of impairment for financial assets at both a specific asset and collective level. All individually significant financial assets are assessed for specific impairment. All individually significant financial assets found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Financial assets that are not individually significant are collectively assessed for impairment by grouping together with similar risk characteristics.



# Air Arabia PJSC and its subsidiaries

## Notes (continued)

### 3. Significant accounting policies (continued)

#### 3.21 Impairment (continued)

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

In assessing collective impairment, the Group uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss is calculated as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in the consolidated profit or loss and reflected in an allowance account. When the Group considers that there are no realistic prospects of recovery of the asset, the relevant amounts are written off. If the amount of impairment loss subsequently decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognized, then the previously recognized impairment loss is reversed through the consolidated profit or loss.

##### *Non-financial assets*

The carrying amounts of the Group's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated except for goodwill and intangible assets with indefinite useful lives, which are tested for impairment annually (refer 3.11 and 3.12). An impairment loss is recognized if the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. Impairment losses are recognized in the consolidated profit or loss.

Impairment losses recognized in respect of cash generating units are allocated first to reduce the carrying amount of any goodwill allocated to that cash generating unit and then to reduce carrying amounts of the assets in that cash generating unit on a pro rata basis.

The recoverable amount of an asset or its cash generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and risks specific to the asset. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit").

Impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognised.

An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.



# Air Arabia PJSC and its subsidiaries

Notes *(continued)*

## 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; and
- 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 and other receivables, due from related parties, investments, cash at bank and aircraft lease deposits and bank deposits.

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

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

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

The exposure to credit risk on trade and other receivables and due from related parties is monitored on an ongoing basis by the management and these are considered recoverable by the Group's management (Also refer note 13).

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

### 4.2 Liquidity risk

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

### 4.3 Market risk

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

# Air Arabia PJSC and its subsidiaries

Notes *(continued)*

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

### **4.3 Market risk (continued)**

#### *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”). AED is currently informally pegged to USD.

#### *4.3.2 Interest rate risk*

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

#### *4.3.3 Equity price risk*

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

#### *4.3.4 Fuel price risk*

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

## **4.4 Capital management**

The Group’s policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. Management monitors the return on capital as well as the level of dividends to ordinary shareholders. No changes were made in the objectives, policies or processes during the year ended 31 December 2015.

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<br>AED '000 | Buildings<br>AED '000 | Aircraft<br>AED '000 | Aircraft<br>engines<br>AED '000 | Aircraft<br>rotables and<br>equipment<br>AED '000 | Airport<br>equipment<br>AED '000 | EDP<br>equipment<br>AED '000 | Office<br>equipment<br>and furniture<br>and motor<br>vehicles<br>AED '000 | Capital work-<br>in-progress<br>AED '000 | Total<br>AED '000 |
|------------------------------------------|------------------|-----------------------|----------------------|---------------------------------|---------------------------------------------------|----------------------------------|------------------------------|---------------------------------------------------------------------------|------------------------------------------|-------------------|
| <b>Cost</b>                              |                  |                       |                      |                                 |                                                   |                                  |                              |                                                                           |                                          |                   |
| 1 January 2014                           | 50,000           | 601,549               | 3,914,056            | 244,665                         | 29,190                                            | 18,919                           | 19,092                       | 17,052                                                                    | 30,938                                   | 4,925,461         |
| Additions/(transfers) during<br>the year | -                | 12,023                | 1,553,346            | 36,194                          | 7,339                                             | -                                | 4,839                        | 11,785                                                                    | (11,375)                                 | 1,614,151         |
| 31 December 2014                         | 50,000           | 613,572               | 5,467,402            | 280,859                         | 36,529                                            | 18,919                           | 23,931                       | 28,837                                                                    | 19,563                                   | 6,539,612         |
| 1 January 2015                           | 50,000           | 613,572               | 5,467,402            | 280,859                         | 36,529                                            | 18,919                           | 23,931                       | 28,837                                                                    | 19,563                                   | 6,539,612         |
| Additions/(transfers) during<br>the year | -                | 11,850                | 1,061,921            | 16,655                          | 1,801                                             | -                                | 4,539                        | 11,087                                                                    | (11,267)                                 | 1,096,586         |
| 31 December 2015                         | 50,000           | 625,422               | 6,529,323            | 297,514                         | 38,330                                            | 18,919                           | 28,470                       | 39,924                                                                    | 8,296                                    | 7,636,198         |
| <b>Depreciation</b>                      |                  |                       |                      |                                 |                                                   |                                  |                              |                                                                           |                                          |                   |
| 1 January 2014                           | -                | 79,310                | 432,981              | 39,532                          | 11,521                                            | 3,388                            | 13,722                       | 12,880                                                                    | -                                        | 593,334           |
| Charge for the year                      | -                | 30,633                | 251,913              | 10,686                          | 2,694                                             | 883                              | 975                          | 4,896                                                                     | -                                        | 302,680           |
| 31 December 2014                         | -                | 109,943               | 684,894              | 50,218                          | 14,215                                            | 4,271                            | 14,697                       | 17,776                                                                    | -                                        | 896,014           |
| 1 January 2015                           | -                | 109,943               | 684,894              | 50,218                          | 14,215                                            | 4,271                            | 14,697                       | 17,776                                                                    | -                                        | 896,014           |
| Charge for the year                      | -                | 31,364                | 331,540              | 11,396                          | 2,946                                             | 883                              | 2,004                        | 6,341                                                                     | -                                        | 386,474           |
| 31 December 2015                         | -                | 141,307               | 1,016,434            | 61,614                          | 17,161                                            | 5,154                            | 16,701                       | 24,117                                                                    | -                                        | 1,282,488         |
| <b>Net book value</b>                    |                  |                       |                      |                                 |                                                   |                                  |                              |                                                                           |                                          |                   |
| 31 December 2015                         | 50,000           | 484,115               | 5,512,889            | 235,900                         | 21,169                                            | 13,765                           | 11,769                       | 15,807                                                                    | 8,296                                    | 6,353,710         |
| 31 December 2014                         | 50,000           | 503,629               | 4,782,508            | 230,641                         | 22,314                                            | 14,648                           | 9,234                        | 11,061                                                                    | 19,563                                   | 5,643,598         |



# Air Arabia PJSC and its subsidiaries

Notes (continued)

## 5. Property and equipment (continued)

Depreciation is allocated as follows:

|                                                     | 2015<br>AED'000 | 2014<br>AED'000 |
|-----------------------------------------------------|-----------------|-----------------|
| Direct costs (refer note 26)                        | 375,613         | 294,830         |
| Administrative and general expenses (refer note 27) | 10,861          | 7,850           |
|                                                     | <u>386,474</u>  | <u>302,680</u>  |

- Buildings include hotel apartments, simulator and staff quarters. Simulator and staff quarters are constructed on leasehold land, leased from Sharjah Airport Authority.
- At 31 December 2015, aircraft with carrying amount of AED 4.98 billion (2014: AED 4.2 billion) are held under finance lease (refer note 24).
- Property and equipment includes one plot of land in Sharjah, granted by the Government of Sharjah recognised at nominal value of AED 1.
- All of the Group's non-movable assets are located in the UAE, except for property and equipment with carrying amount of AED 3.6 million (2014: AED 3.9 million), located outside UAE.
- Capital work-in-progress represents mainly building under construction and aircraft engines (refer note 33) under installation.

## 6. Advance for new aircraft

Advance for new aircraft represents pre-delivery payments made to suppliers for an amount of USD 93.7 million (equivalent to AED 344 million) (2014: USD 158 million (equivalent to AED 579 million)) made in respect of the aircraft.

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

|                                                              | 2015<br>AED'000 | 2014<br>AED'000 |
|--------------------------------------------------------------|-----------------|-----------------|
| At 1 January                                                 | 578,817         | 707,987         |
| Advances paid during the year                                | 139,231         | 447,158         |
| Advances adjusted against aircraft purchased during the year | (139,578)       | (547,356)       |
| Advances refund during the year                              | (234,403)       | (28,972)        |
|                                                              | <u>344,067</u>  | <u>578,817</u>  |
| At 31 December                                               |                 |                 |

# Air Arabia PJSC and its subsidiaries

Notes (continued)

## 7. Investment properties

|                                | Land and<br>buildings<br>AED '000 | Investment<br>property under<br>construction<br>AED '000 | Total<br>AED '000 |
|--------------------------------|-----------------------------------|----------------------------------------------------------|-------------------|
| <b>Cost</b>                    |                                   |                                                          |                   |
| 1 January and 31 December 2014 | 54,040                            | 115,795                                                  | 169,835           |
| Additions during the year      | -                                 | 9,175                                                    | 9,175             |
|                                | -----                             | -----                                                    | -----             |
| 31 December 2015               | 54,040                            | 124,970                                                  | 179,010           |
|                                | -----                             | -----                                                    | -----             |
| <b>Depreciation</b>            |                                   |                                                          |                   |
| 1 January 2014                 | 6,938                             | -                                                        | 6,938             |
| Charge for the year            | 750                               | -                                                        | 750               |
|                                | -----                             | -----                                                    | -----             |
| 31 December 2014               | 7,688                             | -                                                        | 7,688             |
|                                | -----                             | -----                                                    | -----             |
| 1 January 2015                 | 7,688                             | -                                                        | 7,688             |
| Charge for the year            | 750                               | -                                                        | 750               |
|                                | -----                             | -----                                                    | -----             |
| 31 December 2015               | 8,438                             | -                                                        | 8,438             |
|                                | -----                             | -----                                                    | -----             |
| <b>Net book value</b>          |                                   |                                                          |                   |
| <b>31 December 2015</b>        | <b>45,602</b>                     | <b>124,970</b>                                           | <b>170,572</b>    |
|                                | =====                             | =====                                                    | =====             |
| 31 December 2014               | 46,352                            | 115,795                                                  | 162,147           |
|                                | =====                             | =====                                                    | =====             |

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

The property rental income earned by the Group during the year amounted to AED 2.8 million (2014: AED 3.4 million) and direct operating expenses arising on the investment properties amounted to AED 0.75 million (2014: AED 0.75 million).

Management estimates the fair value of investment properties as at 31 December 2015 to be AED 167.8 million (2014: AED 167.8 million).

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

# Air Arabia PJSC and its subsidiaries

Notes (continued)

## 8. Intangible assets

|                           | 2015<br>AED '000 | 2014<br>AED '000 |
|---------------------------|------------------|------------------|
| At 1 January              | 1,095,165        | 1,092,347        |
| Additions during the year | 2,522            | 2,818            |
| <b>At 31 December</b>     | <b>1,097,687</b> | <b>1,095,165</b> |

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

|                                              | 2015<br>AED'000  | 2014<br>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 current 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

*Movement during the year was as follows:*

|                                           | 2015<br>AED '000 | 2014<br>AED '000 |
|-------------------------------------------|------------------|------------------|
| At 1 January                              | 198,522          | 189,474          |
| Additions during the year (refer note 34) | -                | 9,048            |
| <b>At 31 December</b>                     | <b>198,522</b>   | <b>198,522</b>   |

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

|                                                | 2015<br>AED'000 | 2014<br>AED'000 |
|------------------------------------------------|-----------------|-----------------|
| Total fair value of Air Arabia LLC             | 1,400,000       | 1,400,000       |
| Fair value of intangible assets (refer note 8) | (1,092,347)     | (1,092,347)     |
| Fair value of tangible assets (net)            | (118,179)       | (118,179)       |
|                                                | <b>189,474</b>  | <b>189,474</b>  |



# Air Arabia PJSC and its subsidiaries

Notes (continued)

## 9. Goodwill (continued)

During the year, the Group has performed the impairment test on goodwill. The recoverable amount of cash-generating unit for impairment test purpose 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 10.89% to 11.62%.

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

## 10. Deferred charges

|                           | Landing<br>permission<br>charges<br>AED'000 | Aircraft<br>upgrade<br>costs<br>AED'000 | Processing<br>fee and<br>commission<br>costs<br>AED'000 | Total<br>AED'000 |
|---------------------------|---------------------------------------------|-----------------------------------------|---------------------------------------------------------|------------------|
| <b>Cost</b>               |                                             |                                         |                                                         |                  |
| At 1 January 2014         | 51,745                                      | 29,889                                  | -                                                       | 81,634           |
| Additions during the year | -                                           | 1,358                                   | -                                                       | 1,358            |
|                           | =====                                       | =====                                   | =====                                                   | =====            |
| 31 December 2014          | 51,745                                      | 31,247                                  | -                                                       | 82,992           |
|                           | =====                                       | =====                                   | =====                                                   | =====            |
| At 1 January 2015         | 51,745                                      | 31,247                                  | -                                                       | 82,992           |
| Additions during the year | -                                           | 1,502                                   | 27,086                                                  | 28,588           |
|                           | =====                                       | =====                                   | =====                                                   | =====            |
| 31 December 2015          | 51,745                                      | 32,749                                  | 27,086                                                  | 111,580          |
|                           | =====                                       | =====                                   | =====                                                   | =====            |
| <b>Amortisation</b>       |                                             |                                         |                                                         |                  |
| At 1 January 2014         | 51,745                                      | 21,149                                  | -                                                       | 72,894           |
| Charge for the year       | -                                           | 1,652                                   | -                                                       | 1,652            |
|                           | =====                                       | =====                                   | =====                                                   | =====            |
| 31 December 2014          | 51,745                                      | 22,801                                  | -                                                       | 74,546           |
|                           | =====                                       | =====                                   | =====                                                   | =====            |
| At 1 January 2015         | 51,745                                      | 22,801                                  | -                                                       | 74,546           |
| Charge for the year       | -                                           | 2,081                                   | 1,875                                                   | 3,956            |
|                           | =====                                       | =====                                   | =====                                                   | =====            |
| 31 December 2015          | 51,745                                      | 24,882                                  | 1,875                                                   | 78,502           |
|                           | =====                                       | =====                                   | =====                                                   | =====            |
| <b>Net book value</b>     |                                             |                                         |                                                         |                  |
| <b>31 December 2015</b>   | -                                           | 7,867                                   | 25,211                                                  | 33,078           |
|                           | =====                                       | =====                                   | =====                                                   | =====            |
| 31 December 2014          | -                                           | 8,446                                   | -                                                       | 8,446            |
|                           | =====                                       | =====                                   | =====                                                   | =====            |

# Air Arabia PJSC and its subsidiaries

## Notes (continued)

### 11. Aircraft lease deposits

Aircraft lease deposits are placed with lessors for leasing aircraft.

### 12. Investments

On early adoption of IFRS 9, the Group has adopted an irrevocable election to designate certain investments as investments measured at fair value through other comprehensive income ("FVOCI") as these investments are not held for trading. The Group has also classified an investment in preference shares at amortised cost. These investments were previously classified as Available-For-Sale investments under IAS 39.

|                                                                                 | Note  | 2015<br>AED '000 | 2014<br>AED '000 |
|---------------------------------------------------------------------------------|-------|------------------|------------------|
| Available-for-sale investments                                                  | 12(a) | -                | 703,824          |
| Investments measured at fair value through other comprehensive income ("FVOCI") | 12(b) | 297,083          | -                |
| Investment measured at amortised cost                                           | 12(c) | 367,315          | -                |
|                                                                                 |       | <u>664,398</u>   | <u>703,824</u>   |

#### 12a Available-for-sale investments

|                        | 2015<br>AED '000 | 2014<br>AED '000 |
|------------------------|------------------|------------------|
| Quoted                 | -                | 12,286           |
| Unquoted               | -                | 691,538          |
|                        | <u>-</u>         | <u>703,824</u>   |
| In UAE                 | -                | 336,509          |
| In other GCC countries | -                | 367,315          |
|                        | <u>-</u>         | <u>703,824</u>   |

*Movement during the year was as follows:*

|                                                                                                 | 2015<br>AED '000 | 2014<br>AED '000 |
|-------------------------------------------------------------------------------------------------|------------------|------------------|
| At 1 January                                                                                    | 703,824          | 771,029          |
| Disposed during the year                                                                        | -                | (57,003)         |
| Change in fair value                                                                            | 11,273           | (10,202)         |
| Reclassified to investment measured at fair value through other comprehensive income ("FVOCI")* | (347,782)        | -                |
| Reclassified to investment measured at amortised cost*                                          | (367,315)        | -                |
|                                                                                                 | <u>-</u>         | <u>-</u>         |
| <b>At 31 December</b>                                                                           | <u>-</u>         | <u>703,824</u>   |

\*Reclassification on the early adoption of IFRS 9.

# Air Arabia PJSC and its subsidiaries

Notes (continued)

## 12. Investments (continued)

### 12b Investments measured at fair value through other comprehensive income ("FVOCI")

|          | 2015<br>AED '000 | 2014<br>AED '000 |
|----------|------------------|------------------|
| Quoted   | 9,751            | -                |
| Unquoted | 287,332          | -                |
|          | <u>297,083</u>   | <u>-</u>         |
| In UAE   | <u>297,083</u>   | <u>-</u>         |

*Movements during the year were as follows:*

|                                                                   | 2015<br>AED '000 | 2014<br>AED '000 |
|-------------------------------------------------------------------|------------------|------------------|
| Reclassified from available-for-sale-investments (refer note 12a) | 347,782          | -                |
| Disposed during the year                                          | (27,650)         | -                |
| Change in fair value                                              | (23,049)         | -                |
|                                                                   | <u>297,083</u>   | <u>-</u>         |

The market rate as at 31 December 2015 is considered for the calculation of the fair value of the investments that are quoted in the stock exchange.

### 12c Investment measured at amortised cost

|             | 2015<br>AED '000 | 2014<br>AED '000 |
|-------------|------------------|------------------|
| Unquoted    | 367,315          | -                |
| Outside UAE | <u>367,315</u>   | <u>-</u>         |

*Movements during the year were as follows:*

|                                                                   | 2015<br>AED '000 | 2014<br>AED '000 |
|-------------------------------------------------------------------|------------------|------------------|
| Reclassified from available-for-sale investments (refer note 12a) | 367,315          | -                |



# Air Arabia PJSC and its subsidiaries

Notes (continued)

## 13. Trade and other receivables

|                                | 2015<br>AED '000 | 2014<br>AED '000 |
|--------------------------------|------------------|------------------|
| Trade receivables              | 232,131          | 187,351          |
| Allowance for doubtful debts   | (1,785)          | (2,184)          |
|                                | <u>230,346</u>   | <u>185,167</u>   |
| Prepaid aircraft lease rentals | 2,366            | 7,595            |
| Prepaid expenses – others      | 9,245            | 6,427            |
| Advances and other receivables | 260,910          | 196,864          |
|                                | <u>502,867</u>   | <u>396,053</u>   |

The average credit period ranges between 25 – 40 days (2014: 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 as at the reporting date.

Before accepting any new customer the Group assesses the potential customers' quality and defines credit limits for customer. There are 3 customers (2014: 2 customers) who represent more than 5% of the total balance of trade receivables.

Trade receivables include receivable from sales agents amounting to AED 126 million (2014: AED 128.58 million), which is fully secured by bank guarantees.

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

## 14. Investment in joint ventures

Movement is as below:

|                                               | 2015<br>AED '000 | 2014<br>AED '000 |
|-----------------------------------------------|------------------|------------------|
| Balance as 1 January                          | 50,152           | 55,667           |
| Add: Share of profit for the year             | 7,284            | 18,608           |
| Less: Step acquisition of a subsidiary, net * | -                | (6,623)          |
| Less: Dividend received                       | (14,000)         | (17,500)         |
|                                               | <u>43,436</u>    | <u>50,152</u>    |
| Balance at 31 December                        | <u>43,436</u>    | <u>50,152</u>    |

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

# Air Arabia PJSC and its subsidiaries

## Notes (continued)

### 14. Investment in joint ventures (Continued)

The following summarises the financial information of the joint ventures and reconciles the summarized financial information to the carrying amount of the Group's interest in the joint ventures. Investment in Air Arabia Egypt is fully impaired.

|                                                                                                    | Alpha Flight Services UAE<br>LLC |                  |  | Sharjah Aviation<br>Services LLC |                  |  | Information Systems<br>Associates FZC* |                  |  | Total             |
|----------------------------------------------------------------------------------------------------|----------------------------------|------------------|--|----------------------------------|------------------|--|----------------------------------------|------------------|--|-------------------|
| Percentage of interest                                                                             | 50%                              |                  |  | 50%                              |                  |  | 51%                                    |                  |  |                   |
|                                                                                                    | 2015<br>AED'000                  | 2014<br>AED '000 |  | 2015<br>AED '000                 | 2014<br>AED '000 |  | 2015<br>AED '000                       | 2014<br>AED '000 |  |                   |
| Assets                                                                                             | 40,806                           | 32,590           |  | 119,052                          | 138,725          |  | -                                      | -                |  | 159,858 171,315   |
| Liabilities                                                                                        | (23,126)                         | (20,402)         |  | (49,860)                         | (50,609)         |  | -                                      | -                |  | (72,986) (71,011) |
| Net assets                                                                                         | 17,680                           | 12,188           |  | 69,192                           | 88,116           |  | -                                      | -                |  | 86,872 100,304    |
| Group's share in net assets as<br>presented in the consolidated<br>statement of financial position | 8,840                            | 6,094            |  | 34,596                           | 44,058           |  | -                                      | -                |  | 43,436 50,152     |
| Profit/(loss) for the year                                                                         | 5,490                            | 9,052            |  | 9,078                            | 28,497           |  | -                                      | (325)            |  | 14,568 37,224     |
| Group's share of profit for the year                                                               | 2,745                            | 4,526            |  | 4,539                            | 14,248           |  | -                                      | (166)            |  | 7,284 18,608      |
| Cash dividends received by the<br>Group                                                            | -                                | (7,500)          |  | (14,000)                         | (10,000)         |  | -                                      | -                |  | (14,000) (17,500) |

\*In 2014, ISA was converted to wholly owned subsidiary (refer note 34).

# Air Arabia PJSC and its subsidiaries

Notes (continued)

## 15. Investment in associates

Investment in associates represents share in net assets of the associates at the reporting date as per equity accounting principles.

|                                                   | 2015<br>AED '000 | 2014<br>AED '000 |
|---------------------------------------------------|------------------|------------------|
| At 1 January                                      | 10,417           | -                |
| Addition                                          | 13,124           | -                |
| Share of loss of Air Arabia Jordan                | (10,688)         | -                |
| Share of profit of Air Arabia Morocco S.A.        | 2,529            | -                |
| Reversal of impairment of Air Arabia Morocco S.A. | -                | 10,417           |
|                                                   | <u>15,382</u>    | <u>10,417</u>    |
| At 31 December                                    | <u>15,382</u>    | <u>10,417</u>    |

During the current year, Air Arabia acquired 49% share in Air Arabia Jordan.

## 16. Related party transactions

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

### Transactions with related parties

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

|                                                                   | 2015<br>AED '000 | 2014<br>AED '000 |
|-------------------------------------------------------------------|------------------|------------------|
| Rental income from aircraft operating lease                       | 94,021           | 71,958           |
| Expenses recharged by related parties                             | 45,211           | 29,436           |
| Revenue from related parties                                      | 41,921           | 12,921           |
| Management fees from joint venture and associates (refer note 29) | 10,125           | 8,014            |
| Rental income from investment property (refer note 7)             | 2,800            | 3,400            |
|                                                                   | <u>194,078</u>   | <u>125,729</u>   |

Transactions with related parties are carried out at terms agreed between the management of the Group and related parties.

### Compensation of key management personnel:

|                                  | 2015<br>AED '000 | 2014<br>AED '000 |
|----------------------------------|------------------|------------------|
| Short term benefits              | 11,400           | 12,609           |
| Long term benefits               | 2,000            | 3,450            |
| Board of Directors' remuneration | 3,850            | 3,850            |
|                                  | <u>17,250</u>    | <u>19,909</u>    |

### Due from related parties:

|                                                                   | 2015<br>AED '000 | 2014<br>AED '000 |
|-------------------------------------------------------------------|------------------|------------------|
| Receivable from associates and joint ventures (net of provisions) | 25,774           | 48,298           |
|                                                                   | <u>25,774</u>    | <u>48,298</u>    |



# Air Arabia PJSC and its subsidiaries

Notes (continued)

## 16. Related party transactions (continued)

### Due to related parties:

|                           | 2015<br>AED '000 | 2014<br>AED '000 |
|---------------------------|------------------|------------------|
| Payable to joint ventures | 817              | 1,731            |
| Others                    | 6,136            | 5,309            |
|                           | <u>6,953</u>     | <u>7,040</u>     |

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

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

## 17. Bank balances and cash

|                     | 2015<br>AED '000 | 2014<br>AED '000 |
|---------------------|------------------|------------------|
| Bank balances:      |                  |                  |
| Fixed deposits*     | 1,365,987        | 1,074,392        |
| Current accounts    | 181,224          | 222,870          |
| Call deposits       | 47,554           | 21,356           |
| Margin deposits*    | 1,767            | 3,303            |
|                     | <u>1,596,532</u> | <u>1,321,921</u> |
| Total bank balances |                  |                  |
| Cash in hand        | 2,027            | 2,329            |
|                     | <u>1,598,559</u> | <u>1,324,250</u> |

\* These carry interest rates ranging from 1.2% - 3.8% per annum (2014: 3% - 5%).

### 17.1 Other investments

|                                               | 2015<br>AED '000 | 2014<br>AED '000 |
|-----------------------------------------------|------------------|------------------|
| Short-term investments (refer note (i) below) | 183,654          | 183,654          |
| National bonds (refer note (ii) below)        | 150,000          | 150,000          |
|                                               | <u>333,654</u>   | <u>333,654</u>   |
| Total                                         |                  |                  |
| Less: long-term portion of other investments  | -                | (100,000)        |
|                                               | <u>333,654</u>   | <u>233,654</u>   |

(i) Represents investment placed in an investment company. This investment carry interest at 10% per annum (2014: 10% per annum).

(ii) Represents investment in national bonds. These bonds carry interest ranging from 3.5% - 5.7% per annum (2014: 3.5% - 4% per annum).

# Air Arabia PJSC and its subsidiaries

Notes (continued)

## 17. Bank balances and cash (continued)

### 17.2 Short term borrowings

|                | 2015<br>AED '000 | 2014<br>AED '000 |
|----------------|------------------|------------------|
| Bank overdraft | -                | 183,657          |

The Group had availed overdraft facility from a lending bank. This overdraft facility carried interest at one month LIBOR+0.9% per annum. The Group has repaid bank overdraft during the year.

## 18. Share capital

|                                                                                                 | 2015<br>AED '000 | 2014<br>AED '000 |
|-------------------------------------------------------------------------------------------------|------------------|------------------|
| Authorised, issued and fully paid up share capital<br>(4,666,700 thousand shares of AED 1 each) | 4,666,700        | 4,666,700        |

## 19. Statutory reserve

In accordance with the Company's Articles of Association and Article 103 of UAE Federal Law No. 2 of 2015, 10% of profit for the year has to be transferred to a statutory reserve. Such transfers may be discontinued when the reserve equals 50% of the paid up share capital of the Company. This reserve is non-distributable except in certain circumstances as mentioned in the above Law.

## 20. General reserve

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

# Air Arabia PJSC and its subsidiaries

## Notes (continued)

### 21. Derivative financial instruments

#### Fuel derivatives

The Group uses derivative financial instruments for risk management purposes.

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

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

With effect from 1 July 2015, the Group had early adopted IFRS 9: Financial Instruments. All financial instruments on or after 1 July 2015 was accounted for by applying the provisions of IFRS 9.

During the current year; out of the total change in fair value of derivatives amounting AED 256 million, a loss of AED 84.1 million (2014: AED 37.5 million unrealised loss on fuel derivatives) relating to the ineffective portion of cash flow hedges was recognised in the consolidated profit or loss, as part of other (loss)/income-net (refer note 29).

Cash flow hedge liability is categorised into the following:

|                                              |           | 2015 |                  | 2014      |                |
|----------------------------------------------|-----------|------|------------------|-----------|----------------|
|                                              |           | Term | AED '000         | Term      | AED '000       |
| <b>Non-current liabilities</b>               |           |      |                  |           |                |
| Commodity Swaps, forwards options and others | 2015-2018 |      | <b>439,468</b>   | 2014-2017 | 399,267        |
| <b>Current liabilities</b>                   |           |      |                  |           |                |
| Commodity Swaps, forwards options and others | 2015-2018 |      | <b>562,469</b>   | 2014-2017 | 331,233        |
| <b>Total</b>                                 |           |      | <b>1,001,937</b> |           | <b>730,500</b> |

#### Currency and interest rate derivatives

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

The realised and unrealised loss on these derivatives amounting AED 27.9 million (2014: gain amounting to AED 24.7 million) (refer note 29) has been taken to the consolidated profit or loss. As of the reporting date there is no open position relating to these derivatives.



# Air Arabia PJSC and its subsidiaries

Notes *(continued)*

## 22. Provision for staff terminal benefits

|                               | 2015<br>AED '000 | 2014<br>AED '000 |
|-------------------------------|------------------|------------------|
| At 1 January                  | 65,301           | 48,011           |
| Charge for the year           | 19,702           | 21,766           |
| Payments made during the year | (5,348)          | (4,476)          |
|                               | <u>79,655</u>    | <u>65,301</u>    |
| At 31 December                |                  |                  |

## 23. Trade and other payables

|                                                                                                             | 2015<br>AED '000 | 2014<br>AED '000 |
|-------------------------------------------------------------------------------------------------------------|------------------|------------------|
| Cash flow hedge liability (refer note 21)                                                                   | 1,001,937        | 730,500          |
| Maintenance liabilities                                                                                     | 765,374          | 567,693          |
| Other payables                                                                                              | 402,558          | 385,885          |
| Accrued expenses                                                                                            | 260,580          | 253,898          |
| Trade payables                                                                                              | 78,018           | 108,898          |
| Advances from customers                                                                                     | 24,166           | 21,807           |
| Lease deposit payables                                                                                      | 17,184           | 12,353           |
|                                                                                                             | <u>2,549,817</u> | <u>2,081,034</u> |
| Less: Amount due for settlement after 12 months<br>(shown under non-current liabilities)                    | (511,997)        | (255,737)        |
| Less: Cash flow hedge liability due for settlement after 12 months<br>(shown under non-current liabilities) | (439,468)        | (399,267)        |
|                                                                                                             | <u>1,598,352</u> | <u>1,426,030</u> |
| Amount due for settlement within 12 months                                                                  |                  |                  |

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

# Air Arabia PJSC and its subsidiaries

## Notes (continued)

### 24. Finance lease liabilities

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

|                                                  | 2015<br>AED '000 | 2014<br>AED '000 |
|--------------------------------------------------|------------------|------------------|
| Not later than one year                          | 322,653          | 266,542          |
| Later than one year but not later than five year | 1,436,044        | 1,117,748        |
| Later than five years                            | 1,737,545        | 1,517,283        |
|                                                  | <u>3,496,242</u> | <u>2,901,573</u> |

The finance charges are calculated based on average interest rate of 2.47% (2014: 2.64%).

Disclosed in the consolidated financial statements as:

|                                                  | 2015<br>AED '000 | 2014<br>AED '000 |
|--------------------------------------------------|------------------|------------------|
| Non-current portion of finance lease liabilities | 3,173,589        | 2,635,031        |
| Current portion of finance lease liabilities     | 322,653          | 266,542          |
|                                                  | <u>3,496,242</u> | <u>2,901,573</u> |

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

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

### 25. Revenue

|                                                | 2015<br>AED '000 | 2014<br>AED '000 |
|------------------------------------------------|------------------|------------------|
| Passenger revenue                              | 3,271,412        | 3,274,316        |
| Other airline related services                 | 210,294          | 196,890          |
| Service revenue                                | 130,064          | 88,286           |
| Cargo revenue                                  | 90,380           | 90,904           |
| Revenue from hotel operations                  | 80,691           | 77,883           |
| Baggage revenue                                | 46,346           | 44,422           |
| Aircraft lease rentals (net) (refer note 31.2) | 39,828           | -                |
| Sales commission and expenses                  | (43,156)         | (43,908)         |
|                                                | <u>3,825,859</u> | <u>3,728,793</u> |

# Air Arabia PJSC and its subsidiaries

Notes (continued)

## 26. Direct costs

|                                                       | 2015<br>AED '000 | 2014<br>AED '000 |
|-------------------------------------------------------|------------------|------------------|
| Fuel                                                  | 1,375,805        | 1,525,174        |
| Staff costs                                           | 495,099          | 439,574          |
| Depreciation of property and equipment (refer note 5) | 375,613          | 294,830          |
| Aircraft maintenance expenses                         | 260,794          | 273,390          |
| Passenger, ground and technical handling charges      | 225,746          | 194,743          |
| Landing and overflying charges                        | 219,226          | 200,342          |
| Other operating costs                                 | 54,200           | 48,110           |
| Insurance                                             | 13,012           | 12,029           |
| Service costs                                         | 4,448            | 4,046            |
| Aircraft lease rentals (net) (refer note 31.2)        | -                | 53,635           |
|                                                       | <u>3,023,943</u> | <u>3,045,873</u> |

## 27. General and administrative expenses

|                                                       | 2015<br>AED '000 | 2014<br>AED '000 |
|-------------------------------------------------------|------------------|------------------|
| Staff costs                                           | 76,126           | 64,150           |
| Other expenses                                        | 59,574           | 55,264           |
| Depreciation of property and equipment (refer note 5) | 10,861           | 7,850            |
| Rent                                                  | 8,294            | 5,909            |
| Legal and professional fees                           | 5,547            | 5,874            |
| Travel and accommodation costs                        | 5,319            | 4,131            |
| Communication costs                                   | 5,483            | 5,029            |
|                                                       | <u>171,204</u>   | <u>148,207</u>   |

Other expenses includes contributions paid by the Group for corporate social responsibility.

## 28. Selling and marketing expenses

|                                 | 2015<br>AED '000 | 2014<br>AED '000 |
|---------------------------------|------------------|------------------|
| Advertisement expenses          | 33,819           | 25,075           |
| Staff costs                     | 30,871           | 24,990           |
| Reservation management expenses | 1,941            | 1,727            |
|                                 | <u>66,631</u>    | <u>51,792</u>    |



# Air Arabia PJSC and its subsidiaries

Notes (continued)

## 29. Other (loss)/income-net

|                                                                                                                                           | 2015<br>AED '000 | 2014<br>AED '000 |
|-------------------------------------------------------------------------------------------------------------------------------------------|------------------|------------------|
| Simulator and pilot/crew training income                                                                                                  | 16,359           | 14,038           |
| Foreign currency exchange gains                                                                                                           | 15,768           | 10,510           |
| Management fees from associates (refer note 16)                                                                                           | 10,125           | 8,014            |
| Dividend income                                                                                                                           | 5,533            | 244              |
| Reversal of impairment provision                                                                                                          | 4,591            | 10,000           |
| Rental income                                                                                                                             | 2,800            | 3,400            |
| Other miscellaneous income                                                                                                                | 18,957           | 14,647           |
| Ineffective portion on cash flow hedge transferred to the consolidated profit or loss/unrealised loss on fuel derivatives (refer note 21) | (84,098)         | (37,522)         |
| (Loss)/gain on derivatives transactions (foreign currency and interest rates) (refer note 21)                                             | (27,856)         | 24,723           |
| Gain on valuation of investment in joint venture (refer note 34)                                                                          | -                | 4,614            |
| Recycling of fair value reserve on disposal of available-for-sale investments                                                             | -                | 12,130           |
|                                                                                                                                           | <u>(37,821)</u>  | <u>64,798</u>    |

## 30. Basic earnings per share

|                                                                | 2015<br>AED      | 2014<br>AED      |
|----------------------------------------------------------------|------------------|------------------|
| Profit attributable to the owners of the Company (in AED '000) | <u>511,254</u>   | <u>552,912</u>   |
| Number of shares (in '000)                                     | <u>4,666,700</u> | <u>4,666,700</u> |
| Basic earnings per share (AED)                                 | <u>0.11</u>      | <u>0.12</u>      |

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

## 31. Operating lease arrangements

### 31.1 Where the Group is a lessee:

|                                                                                                                                                                         | 2015<br>AED '000 | 2014<br>AED '000 |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------|------------------|
| Minimum lease payment under operating leases (excluding variable lease rental on the basis of flying hours) recognised in the consolidated profit and loss for the year | <u>53,900</u>    | <u>125,594</u>   |

# Air Arabia PJSC and its subsidiaries

Notes (continued)

## 31. Operating lease arrangements (continued)

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

The lease commitments for aircraft were as follows:

|                            | 2015<br>AED '000 | 2014<br>AED '000 |
|----------------------------|------------------|------------------|
| Within one year            | 7,068            | 52,386           |
| Between two and five years | -                | 7,068            |
|                            | <u>7,068</u>     | <u>59,454</u>    |

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

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

### 31.2 Where the Group is a lessor:

The Group has leased out 6 (2014: 4) aircraft under non-cancellable operating lease agreements to related parties.

Minimum lease payments:

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

|                                        | 2015<br>AED '000 | 2014<br>AED '000 |
|----------------------------------------|------------------|------------------|
| Within one year                        | 59,676           | 33,580           |
| In the second to fifth years inclusive | 45,917           | 17,111           |
|                                        | <u>105,593</u>   | <u>50,691</u>    |

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

|                                  | 2015<br>AED '000 | 2014<br>AED '000 |
|----------------------------------|------------------|------------------|
| Net book value                   | 686,780          | 492,010          |
| Accumulated depreciation         | 281,930          | 148,488          |
| Depreciation charge for the year | 51,690           | 34,177           |

# Air Arabia PJSC and its subsidiaries

Notes (continued)

## 32. Contingent liabilities

|                      | 2015<br>AED '000  | 2014<br>AED '000  |
|----------------------|-------------------|-------------------|
| Letters of credit    | 300,954           | 27,862            |
| Letters of guarantee | 36,420            | 30,666            |
|                      | <u>          </u> | <u>          </u> |

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

## 33. Capital commitments

|                                       | 2015<br>AED '000  | 2014<br>AED '000  |
|---------------------------------------|-------------------|-------------------|
| <i>Authorised and contracted:</i>     |                   |                   |
| Aircraft fleet                        | 1,518,581         | 3,151,956         |
|                                       | <u>          </u> | <u>          </u> |
| <i>Authorised but not contracted:</i> |                   |                   |
| Aircraft fleet                        | 1,422,807         | 1,422,807         |
|                                       | <u>          </u> | <u>          </u> |

Also refer note 5.

## 34. Acquisition of a subsidiary

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

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

The Goodwill arising from the acquisition was recognised as follows:

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

- (i) The assets and liabilities of ISA have been recorded at their carrying values. Management estimated that carrying value of the assets and liabilities at the date of acquisition approximate fair value.



# Air Arabia PJSC and its subsidiaries

Notes (continued)

## 35. Dividend

During the year, dividend of AED 9 fils per share (2014: AED 7 fils) was paid to the Shareholders.

The Directors propose that a dividend of AED XXX AED X fils per share (2014: AED 420,003,000, AED 9 fils per share) will be paid to the Shareholders in 2016. This dividend is subject to approval by the Shareholders at the Annual General Meeting and has not been included as a liability in these consolidated financial statements.

## 36. Financial instruments

Accounting policies of financial assets and financial liabilities before and after adoption of IFRS 9 are disclosed under note 3. The table below sets out the Group's classification of each class of financial assets and financial liabilities before and after adoption of IFRS 9 and their fair values for the current year and the comparative year:

|                                                        | Designated<br>as fair value<br>through other<br>comprehensive<br>income<br>AED' 000 | Others at<br>amortised<br>cost<br>AED' 000 | Carrying<br>amount<br>AED' 000 | Fair value<br>AED' 000 |
|--------------------------------------------------------|-------------------------------------------------------------------------------------|--------------------------------------------|--------------------------------|------------------------|
| <b>2015</b>                                            |                                                                                     |                                            |                                |                        |
| <b>Financial assets</b>                                |                                                                                     |                                            |                                |                        |
| Cash at bank and deposits                              | -                                                                                   | 1,598,559                                  | 1,598,559                      | 1,598,559              |
| Trade and other receivables<br>(excluding prepayments) | -                                                                                   | 491,256                                    | 491,256                        | 491,256                |
| Investments measured at amortised cost                 | -                                                                                   | 367,315                                    | 367,315                        | 367,315                |
| Other investments                                      | -                                                                                   | 333,654                                    | 333,654                        | 333,654                |
| Investments measured at FVOCI                          | 297,083                                                                             | -                                          | 297,083                        | 297,083                |
| Due from related parties                               | -                                                                                   | 25,774                                     | 25,774                         | 25,774                 |
|                                                        | <u>297,083</u>                                                                      | <u>2,816,558</u>                           | <u>3,113,641</u>               | <u>3,113,641</u>       |
| <b>Financial liabilities</b>                           |                                                                                     |                                            |                                |                        |
| Finance lease liabilities                              | -                                                                                   | 3,496,242                                  | 3,496,242                      | 3,496,242              |
| Trade and other payables*                              | -                                                                                   | 1,523,714                                  | 1,523,714                      | 1,523,714              |
| Cash flow hedge liability (derivative)                 | -                                                                                   | 1,001,937                                  | 1,001,937                      | 1,001,937              |
| Due to related parties                                 | -                                                                                   | 6,953                                      | 6,953                          | 6,953                  |
|                                                        | <u>-</u>                                                                            | <u>6,028,846</u>                           | <u>6,028,846</u>               | <u>6,028,846</u>       |

\*Excluding advances from customers.

# Air Arabia PJSC and its subsidiaries

Notes (continued)

## 36. Financial instruments (continued)

|                                                           | Available for<br>sale<br>AED' 000 | Loans and<br>receivable<br>AED' 000 | Others at<br>amortised<br>cost<br>AED' 000 | Carrying<br>amount<br>AED' 000 | Fair value<br>AED' 000 |
|-----------------------------------------------------------|-----------------------------------|-------------------------------------|--------------------------------------------|--------------------------------|------------------------|
| <b>2014</b>                                               |                                   |                                     |                                            |                                |                        |
| <b>Financial assets</b>                                   |                                   |                                     |                                            |                                |                        |
| Cash at bank and deposits                                 | -                                 | 1,324,250                           | -                                          | 1,324,250                      | 1,324,250              |
| Available for sale<br>investments                         | 703,824                           | -                                   | -                                          | 703,824                        | 703,824                |
| Trade and other<br>receivables (excluding<br>prepayments) | -                                 | 382,031                             | -                                          | 382,031                        | 382,031                |
| Held-to-maturity<br>investment                            | -                                 | 333,654                             | -                                          | 333,654                        | 333,654                |
| Due from related parties                                  | -                                 | 48,298                              | -                                          | 48,298                         | 48,298                 |
| Aircraft lease deposits                                   | -                                 | 3,675                               | -                                          | 3,675                          | 3,675                  |
|                                                           | <u>703,824</u>                    | <u>2,091,908</u>                    | <u>-</u>                                   | <u>2,795,732</u>               | <u>2,795,732</u>       |
| <b>Financial liabilities</b>                              |                                   |                                     |                                            |                                |                        |
| Finance lease liabilities                                 | -                                 | -                                   | 2,901,573                                  | 2,901,573                      | 2,901,573              |
| Trade and other payables*                                 | -                                 | -                                   | 1,328,727                                  | 1,328,727                      | 1,328,727              |
| Cash flow hedge liability<br>(derivative)                 | -                                 | -                                   | 730,500                                    | 730,500                        | 730,500                |
| Short term borrowings                                     | -                                 | -                                   | 183,657                                    | 183,657                        | 183,657                |
| Due to related parties                                    | -                                 | -                                   | 7,040                                      | 7,040                          | 7,040                  |
|                                                           | <u>-</u>                          | <u>-</u>                            | <u>5,151,497</u>                           | <u>5,151,497</u>               | <u>5,151,497</u>       |

\*Excluding advances from customers.

## 36.1 Credit risk

### Exposure to credit risk

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

|                                                     | 2015<br>AED'000  | 2014<br>AED'000  |
|-----------------------------------------------------|------------------|------------------|
| Bank balances and deposits                          | 1,596,532        | 1,321,921        |
| Trade and other receivables (excluding prepayments) | 491,256          | 382,031          |
| Investments measured at amortised cost              | 367,315          | -                |
| Other investments                                   | 333,654          | 333,654          |
| Investments measured at FVOCI                       | 297,083          | -                |
| Due from related parties                            | 25,774           | 48,298           |
| Available-for-sale investments                      | -                | 703,824          |
| Aircraft lease deposits                             | -                | 3,675            |
| <b>Total assets</b>                                 | <u>3,111,614</u> | <u>2,793,403</u> |

# Air Arabia PJSC and its subsidiaries

Notes (continued)

## 36. Financial instruments (continued)

### 36.2 Liquidity risk

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

|                                           | Carrying<br>Amount<br>AED'000 | Contractual<br>cash flows<br>AED'000 | Less than<br>one year<br>AED'000 | More than<br>one year<br>AED'000 |
|-------------------------------------------|-------------------------------|--------------------------------------|----------------------------------|----------------------------------|
| <b>31 December 2015</b>                   |                               |                                      |                                  |                                  |
| <i>Financial liabilities</i>              |                               |                                      |                                  |                                  |
| Finance lease liabilities                 | 3,496,242                     | (4,288,084)                          | (330,621)                        | (3,957,463)                      |
| Trade and other payables*                 | 1,523,714                     | (1,523,714)                          | (1,011,717)                      | (511,997)                        |
| Cash flow hedge liability<br>(derivative) | 1,001,937                     | (1,001,937)                          | (562,469)                        | (439,468)                        |
| Due to related parties                    | 6,953                         | (6,953)                              | (6,953)                          | -                                |
|                                           | <u>6,028,846</u>              | <u>(6,820,688)</u>                   | <u>(1,911,760)</u>               | <u>(4,908,928)</u>               |
| <b>31 December 2014</b>                   |                               |                                      |                                  |                                  |
| <i>Financial liabilities</i>              |                               |                                      |                                  |                                  |
| Finance lease liabilities                 | 2,901,573                     | (3,372,396)                          | (273,578)                        | (3,098,818)                      |
| Trade and other payables*                 | 1,328,727                     | (1,328,727)                          | (1,072,990)                      | (255,737)                        |
| Cash flow hedge liability<br>(derivative) | 730,500                       | (730,500)                            | (399,267)                        | (331,233)                        |
| Short term borrowings                     | 183,657                       | (183,657)                            | (183,657)                        | -                                |
| Due to related parties                    | 7,040                         | (7,040)                              | (7,040)                          | -                                |
|                                           | <u>5,151,497</u>              | <u>(5,622,320)</u>                   | <u>(1,936,532)</u>               | <u>(3,685,788)</u>               |

\*Excluding advances from customers.

### 36.3 Equity price risk

The Group is exposed to equity price risk arising from equity investments.

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

|                                      | Effect on consolidated<br>statement of comprehensive<br>income<br>AED'000 | Effect on<br>consolidated profit<br>or loss<br>AED'000 |
|--------------------------------------|---------------------------------------------------------------------------|--------------------------------------------------------|
| <b>31 December 2015</b>              |                                                                           |                                                        |
| Effect of changes in investments     | <u>29,708</u>                                                             | <u>-</u>                                               |
| <b>31 December 2014</b>              |                                                                           |                                                        |
| Effect of changes in AFS investments | <u>70,382</u>                                                             | <u>-</u>                                               |



# Air Arabia PJSC and its subsidiaries

Notes (continued)

## 36. Financial instruments (continued)

### 36.4 Interest rate risk

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

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

|                                  | 2015<br>AED'000   | 2014<br>AED'000   |
|----------------------------------|-------------------|-------------------|
| <b>Fixed rate instruments</b>    |                   |                   |
| <i>Financial assets</i>          |                   |                   |
| Fixed deposits                   | 1,365,987         | 1,074,392         |
| Other investments                | 333,654           | 333,654           |
| Margin deposits                  | 1,767             | 3,303             |
|                                  | <u>          </u> | <u>          </u> |
|                                  | 2015<br>AED'000   | 2014<br>AED'000   |
| <b>Variable rate instruments</b> |                   |                   |
| <i>Financial liabilities</i>     |                   |                   |
| Finance lease liabilities        | 3,496,242         | 2,901,573         |
| Short-term borrowings            | -                 | 183,657           |
|                                  | <u>          </u> | <u>          </u> |
|                                  | <u>3,496,242</u>  | <u>3,085,230</u>  |

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

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

|                           | Consolidated profit or loss<br>100 bp<br>increase<br>AED'000 | 100 bp<br>decrease<br>AED'000 |
|---------------------------|--------------------------------------------------------------|-------------------------------|
| <b>31 December 2015</b>   |                                                              |                               |
| Variable rate instruments | (34,962)                                                     | 34,962                        |
|                           | <u>          </u>                                            | <u>          </u>             |
| <b>31 December 2014</b>   |                                                              |                               |
| Variable rate instruments | (30,852)                                                     | 30,852                        |
|                           | <u>          </u>                                            | <u>          </u>             |

# Air Arabia PJSC and its subsidiaries

Notes (continued)

## 36. Financial instruments (continued)

### 36.5 Fair value hierarchy

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable (also refer note 2.5).

#### 31 December 2015

|                                                                       | Level 1<br>AED '000 | Level 2<br>AED '000 | Level 3<br>AED '000 |
|-----------------------------------------------------------------------|---------------------|---------------------|---------------------|
| <b>Financial liabilities</b>                                          |                     |                     |                     |
| Cash flow hedge liability                                             | -                   | (1,001,937)         | -                   |
| <b>Financial assets</b>                                               |                     |                     |                     |
| Investments measured at fair value through other comprehensive income |                     |                     |                     |
| - Unquoted investments                                                | -                   | 287,332             | -                   |
| - Quoted investments                                                  | 9,751               | -                   | -                   |
|                                                                       | <u>9,751</u>        | <u>(714,605)</u>    | <u>-</u>            |
| Investment measured at amortised cost                                 | -                   | -                   | 367,315             |

#### 31 December 2014

|                                       |               |                  |                |
|---------------------------------------|---------------|------------------|----------------|
| <b>Financial liabilities</b>          |               |                  |                |
| Cash flow hedge liability             | -             | (730,500)        | -              |
| <b>Financial assets</b>               |               |                  |                |
| <i>Available-for-sale investments</i> |               |                  |                |
| - Unquoted investments                | -             | 324,223          | 367,315        |
| - Quoted investments                  | 12,286        | -                | -              |
|                                       | <u>12,286</u> | <u>(406,277)</u> | <u>367,315</u> |

# Air Arabia PJSC and its subsidiaries

Notes (continued)

## 37. Segment information

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

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

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

*Primary reporting format – business segments*

| 31 December 2015                                                                      | Airline<br>AED '000 | Other<br>segments<br>AED '000 | Eliminations<br>AED '000 | Total<br>AED '000 |
|---------------------------------------------------------------------------------------|---------------------|-------------------------------|--------------------------|-------------------|
| <b>Revenue</b>                                                                        |                     |                               |                          |                   |
| External sales                                                                        | 3,615,064           | 210,795                       | -                        | 3,825,859         |
| Inter-segment sales                                                                   | -                   | 2,947                         | (2,947)                  | -                 |
|                                                                                       | <u>3,615,064</u>    | <u>213,742</u>                | <u>(2,947)</u>           | <u>3,825,859</u>  |
| <b>Total revenue</b>                                                                  |                     |                               |                          |                   |
|                                                                                       | <u>3,615,064</u>    | <u>213,742</u>                | <u>(2,947)</u>           | <u>3,825,859</u>  |
| <b>Result</b>                                                                         |                     |                               |                          |                   |
| Segment result                                                                        | 494,063             | 70,018                        | -                        | 564,081           |
| Finance costs                                                                         | (74,203)            | -                             | -                        | (74,203)          |
| Interest income from bank<br>deposits and other<br>(loss)/income-net                  | 66,761              | 5,266                         | (30,442)                 | 41,585            |
| Share of loss on equity<br>accounted investees                                        |                     |                               |                          | (875)             |
|                                                                                       |                     |                               |                          | <u>530,588</u>    |
| <b>Profit for the year</b>                                                            |                     |                               |                          |                   |
|                                                                                       |                     |                               |                          | <u>530,588</u>    |
| <b>Other information</b>                                                              |                     |                               |                          |                   |
| Additions to property and<br>equipment, investment<br>properties and deferred charges | 1,116,935           | 17,414                        | -                        | 1,134,349         |
| Depreciation and amortisation                                                         | 385,283             | 5,897                         | -                        | 391,180           |
| <b>Assets</b>                                                                         |                     |                               |                          |                   |
| Segment assets                                                                        | 9,341,078           | 260,340                       | (128,142)                | 9,473,276         |
|                                                                                       |                     |                               |                          | <u>9,473,276</u>  |
| Unallocated Group assets                                                              |                     |                               |                          | 1,925,584         |
|                                                                                       |                     |                               |                          | <u>1,925,584</u>  |
| <b>Total assets</b>                                                                   |                     |                               |                          | <u>11,398,860</u> |
| <b>Liabilities</b>                                                                    |                     |                               |                          |                   |
| Segment liabilities                                                                   | 6,441,319           | 87,844                        | (128,142)                | 6,401,021         |
|                                                                                       | <u>6,441,319</u>    | <u>87,844</u>                 | <u>(128,142)</u>         | <u>6,401,021</u>  |



# Air Arabia PJSC and its subsidiaries

Notes (continued)

## 37. Segment information (continued)

Primary reporting format - business segments (continued)

| 31 December 2014                                                                | Airline<br>AED '000 | Other<br>segments<br>AED '000 | Eliminations<br>AED '000 | Total<br>AED '000 |
|---------------------------------------------------------------------------------|---------------------|-------------------------------|--------------------------|-------------------|
| <b>Revenue</b>                                                                  |                     |                               |                          |                   |
| External sales                                                                  | 3,562,738           | 166,055                       | -                        | 3,728,793         |
| Inter-segment sales                                                             | -                   | 3,275                         | (3,275)                  | -                 |
|                                                                                 | -----               | -----                         | -----                    | -----             |
| Total revenue                                                                   | 3,562,738           | 169,330                       | (3,275)                  | 3,728,793         |
|                                                                                 | =====               | =====                         | =====                    | =====             |
| <b>Result</b>                                                                   |                     |                               |                          |                   |
| Segment result                                                                  | 424,323             | 58,598                        | -                        | 482,921           |
| Finance costs                                                                   | (66,046)            | -                             | -                        | (66,046)          |
| Interest income from bank deposits and other                                    |                     |                               |                          |                   |
| (loss)/income-net                                                               | 130,345             | -                             | -                        | 130,345           |
| Share of profit from equity accounted entities                                  |                     |                               |                          | 18,608            |
|                                                                                 |                     |                               |                          | -----             |
| <b>Profit for the year</b>                                                      |                     |                               |                          | 565,828           |
|                                                                                 |                     |                               |                          | =====             |
| <b>Other information</b>                                                        |                     |                               |                          |                   |
| Additions to property and equipment, investment properties and deferred charges | 1,598,061           | 17,448                        | -                        | 1,615,509         |
| Depreciation and amortisation                                                   | 300,984             | 4,098                         | -                        | 305,082           |
| <b>Assets</b>                                                                   |                     |                               |                          |                   |
| Segment assets                                                                  | 8,117,882           | 206,133                       | (79,234)                 | 8,244,781         |
|                                                                                 |                     |                               |                          | -----             |
| Unallocated Group assets                                                        |                     |                               |                          | 2,329,660         |
|                                                                                 |                     |                               |                          | -----             |
| Total assets                                                                    |                     |                               |                          | 10,574,441        |
|                                                                                 |                     |                               |                          | =====             |
| <b>Liabilities</b>                                                              |                     |                               |                          |                   |
| Segment liabilities                                                             | 5,472,472           | 100,187                       | (79,234)                 | 5,493,425         |
|                                                                                 | =====               | =====                         | =====                    | =====             |

Inter-segment sales are charged at prevailing market prices.

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

# Air Arabia PJSC and its subsidiaries

## Notes (continued)

### 38. Significant accounting estimates and judgements

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

#### *Classification of investments*

Management decides on acquisition of a financial asset whether it should be classified as fair value through other comprehensive income (FVOCI), fair value through profit or loss (FVTPL), and amortised cost.

The Group has classified its investments as fair value through other comprehensive income (FVOCI) and amortised cost.

#### *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 Investments*

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

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

Goodwill and intangible assets with indefinite useful lives are tested annually for impairment and at other times when such indications exist. The impairment calculation requires the use of estimates.

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

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 2015.



# Air Arabia PJSC and its subsidiaries

## Notes (continued)

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

#### *Classification of leases*

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

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

#### *Leased aircraft maintenance costs*

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

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

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

#### *Accrual for aircraft flying costs*

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



# Air Arabia PJSC and its subsidiaries

## Notes (continued)

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

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

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

#### *Deferred charges*

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

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

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

#### *Impairment of property and equipment*

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

### 39. Comparative figures

Comparative information has been reclassified, where necessary, in order to conform to the current year's presentation. Such reclassifications do not affect the previously reported profit, net assets or equity of the Group.