Air Arabia PJSC
and its subsidiaries

Consolidated financial statements
31 December 2016

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Consolidated financial statements
for the year ended 31 December 2016

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Independent auditors' report

The Shareholders
Air Arabia PJSC

Report on the audit of the consolidated financial statements

Opinion

We have audited the consolidated financial statements of Air Arabia PJSC ("the Company") and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2016, the consolidated statements of income, profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2016, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the Auditors' responsibilities for the audit of the consolidated financial statements section of our report. We are independent of the Group in accordance with International Ethics Standards Board of Accountants Code of Ethics for Professional Accountants (IESBA Code) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in the United Arab Emirates, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters (continued)

1. Measurement of aircraft assets

Refer note 5 to the consolidated financial statements.

Included in the Group's consolidated statement of financial position as at 31 December 2016, are aircraft assets of AED 6,452 million. As explained in note 3.8, the Group's accounting policy is to measure its aircraft assets at depreciated historical cost less impairment. These aircraft assets are depreciated on a straight line basis over their estimated useful life, to an estimated residual value at the end of its useful economic life. The estimation of residual value is a key management judgment in the application of the Group's accounting policy on depreciation and, therefore, any changes to residual value will directly impact the depreciation charge for the year and future years. Management also needs to consider if there are any impairment indicators such as the deterioration in current or forecast trade activity, the incurrence of losses or other factors indicating that the assets may be impaired.

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

How our audit addressed the key audit matter

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

Key audit matters (continued)

2. Revenue recognition

Refer note 22 to the consolidated financial statements.

The Group recognises revenue from various sources, notably sale of passenger airline seats, cargo, baggage capacity and other ancillary services. Passenger tickets sold may be used for different periods depending upon the conditions of sale and the type of fare purchased; thus they may, for example, duration of one year or more or may be specific to particular flights and, if not used, cannot be returned or refunded. Revenue from passenger and cargo is deferred and classified as a liability on the consolidated statement of financial position until the passenger or freight is lifted (i.e. service provided), at which time revenue is recognised in profit or loss. This recognition principle requires the Group to develop assumptions to determine when to recognise revenue in respect of un-availed services relating to tickets not lifted at the anticipated date of travel. Due to the significance of revenue to the Group's consolidated financial statements, revenue recognition is a significant audit risk.

How our audit addressed the key audit matter

- We have evaluated the Group's control environment and the application controls relating to the underlying systems associated with the revenue streams. In particular, we considered whether the Group's controls relating to revenue are properly designed and implemented to ensure that those systems were accurately capturing the relevant data such as date of sale, date of the provision of the service to the customers and the sale amount;
- We tested that revenue was recognised in the period in which the service was provided to the customers, in line with Group's policy;
- We reviewed management's judgement and assumptions underpinning the estimates of when to recognise revenue in respect of un-availed services;
- For expired tickets, we tested that the revenue recognition was consistent with Group's policy;
- For passenger revenue, we performed analytical reviews by comparing the passenger revenue for 2016 with the passenger revenue for 2015 and analysed the reasons for the variance taking into consideration Key Performance Indicators (KPIs) for both 2016 and 2015;
- For cargo revenue, we tested the revenue per ton carried for 2015 and developed an expectation for 2016 based on the tonnage carried and compared the results with the cargo revenue recognised in the books and analysed the reason for the variance;
- We also undertook other substantive audit procedures to corroborate our findings in respect of the audit tests above; and
- We assessed the adequacy of the Group's disclosure on revenue recognition in the consolidated financial statements.

Key audit matters (continued)

3. Recoverability of trade receivables

Refer note 11 to the consolidated financial statements.

A significant proportion of the Group's airline revenue is generated by general sales agents (GSAs). A GSA is a sales representative for an airline in a specific country or region. Typically, the GSA is responsible for selling all products of the airline in its region which includes flight tickets and cargo space. Whilst the Group holds securities in the form of bank guarantees and deposits from the vast majority of these agents, it is still significantly exposed to the recoverability of balances due from them. As of 31 December 2016 the Group has receivables due from these agents with a carrying value of AED 124 million, against which it holds bank guarantees and deposits of AED 95.9 million. The determination as to whether a receivable is collectable involves significant management judgment. Specific factors that management considers include the securities held from GSAs, the age of the balance, location of the GSAs, existence of any disputes, recent historical payment patterns and any other available information concerning the creditworthiness of the counterparty. Management uses this information to determine whether a provision for impairment is required against these agents' balances.

How our audit addressed the key audit matter

- We assessed the recoverability of significant receivable balances against which a provision was not recognised to determine any indicators of impairment. This included verifying if payments had been received since the year-end, reviewing historical payment patterns, the securities held by the Group against the GSAs and any correspondence with the GSAs on expected settlement dates to assess that management's assertions were reasonably supported;

- We also selected a sample of the larger receivable balances where a provision for impairment of trade receivables was recognised and understood the rationale behind management's judgment in order to test it for reasonableness, including performing the above audit tests;

- In assessing the appropriateness of the overall provision for impairment, we considered the consistency of management's application of the Group's policy for recognising provisions in comparison to prior periods and in the context of the current macro-economic challenges; and

- We assessed the adequacy of the Group's disclosures in these respects.

Key audit matters (continued)

4. Accounting for fuel hedge positions

Refer to note 18 to the consolidated financial statements.

The Group is significantly exposed to fluctuations in the price of jet fuel and manages this risk through derivative instruments to hedge its cash flows. The Group accounts for these hedge instruments in accordance with IFRS 9 (2014) which requires, amongst other things, that the Group establish a risk management framework that outlines a policy for the Group to conclude whether its hedging positions are effective or ineffective, at the date of their inception and at each reporting date. The Group has established controls around taking hedge positions and its risk management framework and policies.

The effective portion of changes in the fair value of the hedge instruments are recognised in other comprehensive income until the forecasted transaction occurs, whilst any ineffective portion is recognised directly in the statement of profit or loss. Significant judgment is exercised in arriving at this conclusion. As of 31 December 2016, the total fair value of the Group's cash flow hedge instruments, obtained from counterparties, is a net liability of AED 677 million.

How our audit addressed the key audit matter

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

Other information

Management is responsible for the other information. Other information consists of the information included in the Group's 2016 Annual Report, other than the consolidated financial statements and our auditors' report thereon. We obtained the report of the Group's Board of Directors, prior to the date of our auditors' report, and we expect to obtain the remaining sections of the Group's 2016 Annual Report after the date of our auditors' report.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

Other information (continued)

When we read the annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance and take appropriate actions in accordance with ISAs.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs and their preparation in compliance with the applicable provisions of UAE Federal Law No. (2) of 2015, and for such internal control as the management determines is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Auditors' responsibilities for the audit of the consolidated financial statements

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

Auditors' responsibilities for the audit of the consolidated financial statements (continued)

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities and business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

Report on other legal and regulatory requirements

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 accounts of the Group;
v. as disclosed in notes 1 and 12(b) to the consolidated financial statements, the Group has purchased shares during the year ended 31 December 2016;
vi. note 13 to the consolidated financial statements discloses material related party transactions and the terms under which they were conducted; and
vii. based on the information that has been made available to us, nothing has come to our attention which causes us to believe that the Group has contravened during the financial year ended 31 December 2016 any of the applicable provisions of the UAE Federal Law No.(2) of 2015 or in respect of the Company, its Articles of Association, which would materially affect its activities or its consolidated financial position as at 31 December 2016; and
viii) note 24 to the consolidated financial statements discloses the social contributions made during the year.

On Behalf of KPMG Lower Gulf Limited

Fawzi AbuRass
Registration No.: 968
Dubai, United Arab Emirates

Date: 08 FEB 2017

Air Arabia PJSC and its subsidiaries

Consolidated statement of financial position

as at 31 December 2016

	Note	2016 AED'000	2015 AED'000
Assets			
Non-current assets			
Property and equipment	*5*	**7,108,134**	6,353,710
Advance for new aircraft	*6*	**299,269**	344,067
Investment properties	*7*	**124,970**	170,572
Intangible assets	*8*	**1,297,775**	1,296,209
Deferred charges	*9*	**30,268**	33,078
Investments	*10*	**697,076**	664,398
Equity accounted investments	*12*	**73,024**	58,818
Total non-current assets		**9,630,516**	8,920,852
Current assets			
Inventories		**16,324**	17,154
Trade and other receivables	*11*	**587,852**	528,641
Other investments	*14.1*	**459,129**	333,654
Bank balances and cash	*14*	**1,818,879**	1,598,559
Total current assets		**2,882,184**	2,478,008
Total assets		**12,512,700**	11,398,860
Liabilities			
Non-current liabilities			
Provision for staff terminal benefits	*19*	**95,869**	79,655
Trade and other payables	*20*	**1,126,264**	951,465
Non-current portion of finance lease liabilities	*21*	**3,479,689**	3,173,589
Total non-current liabilities		**4,701,822**	4,204,709
Current liabilities			
Deferred income		**232,981**	268,354
Trade and other payables	*20*	**1,427,627**	1,605,305
Short term bank borrowings	*14.2*	**264,470**	-
Current portion of finance lease liabilities	*21*	**398,186**	322,653
Total current liabilities		**2,323,264**	2,196,312
Total liabilities		**7,025,086**	6,401,021
Capital and reserves			
Share capital	*15*	**4,666,700**	4,666,700
Statutory reserve	*16*	**419,869**	370,827
Other reserves		**(58,416)**	(518,268)
Retained earnings		**414,891**	442,555
Equity attributable to owners of the Company		**5,443,044**	4,961,814
Non controlling interests		**44,570**	36,025
Total equity		**5,487,614**	4,997,839
Total liabilities and equity		**12,512,700**	11,398,860

The accompanying notes on pages 14 to 60 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 8 February 2017 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 to 8.

Air Arabia PJSC and its subsidiaries

Consolidated income statement
for the year ended 31 December 2016

	Note	2016 AED'000	2015 AED'000
Revenue	*22*	**3,778,008**	3,825,859
Direct costs	*23*	**(3,147,302)**	(3,023,943)
Gross profit		**630,706**	801,916
General and administrative expenses	*24*	**(193,524)**	(171,204)
Selling and marketing expenses	*25*	**(72,046)**	(66,631)
Finance income		**115,599**	79,406
Finance costs		**(90,562)**	(74,203)
Share of profit/(loss) on equity accounted investments	*12*	**7,045**	(875)
Other income/(expense) net	*26*	**111,550**	(37,821)
Profit for the year		**508,768**	530,588
Profit attributable to:			
Owners of the Company		**490,423**	511,254
Non controlling interests		**18,345**	19,334
		508,768	530,588
Basic earnings per share (AED)	*27*	**0.11**	0.11

The accompanying notes on pages 14 to 60 are an integral part of these consolidated financial statements.

The independent auditors' report on the consolidated financial statements is set out on pages 1 to 8.

Air Arabia PJSC and its subsidiaries

Consolidated statement of profit or loss and other comprehensive income
for the year ended 31 December 2016

	Note	2016 AED '000	2015 AED '000
Profit for the year		**508,768**	530,588
Other comprehensive income			
Items that will never be subsequently transferred to profit or loss:			
Fair value movement of investments measured at fair value through other comprehensive Income ("FVOCI")	*10(a)*	**32,678**	(11,776)
Items that are or may be reclassified subsequently to profit or loss			
Cash flow hedge			
Effective portion of changes in fair value	*18*	**378,132**	(172,186)
Total other comprehensive income/(loss)		**410,810**	(183,962)
Total comprehensive income for the year		**919,578**	346,626
Total comprehensive income attributable to:			
Owners of the Company		**901,233**	327,292
Non-controlling interests		**18,345**	19,334
		919,578	346,626

The accompanying notes on pages 14 to 60 are an integral part of these consolidated financial statements.

The independent auditors' report on the consolidated financial statements is set out on pages 1 to 8.

Air Arabia PJSC and its subsidiaries

Consolidated statement of changes in equity

for the year ended 31 December 2016

			Other reserves							
	Share capital AED'000	**Statutory reserve AED'000**	**General reserve AED'000**	**Fair value reserve AED'000**	**Cumulative change in FVOCI AED'000**	**Cash flow hedge reserve AED'000**	**Retained Earnings AED'000**	**Attributable to owners of the Company AED'000**	**Non controlling interests AED'000**	**Total AED'000**
Balance at 1 January 2015	4,666,700	319,702	262,925	48,590	-	(692,977)	449,585	5,054,525	26,491	5,081,016
Total comprehensive income for the year										
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 investment measured at FVOCI	-	-	-	-	(3,969)	-	3,969	-	-	-
Reclassification upon adoption of IFRS 9 (refer note 2.6.1)	-	-	-	(59,863)	59,863	-	-	-	-	-
Total comprehensive income	-	-	-	(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 in equity										
Dividend paid (refer note 31)	-	-	-	-	-	-	(420,003)	(420,003)	(9,800)	(429,803)
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
Balance at 1 January 2016	4,666,700	370,827	314,050	-	32,845	(865,163)	442,555	4,961,814	36,025	4,997,839
Total comprehensive income for the year										
Profit for the year	-	-	-	-	-	-	490,423	490,423	18,345	508,768
Other comprehensive income	-	-	-	-	32,678	378,132	-	410,810	-	410,810
Total comprehensive income	-	-	-	-	32,678	378,132	490,423	901,233	18,345	919,578
Transfer to reserves	-	49,042	49,042	-	-	-	(98,084)	-	-	-
Transactions with owners, recorded directly in equity										
Dividend paid (refer note 31)	-	-	-	-	-	-	(420,003)	(420,003)	(9,800)	(429,803)
Balance at 31 December 2016	**4,666,700**	**419,869**	**363,092**	**-**	**65,523**	**(487,031)**	**414,891**	**5,443,044**	**44,570**	**5,487,614**

The accompanying notes on pages 14 to 60 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 2016

	Note	2016 AED '000	2015 AED '000
Operating activities			
Profit for the year		**508,768**	530,588
Adjustments for:			
Depreciation and amortisation		**442,077**	391,261
Provision for staff terminal benefits	19	**22,976**	19,702
Ineffective/over effective portion of cash flow hedge		**(2,842)**	84,098
Share of (profit)/loss on equity accounted investments	12	**(7,045)**	875
Reversal of provision for impairment	26	**-**	(4,591)
Interest income from bank deposits		**(115,599)**	(79,406)
Operating cash flows before working capital changes		**848,335**	942,527
Changes in:			
- Trade and other receivables		**(59,211)**	(79,699)
- Inventories		**830**	269
- Trade and other payables		**378,095**	212,413
- Deferred income		**(35,373)**	13,534
- Staff terminal benefits paid	19	**(6,762)**	(5,348)
Net cash from operating activities		**1,125,914**	1,083,696
Investing activities			
Acquisition of property and equipment	5	**(63,090)**	(59,668)
(Payments)/receipts in relation to advances for new aircraft	6	**(267,391)**	95,172
Addition in investment properties	7	**-**	(9,175)
Payment for deferred charges	9	**(709)**	(28,588)
Proceeds from sale of investment measured at FVOCI	10	**-**	27,650
Dividend received from joint ventures	12	**3,000**	14,000
Acquisition of intangible assets	8	**(2,543)**	(2,603)
Payment for investment in associate	12	**(10,161)**	(13,124)
Payments for aircraft lease deposits		**-**	3,675
Change in fixed and margin deposits	14	**(278,896)**	(290,059)
Interest income from bank deposits		**115,599**	79,406
Other investments made-net		**(125,475)**	-
Net cash used in investing activities		**(629,666)**	(183,314)
Financing activities			
Dividend paid to non-controlling interests		**(9,800)**	(9,800)
Dividend paid to owners of the Company		**(420,003)**	(420,003)
Payments of finance lease liabilities	21	**(389,491)**	(302,672)
Bank borrowings obtained	14.2	**264,470**	-
Net cash used in financing activities		**(554,824)**	(732,475)
Net (decrease)/increase in cash and cash equivalents		**(58,576)**	167,907
Cash and cash equivalents at the beginning of the year		**230,805**	62,898
Cash and cash equivalents at the end of the year		**172,229**	230,805
Adjustments for:			
Cash at bank and in hand	14	**1,818,879**	1,598,559
Fixed deposits with maturity over 3 months		**(1,644,850)**	(1,365,987)
Margin deposits with maturity over 3 months		**(1,800)**	(1,767)
		172,229	230,805

The accompanying notes on pages 14 to 60 are an integral part of these consolidated financial statements.

The independent auditors' report on the consolidated financial statements is set out on pages 1 to 8.

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, UAE.

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 2016 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:

Name	Legal ownership Interest		Country of incorporation	Principal activities
	2016	2015		
Subsidiaries				
COZMO Travel LLC and its subsidiaries	**51%**	51%	United Arab Emirates	Travel and tours, tourism and cargo services.
Subsidiaries of COZMO Travel LLC:				
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%**	100%	United Arab Emirates	Travel agent.
COZMO Travel (Private) Limited	**100%**	100%	India	Travel and tours, tourism and cargo services.
*COZMO Travel World (Private) Limited **	**100%**	-	India	Travel and tours, tourism and cargo services.
Tune Protection Commercial Brokerage LLC	**51%**	51%	United Arab Emirates	Commercial brokers.
Information System Associates FZC	**100%**	100%	United Arab Emirates	IT services to aviation industry.
Action Hospitality	**100%**	100%	United Arab Emirates	Hospitality services, tourism, managing and operating restaurants and hotels.
Joint ventures				
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.
Associates				
Air Arabia Maroc, S.A.	**40%**	40%	Morocco	International commercial air transportation.
Air Arabia Jordan LLC	**49%**	49%	Jordan	International commercial air transportation.

*incorporated during the current year.

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 2017 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 and investments measured at fair value through other comprehensive income ("FVOCI"), which are measured at their fair values in the consolidated 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

In preparing these consolidated financial statements, the management has made judgements, estimated and assumptions that effect the application of the Group's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed by the management on an ongoing basis. Revisions to estimates are recognised prospectively.

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 34.

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 has overall responsibility for overseeing all significant fair value measurements, including Level 3 fair values. The management regularly reviews significant unobservable inputs and valuation adjustments. 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.

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 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 had 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 as of 30 June 2015 were reclassified as investments either measured at fair value through other comprehensive income ("FVOCI") or as investment measured at amortised cost using effective interest method, on adoption of IFRS 9.

Furthermore, an amount of AED 59.9 million representing fair value reserve pertaining to AFS investment was reclassified to cumulative change in fair value of investments measured at FVOCI on adoption of IFRS 9.

2. Basis of preparation (continued)

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

2.6.1 New standards and amendments to standards (continued)

Impact of early adoption of IFRS 9 (continued)

Financial assets (continued)

Available-for-sale investments (continued):

After the adoption, gains and losses on investments measured at FVOCI are never reclassified to the consolidated statement of profit or loss and no impairment on them is recognised in the consolidated statement of profit or loss.

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.

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.

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 derivatives 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 the consolidated statement of comprehensive income.

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.

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 (continued)

- *IFRS 16 Leases*

IFRS 16, published in January 2016 replaces the previous guidance in IAS 17 Leases. Under this revised guidance, leases will be brought onto the lessee's statement of financial position, increasing the visibility of their assets and liabilities. It further removes the classification of leases as either operating leases or finance leases treating all leases as finance leases from the perspective of the lessee, thereby eliminating the requirement for lease classification test. The revised guidance has an increased focus on who controls the asset and may change which contracts are leases.

IFRS 16 is effective for annual periods beginning on or after I January 2019. Early adoption is permitted provided IFRS 15 Revenue from Contract with Customers is also applied by the Group.

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

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 investments. The principal subsidiaries, associates and joint ventures have been disclosed above in note 1.

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 the 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.

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 the consolidated profit or loss.

3. Significant accounting policies (continued)

3.1 Basis of consolidation (continued)

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 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.

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.

3. Significant accounting policies (continued)

3.1 Basis of consolidation (continued)

Interests in joint arrangements (continued)

Interests in joint ventures 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 profit or loss and other comprehensive income of the joint ventures, until the date on which 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, the consolidated financial statements include the Group's share of 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 investments 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.

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 period of occupancy. Revenue from sale of goods, food and beverages is recognised upon issuance of related sales invoices on delivery to guests and customers.

Loyalty programme

Revenue is allocated between the loyalty program and other components of the sale. The amount allocated to the loyalty programme is deferred, and is recognised as revenue in the consolidated statement of profit or loss when the Group is no longer probable that the points under the programme will be redeemed.

3. Significant accounting policies (continued)

3.3 Dividend income

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

3.4 Finance income and finance costs

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

Finance costs mainly comprises interest expense on bank borrowings and finance lease obligations. All borrowing costs are recognised in the consolidated 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 Investment property rental income

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

3.6 Leasing

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

The Group as lessor

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

The Group as lessee

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

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in 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.

3. Significant accounting policies (continued)

3.6 Leasing (continued)

The Group as lessee (continued)

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased assets 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 the consolidated profit and loss. Non-monetary items that are measured based on historical cost in the foreign currency are not translated.

3.8 Property and equipment

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

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

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

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

	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.

3. Significant accounting policies (continued)

3.8 Property and equipment (continued)

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 is met; and excludes the cost of day to day servicing of investment properties.

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

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

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

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

If an investment property becomes owner occupied, it is reclassified under property, plant and equipment and its carrying amount at the date of reclassification becomes its cost for accounting purposes. When an item of property, plant and equipment is transferred to investment property following a change in use, any differences arising at the date of transfer between the carrying amount of the item immediately prior to transfer and its fair value is recognised directly in equity if it is a gain and charged to the consolidated profit or loss if it is a loss.

3. Significant accounting policies (continued)

3.11 Goodwill

Goodwill arising on acquisition of a subsidiary or joint venture 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 the benefit.

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. Significant accounting policies (continued)

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 assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

3.19 Non-derivative financial instruments

Non-derivative financial instruments comprise investments, 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.

3. Significant accounting policies (continued)

3.19 Non-derivative financial instruments (continued)

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 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:

- The 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.

- *Financial assets measured at FVOCI*

At initial recognition the Group made 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.

3. Significant accounting policies (continued)

3.19 Non-derivative financial instruments (continued)

- *Financial assets measured at FVOCI (continued)*

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

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.

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.

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

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

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

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

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

3. Significant accounting policies (continued)

3.20 Derivative financial instruments (continued)

- 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 other comprehensive income (OCI) and the ineffective portion is recognised in the consolidated profit or loss.

In a fair value hedge, any ineffectiveness is automatically recognised in the consolidated profit or loss because changes in the measurement of both the hedging instrument and the hedged item are reported through the 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 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.

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 the 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 recognised 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 recognised, then the previously recognised 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 recognised if the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. Impairment losses are recognised in the consolidated profit or loss.

Impairment losses recognised 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.

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 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 11).

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, equity prices and fuel prices, will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

4. 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. The 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 2016.

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.

5. Property and equipment

	Lands AED '000	Buildings AED '000	Aircraft AED '000	Aircraft engines AED '000	Aircraft rotables and equipment AED '000	Airport equipment AED '000	EDP equipment AED '000	Office equipment, furniture fixtures and motor vehicles AED '000	Capital work-in-progress AED '000	Total AED '000
Cost										
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 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
1 January 2016	50,000	625,422	6,529,323	297,514	38,330	18,919	28,470	39,924	8,296	7,636,198
Additions during the year	-	404	1,070,035	22,591	28,069	-	811	6,134	18,359	1,146,403
Transferred from investment properties (refer note 7)	39,040	5,812	-	-	-	-	-	-	-	44,852
31 December 2016	89,040	631,638	7,599,358	320,105	66,399	18,919	29,281	46,058	26,655	8,827,453
Depreciation										
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
1 January 2016	-	141,307	1,016,434	61,614	17,161	5,154	16,701	24,117	-	1,282,488
Charge for the year	-	31,708	376,714	12,656	4,044	883	2,304	8,522	-	436,831
31 December 2016	-	173,015	1,393,148	74,270	21,205	6,037	19,005	32,639	-	1,719,319
Net book value										
31 December 2016	**89,040**	**458,623**	**6,206,210**	**245,835**	**45,194**	**12,882**	**10,276**	**13,419**	**26,655**	**7,108,134**
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

5. Property and equipment (continued)

Depreciation is allocated as follows:

	2016 AED'000	2015 AED'000
Direct costs (refer note 23)	**423,521**	375,613
Administrative and general expenses (refer note 24)	**13,310**	10,861
	436,831	386,474

- Buildings include hotel apartments, simulator and staff quarters. Simulator and staff quarters are constructed on leasehold land, leased from Sharjah Airport Authority.
- Property and equipment 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 3.1 million *(2015: AED 3.6 million)*, located outside UAE.
- At 31 December 2016, aircraft with carrying amount of AED 5.72 billion *(2015: AED 4.98 billion)* are held under finance lease (refer note 21).
- Capital work-in-progress represents mainly building under renovation.
- The Group's management conducted an internal assessment of its aircraft assets and considered if there are any impairment indicators such as a deterioration in current or forecast trade activity, the incurrence of losses or other factors indicating that the assets may be impaired. Based on their assessment, the Group's management is of the view that no indicators of impairment arose during 2016.

6. Advance for new aircraft

Advance for new aircraft represents pre-delivery payments made to suppliers for an amount of USD 81.5 million (equivalent to AED 299 million) *(2015: USD 93.7 million (equivalent to AED 344 million))* in respect of the aircraft.

Movement in the advance for new aircraft was as follows:

	2016 AED'000	2015 AED'000
At 1 January	**344,067**	578,817
Advances paid during the year	**338,200**	139,231
Advances adjusted against aircraft purchased during the year	**(312,189)**	(139,578)
Advances refund during the year	**(70,809)**	(234,403)
At 31 December	**299,269**	344,067

7. Investment properties

	Land and building AED '000	Investment property under construction AED '000	Total AED '000
Cost			
1 January 2015	54,040	115,795	169,835
Additions during the year	-	9,175	9,175
31 December 2015	54,040	124,970	179,010
1 January 2016	54,040	124,970	179,010
Transferred to property and equipment (refer note (i) below)	(54,040)	-	(54,040)
31 December 2016	-	124,970	124,970
Depreciation			
1 January 2015	7,688	-	7,688
Charge for the year	750	-	750
31 December 2015	8,438	-	8,438
1 January 2016	8,438	-	8,438
Charge for the year	750	-	750
Transferred to property and equipment (refer note (i) below)	(9,188)	-	(9,188)
31 December 2016	-	-	-
Net book value			
31 December 2016	**-**	**124,970**	**124,970**
31 December 2015	45,602	124,970	170,572

(i) 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. During 2016, the Group started using these for administrative purposes, at which point the land (carrying value AED 39 million) and building (carrying value AED 5.8 million) were classified into Property and equipment (refer to note 5).

The property rental income earned by the Group during the year amounted to AED 2 million *(2015: AED 2.8 million)* (refer notes 13 and 26) and direct operating expenses arising on the investment properties amounted to AED 0.75 million *(2015: AED 0.75 million)*.

(ii) Investment property under construction comprises a building located in Dubai Marina, UAE.

(iii) Management estimates the fair value of investment properties as at 31 December 2016 to be AED 125 million (2015: AED 167.8 million).

8. Intangible assets

	2016 AED '000	2015 AED '000
Intangible assets (refer note 8a)	**1,099,253**	1,097,687
Goodwill (refer note 8b)	**198,522**	198,522
At 31 December	**1,297,775**	1,296,209

During 2016, intangible assets and goodwill were subject to impairment tests and management concluded that they are not impaired.

8a Intangible assets

	2016 AED '000	2015 AED '000
At 1 January	**1,097,687**	1,095,165
Additions during the year	**2,543**	2,603
Amortisation during the year	**(977)**	(81)
At 31 December	**1,099,253**	1,097,687

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

	2016 AED'000	2015 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
	1,092,347	1,092,347

8b Goodwill

Goodwill comprises of the following:

	2016 AED '000	2015 AED '000
Goodwill on acquisition of Air Arabia LLC (refer note (i) below)	**189,474**	189,474
Goodwill on step acquisition of Information Systems Asociates FZC	**9,048**	9,048
At 31 December	**198,522**	198,522

8. Intangible assets (continued)

8b Goodwill (continued)

(i) Goodwill arising out of acquisition of Air Arabia LLC in 2007, determined by an independent valuer was as follows:

	2016	2015
	AED'000	AED'000
Total fair value of Air Arabia LLC	**1,400,000**	1,400,000
Fair value of intangible assets (refer note 8a)	**(1,092,347)**	(1,092,347)
Fair value of tangible assets (net)	**(118,179)**	(118,179)
	189,474	189,474

During 2016 the Group performed impairment tests on goodwill and intangible assets with indefinite useful lives. The recoverable amount of each cash-generating unit for impairment test purpose has been determined using value-in-use calculations. For calculation purposes the Group's management prepared cash flow projections for 5 year period and applied a discount rate of between 10.57% to 11.28%.

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

9. Deferred charges

	Landing permission charges AED'000	Aircraft upgrade costs AED'000	Processing fee and commission costs AED'000	Total AED'000
Cost				
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
At 1 January 2016	51,745	32,749	27,086	111,580
Additions during the year	-	709	-	709
31 December 2016	51,745	33,458	27,086	112,289
Amortisation				
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
At 1 January 2016	51,745	24,882	1,875	78,502
Charge for the year	-	917	2,602	3,519
31 December 2016	51,745	25,799	4,477	82,021
Net book value				
31 December 2016	**-**	**7,659**	**22,609**	**30,268**
31 December 2015	-	7,867	25,211	33,078

10. Investments

With effect from 1 July 2015, the Group adopted IFRS 9 and elected an irrevocable option 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 initially classified as Available-For-Sale investments under IAS 39.

	Note	**2016 AED '000**	2015 AED '000
Investments measured at fair value through other comprehensive income ("FVOCI")	*10(a)*	**329,761**	297,083
Investment measured at amortised cost	*10(b)*	**367,315**	367,315
		697,076	664,398

10. Investments (continued)

10a Investments measured at fair value through other comprehensive income ("FVOCI")

	2016	2015
	AED '000	AED '000
Quoted	**10,259**	9,751
Unquoted (refer note 13)	**319,502**	287,332
	329,761	297,083
In UAE	**329,761**	297,083

Movements during the year were as follows:

	2016	2015
	AED '000	AED '000
Balance as 1 January	**297,083**	336,509
Disposed during the year	**-**	(27,650)
Change in fair value	**32,678**	(11,776)
Balance as at 31 December	**329,761**	297,083

The market rate as at 31 December 2016 is considered for the calculation of the fair value of the investments that are quoted in the stock exchange.

10b Investment measured at amortised cost

	2016	2015
	AED '000	AED '000
Unquoted (refer note 13)	**367,315**	367,315
Outside UAE	**367,315**	367,315

11. Trade and other receivables

	2016	2015
	AED '000	AED '000
Trade receivables	**210,083**	232,131
Allowance for doubtful debts	**(1,629)**	(1,785)
	208,454	230,346
Due from related parties – net of provision (refer note 13)	**50,094**	25,774
Prepaid aircraft lease rentals	**1,265**	2,366
Prepaid expenses – others	**11,644**	9,245
Advances and other receivables	**316,395**	260,910
	587,852	528,641

11. Trade and other receivables (continued)

The average credit period ranges between 25 – 40 days *(2015: 25 – 40 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 *(2015: 3 customers)* who represent more than 5% of the total balance of trade receivables.

Trade receivables include receivable from sales agents amounting to AED 124 million *(2015: AED 126 million)*, which are secured by bank guarantees and deposits of AED 95.9 million.

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, management believes that there is no further credit provision required in excess of the allowance for doubtful debts. The management has assessed the advances and other receivables for impairment and has concluded that they are fully recoverable in the normal course of the business.

12. Equity accounted investments

	2016	2015
	AED'000	AED'000
Investment in joint ventures (refer note 12a)	**44,391**	43,436
Investment in associates (refer note 12b)	**28,633**	15,382
	--------	--------
	73,024	58,818
	=====	=====

12a Investment in joint ventures

Movement is as below:

	2016	2015
	AED '000	AED '000
Balance as 1 January	**43,436**	50,152
Add: share of profit for the year	**3,955**	7,284
Less: dividend received	**(3,000)**	(14,000)
	--------	--------
Balance at 31 December	**44,391**	43,436
	=====	=====

12a 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 Company S.A.E. is fully impaired.

	Alpha Flight Services UAE LLC		Sharjah Aviation Services LLC		Total	
Percentage of interest	50%		50%			
	2016 AED'000	2015 AED'000	**2016 AED '000**	2015 AED '000	**2016 AED '000**	2015 AED '000
Assets	**42,656**	40,806	**156,968**	119,052	**199,624**	159,858
Liabilities	**(22,880)**	(23,126)	**(87,962)**	(49,860)	**(110,842)**	(72,986)
Net assets	**19,776**	17,680	**69,006**	69,192	**88,782**	86,872
Group's share in net assets as presented in the consolidated statement of financial position	**9,888**	8,840	**34,503**	34,596	**44,391**	43,436
Profit/(loss) for the year	**8,096**	5,490	**(186)**	9,078	**7,910**	14,568
Group's share of profit/(loss) for the year	**4,048**	2,745	**(93)**	4,539	**3,955**	7,284
Dividends received by the Group	**(3,000)**	-	**-**	(14,000)	**(3,000)**	(14,000)

12. Equity accounted investments (continued)

12b Investment in associates

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

	2016 AED '000	2015 AED '000
At 1 January	**15,382**	10,417
Addition	**10,161**	13,124
Share of loss of Air Arabia Jordan LLC	**(8,656)**	(10,688)
Share of profit of Air Arabia Morocco S.A.	**11,746**	2,529
At 31 December	**28,633**	15,382

In 2015 Air Arabia PJSC acquired 49% share in Air Arabia Jordan LLC. During 2016 Air Arabia PJSC acquired further shares, which did not result in change of shareholding percentage as the other shareholders also acquired shares in Air Arabia Jordan proportionately.

13. 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:

	2016 AED '000	2015 AED '000
Rental income from aircraft operating lease	**108,463**	94,021
Expenses recharged by related parties	**42,264**	45,211
Revenue from related parties	**27,274**	41,921
Management fees from joint ventures and associates (refer note 26)	**11,687**	10,125
Rental income from investment property (refer notes 7 and 26)	**2,000**	2,800

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

Compensation of key management personnel:

	2016 AED '000	2015 AED '000
Short term benefits	**10,734**	11,400
Long term benefits	**2,560**	2,000
Board of Directors' remuneration	**3,850**	3,850

13. Related party transactions (continued)

Due from related parties: (refer note 11)

	2016 AED '000	2015 AED '000
Receivable from associates and joint ventures (net of provisions)	**50,094**	25,774

Due to related parties: (refer note 20)

	2016 AED '000	2015 AED '000
Payable to a joint venture	**903**	817
Other related parties	**46,169**	6,136
	47,072	6,953

Amount due from/(to) related parties are unsecured, bear no interest and have no fixed repayment terms. The 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 10 and the other investments disclosed in note 14.1 represent such investments.

14. Bank balances and cash

	2016 AED '000	2015 AED '000
Bank balances:		
Fixed deposits*	**1,644,850**	1,365,987
Current accounts	**155,754**	181,224
Call deposits	**13,312**	47,554
Margin deposits*	**1,800**	1,767
Total bank balances	**1,815,716**	1,596,532
Cash in hand	**3,163**	2,027
Total bank balances and cash	**1,818,879**	1,598,559

* These carry interest rates ranging from 1.7% - 4.5% per annum *(2015: 1.2% - 3.8%).*

14.1 Other investments at amortised cost

	2016 AED '000	2015 AED '000
Short-term investments (refer note (i) below)	**459,129**	183,654
National bonds (refer note (ii) below)	**-**	150,000
Total	**459,129**	333,654

(i) Represents investment placed in an investment company (refer note 13) for the period of three months. This investment carried interest ranging from at 8.5% to 10% per annum *(2015: 10% per annum).*

(ii) Represents investment in national bonds. These bonds carried interest ranging from 3.5% - 5.7% per annum per annum *(2015: 3.5% - 5.7% per annum).*

14. Bank balances and cash (continued)

14.2 Short term bank borrowings

	2016 **AED '000**	2015 AED '000
Short term bank borrowings	**264,470**	-
	======	======

The Group has availed short term borrowings facilities from banks. These facilities carried interest ranging from 0.96% - 1.75% per annum.

15. Share capital

	2016 **AED '000**	2015 AED '000
Authorised, issued and fully paid up share capital (4,666,700 thousand shares of AED 1 each)	**4,666,700**	4,666,700
	=======	=======

16. 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.

17. 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.

18. Derivative financial instruments

Fuel derivatives

The Group uses derivative financial instruments for risk management purposes.

Initially, 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.

18. Derivative financial instruments (continued)

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 2016 gains of AED 2.8 million *(2015: AED 84.1 million)* relating to the ineffective/over-effective portion on long term trade deals was recognised in the consolidated profit or loss, as part of other (expenses)/income-net (refer note 26).

Further, a loss of AED 445 million was recognised in 2016 *(2015: loss of AED 435 million)* relating to ineffective portion on short term trade deals and the settlement of trade in the consolidated profit or loss, as part of fuel costs (also refer note 23).

Cash flow hedge liability is categorised into the following:

	2016		2015	
	Term	AED '000	Term	AED '000
Non-current liabilities				
Commodity Swaps, forwards options and others	**2017-2020**	**509,987**	2015-2018	439,468
Current liabilities				
Commodity Swaps, forwards options and others	**2017-2020**	**167,033**	2015-2018	562,469
Total (refer note 20)		**677,020**		1,001,937

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 gain on these derivatives amounting AED 43.2 million *(2015: loss amounting to AED 27.9 million)* (refer note 26) has been taken to the consolidated profit or loss. Management is of the view that, open positions relating to these derivatives is not significant at the reporting date.

19. Provision for staff terminal benefits

	2016	2015
	AED '000	AED '000
At 1 January	**79,655**	65,301
Charge for the year	**22,976**	19,702
Payments made during the year	**(6,762)**	(5,348)
At 31 December	**95,869**	79,655

20. Trade and other payables

	2016 AED '000	2015 AED '000
Maintenance liabilities	**946,611**	765,374
Cash flow hedge liability (refer note 18)	**677,020**	1,001,937
Other payables	**422,234**	402,558
Accrued expenses	**307,149**	260,580
Trade payables	**123,723**	78,018
Due to related parties (refer note 13)	**47,072**	6,953
Advances from customers	**21,713**	24,166
Lease deposit payables	**8,369**	17,184
	2,553,891	2,556,770
Less: Amount due for settlement after 12 months (shown under non-current liabilities)	**(616,277)**	(511,997)
Less: Cash flow hedge liability due for settlement after 12 months (shown under non-current liabilities)	**(509,987)**	(439,468)
Amount due for settlement within 12 months	**1,427,627**	1,605,305

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

21. Finance lease liabilities

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

	2016 AED '000	2015 AED '000
Not later than one year	**398,186**	322,653
Later than one year but not later than five year	**1,675,071**	1,436,044
Later than five years	**1,804,618**	1,737,545
	3,877,875	3,496,242

The finance charges are calculated based on average interest rate of 2.90% *(2015: 2.47%)*.

Disclosed in the consolidated financial statements as:

	2016 AED '000	2015 AED '000
Non-current portion of finance lease liabilities	**3,479,689**	3,173,589
Current portion of finance lease liabilities	**398,186**	322,653
	3,877,875	3,496,242

21. Finance lease liabilities (continued)

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 unapproved subleasing, insurance coverage and maintenance of total debt to equity ratio. The Group was in compliance with these covenants as of 31 December 2015 and 2016.

22. Revenue

	2016 AED '000	2015 AED '000
Passenger revenue	**3,192,885**	3,271,412
Other airline related services	**200,940**	210,294
Service revenue	**131,470**	130,064
Cargo revenue	**92,714**	90,380
Aircraft lease rentals (net)	**87,449**	39,828
Revenue from hotel operations	**71,591**	80,691
Baggage revenue	**43,632**	46,346
Sales commission and expenses	**(42,673)**	(43,156)
	3,778,008	3,825,859

23. Direct costs

	2016 AED '000	2015 AED '000
Fuel costs (also refer note 18)	**1,309,001**	1,375,805
Staff costs	**545,111**	495,099
Depreciation of property and equipment (refer note 5)	**423,521**	375,613
Aircraft maintenance expenses	**286,790**	260,794
Passenger, ground and technical handling charges	**265,049**	225,746
Landing and overflying charges	**247,734**	219,226
Other operating costs	**56,435**	54,200
Insurance	**9,272**	13,012
Service costs	**4,389**	4,448
	3,147,302	3,023,943

24. General and administrative expenses

	2016 AED '000	2015 AED '000
Staff costs	**89,315**	76,126
Other general and administrative expenses	**61,600**	59,574
Depreciation of property and equipment (refer note 5)	**13,310**	10,861
Rent	**11,774**	8,294
Travel and accommodation costs	**6,398**	5,319
Legal and professional fees	**5,383**	5,547
Communication costs	**5,744**	5,483
	193,524	171,204

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

25. Selling and marketing expenses

	2016 AED '000	2015 AED '000
Staff costs	**35,949**	30,871
Advertisement expenses	**31,538**	33,819
Reservation management expenses	**4,559**	1,941
	72,046	66,631

26. Other income/(expenses)-net

	2016 AED '000	2015 AED '000
This mainly comprise:		
Gain/(loss) on derivative transactions (foreign currency and interest rate derivatives) (refer note 18)	**43,229**	(27,856)
Foreign currency exchange gains	**18,689**	15,768
Simulator and pilot/crew training income	**19,679**	16,359
Management fees from joint ventures and associates (refer note 13)	**11,687**	10,125
Ineffective/over-effective portion on cash flow hedges (refer note 18)	**2,842**	(84,098)
Rental income (refer notes 7 & 13)	**2,000**	2,800
Dividend income	**278**	5,533
Reversal of impairment provision	**-**	4,591

27. Basic earnings per share

	2016 AED	2015 AED
Profit attributable to the owners of the Company (in AED '000)	**490,423**	511,254
Number of shares (in '000)	**4,666,700**	4,666,700
Basic earnings per share (AED)	**0.11**	0.11

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.

28. Operating lease arrangements

28.1 Where the Group is a lessee:

	2016 AED '000	2015 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	**21,046**	53,900

The lease commitments for aircraft were as follows:

	2016 AED '000	2015 AED '000
Within one year	**15,178**	7,068
Between two and five years	**60,713**	-
Above five years	**33,350**	-
	109,241	7,068

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.

28.2 Where the Group is a lessor:

The Group has leased out 7 *(2015: 6)* aircraft under non-cancellable operating lease agreements to related parties.

28. Operating lease arrangements (continued)

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:

	2016	2015
	AED '000	AED '000
Within one year	**66,748**	59,676
Between two and five years	**69,885**	45,917
Above 5 years	**33,230**	-
	169,863	105,593

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

	2016	2015
	AED '000	AED '000
Net book value	**635,090**	686,780
Accumulated depreciation	**333,620**	281,930
Depreciation charge for the year	**51,690**	51,690

29. Contingent liabilities

	2016	2015
	AED '000	AED '000
Letters of credit	**191,006**	300,954
Letters of guarantee	**106,887**	36,420

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

30. Capital commitments

	2016	2015
	AED '000	AED '000
Authorised and contracted:		
Aircraft fleet	**1,994,562**	1,518,581
Authorised but not contracted:		
Aircraft fleet	-	1,422,807

Also refer note 5.

31. Dividend

During the year, dividend of AED 9 fils per share *(2015: AED 9 fils)* was paid to the Shareholders.

The Directors propose that a dividend of AED 326,669,000, AED 7 fils per share *(2015: AED 420,003,000, AED 9 fils per share)* will be paid to the Shareholders in 2017. 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.

32. Financial instruments

Accounting policies of financial assets and financial liabilities 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 and their fair values for the current year and the comparative year:

	Designated as fair value through other comprehensive income AED' 000	Others at amortised cost AED' 000	Carrying amount AED' 000	Fair value AED' 000
2016				
Financial assets				
Cash at bank and deposits	-	1,815,716	1,815,716	1,815,716
Trade and other receivables (excluding prepayments)	-	574,943	574,943	574,943
Other investments at amortised cost	-	459,129	459,129	459,129
Investments measured at amortised cost	-	367,315	367,315	367,315
Investments measured at FVOCI	329,761	-	329,761	329,761
	329,761	3,217,103	3,546,864	3,546,864
Financial liabilities				
Finance lease liabilities	-	3,877,875	3,877,875	3,877,875
Trade and other payables*	-	1,855,158	1,855,158	1,855,158
Cash flow hedge liability (derivative)	-	677,020	677,020	677,020
Short term borrowings	-	264,470	264,470	264,470
	-	6,674,523	6,674,523	6,674,523

*Excluding advances from customers and cash flow hedge liability.

32. Financial instruments (continued)

	Designated as fair value through other comprehensive income AED' 000	Others at amortised cost AED' 000	Carrying amount AED' 000	Fair value AED' 000
2015				
Financial assets				
Cash at bank and deposits	-	1,596,532	1,596,532	1,596,532
Trade and other receivables (excluding prepayments)	-	517,030	517,030	517,030
Investments measured at amortised cost	-	367,315	367,315	367,315
Other investments at amortised cost	-	333,654	333,654	333,654
Investments measured at FVOCI	297,083	-	297,083	297,083
	297,083	2,814,531	3,111,614	3,111,614
Financial liabilities				
Finance lease liabilities	-	3,496,242	3,496,242	3,496,242
Trade and other payables*	-	1,530,667	1,530,667	1,530,667
Cash flow hedge liability (derivative)	-	1,001,937	1,001,937	1,001,937
	-	6,028,846	6,028,846	6,028,846

*Excluding advances from customers and cash flow hedge liability.

32.1 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:

	2016 AED'000	2015 AED'000
Bank balances and deposits	**1,815,716**	1,596,532
Trade and other receivables (excluding prepayments)	**574,943**	517,030
Investments measured at amortised cost	**367,315**	367,315
Other investments	**459,129**	333,654
Investments measured at FVOCI	**329,761**	297,083
Total assets	**3,546,864**	3,111,614

32. Financial instruments (continued)

32.2 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 Amount AED'000	Contractual cash flows AED'000	Less than one year AED'000	More than one year AED'000
31 December 2016				
Financial liabilities				
Finance lease liabilities	**3,877,875**	**(4,756,151)**	**(409,733)**	**(4,346,418)**
Trade and other payables*	**1,855,158**	**(1,855,158)**	**(1,238,881)**	**(616,277)**
Cash flow hedge liability (derivative)	**677,020**	**(677,020)**	**(167,033)**	**(509,987)**
Short term borrowings	**264,470**	**(265,286)**	**(265,286)**	**-**
	6,674,523	**(7,553,615)**	**(2,080,933)**	**(5,472,682)**
31 December 2015				
Financial liabilities				
Finance lease liabilities	3,496,242	(4,288,084)	(330,621)	(3,957,463)
Trade and other payables*	1,530,667	(1,530,667)	(1,018,670)	(511,997)
Cash flow hedge liability (derivative)	1,001,937	(1,001,937)	(562,469)	(439,468)
	6,028,846	(6,820,688)	(1,911,760)	(4,908,928)

*Excluding advances from customers and cash flow hedge liability.

32.3 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 statement of comprehensive income AED'000	Effect on consolidated profit or loss AED'000
31 December 2016		
Effect of changes in investments	**32,976**	**-**
31 December 2015		
Effect of changes in investments	29,708	-

32. Financial instruments (continued)

32.4 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:

	2016 AED'000	2015 AED'000
Fixed rate instruments		
Financial assets		
Fixed deposits	**1,644,850**	1,365,987
Investments	**826,444**	700,969
Margin deposits	**1,800**	1,767
	2,473,094	2,068,723

	2016 AED'000	2015 AED'000
Variable rate instruments		
Financial liabilities		
Finance lease liabilities	**3,877,875**	3,496,242
Short-term borrowings	**264,470**	-
	4,142,345	3,496,242

Sensitivity analysis for variable rate instruments

A change of 100 basis points ("bp") in interest rates at the reporting date would have increased/(decreased) the consolidated equity and the 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	
	100 bp increase AED'000	**100 bp decrease AED'000**
31 December 2016		
Variable rate instruments	**(41,423)**	**41,423**
31 December 2015		
Variable rate instruments	(34,962)	34,962

32. Financial instruments (continued)

32.5 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 2016

	Level 1 AED '000	**Level 2 AED '000**	**Level 3 AED '000**
Financial liabilities			
Cash flow hedge liability	-	**(677,020)**	-
Financial assets			
Investments measured at fair value through other comprehensive income			
- Unquoted investments	-	**319,502**	-
- Quoted investments	**10,259**	-	-
	10,259	**(357,518)**	-

31 December 2015

	Level 1 AED '000	Level 2 AED '000	Level 3 AED '000
Financial liabilities			
Cash flow hedge liability	-	(1,001,937)	-
Financial assets			
Investment measured at fair value through other comprehensive income			
- Unquoted investments	-	287,332	
- Quoted investments	9,751	-	-
	9,751	(714,605)	-

33. 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 2016	Airline AED '000	Other segments AED '000	Eliminations AED '000	Total AED '000
Revenue				
External sales	3,574,781	203,227	-	3,778,008
Inter-segment sales	-	11,771	(11,771)	-
Total revenue	3,574,781	214,998	(11,771)	3,778,008
Result				
Segment result	463,832	69,527	(31,636)	501,723
Share of profit from equity accounted investments				7,045
Profit for the year				508,768
Other information				
Additions to property and equipment, investment properties and deferred charges	1,140,827	6,285	-	1,147,112
Depreciation and amortisation	434,401	7,676	-	442,077
Assets				
Segment assets	10,070,468	296,238	(142,005)	10,224,701
Unallocated Group assets				2,287,999
Total assets				12,512,700
Liabilities				
Segment liabilities	7,022,118	144,973	(142,005)	7,025,086

33. Segment information (continued)

Primary reporting format - business segments (continued)

31 December 2015	Airline AED '000	Other segments AED '000	Eliminations AED '000	Total AED '000
Revenue				
External sales	3,615,064	210,795	-	3,825,859
Inter-segment sales	-	2,947	(2,947)	-
Total revenue	3,615,064	213,742	(2,947)	3,825,859
Result				
Segment result	486,621	75,284	(30,442)	531,463
Share of loss from equity accounted investments				(875)
Profit for the year				530,588
Other information				
Additions to property and equipment, investment properties and deferred charges	1,116,935	17,414	-	1,134,349
Depreciation and amortisation	385,364	5,897	-	391,261
Assets				
Segment assets	9,341,078	260,340	(128,142)	9,473,276
Unallocated Group assets				1,925,584
Total assets				11,398,860
Liabilities				
Segment liabilities	6,441,319	87,844	(128,142)	6,401,021

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/(loss) 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.

34. 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.

Valuation of unquoted investments

The Group carries out fair 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.

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

34. Significant accounting estimates and judgements (continued)

Classification of leases

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

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 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

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

34. 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. Management has considered residual values while computing the depreciation for aircraft, aircraft engines and aircraft rotables and equipment. Significant judgement is applied in estimating the residual value of aircraft.

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, other and related party receivables

An estimate of the collectible amount of trade, other and related party receivables is made when collection of the full amount is no longer probable. This determination of whether these trade, other 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 the 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 the 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.

35. 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.