



**Arik Air Limited (In Receivership)
Annual Report and Financial Statements
for the year ended 31 December 2019**



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Corporate information

Board of directors

Sir Johnson Arumemi-Ikhide	-	Chairman
Dr. Michael Arumemi-Ikhide	-	Director
Mr. Chris Ndulue	-	Director
Capt. Ado Sanusi	-	Director
Engr. Olubiyi Sangowawa	-	Director

Appointed due to AMCON debt recovery process:

Capt. Roy Ilegbodu	-	Chief Executive Officer	(Appointed 6 February 2017)
Oluseye Opasanya	-	Receiver Manager	(Appointed 6 February 2017; Resigned 6 June 2019)
Kamilu Alaba Omokide (FCA)	-	Receiver Manager	(Appointed 10 June 2019)

Company secretary

Oluseun Oludimu

Registered office

Arik Aviation Centre
Murtala Muhammed Domestic Airport
P.O. Box 10468
Ikeja, Lagos

Independent auditors

PricewaterhouseCoopers
Chartered Accountants
Landmark Towers
5B Water Corporation Road
Victoria Island
Lagos
Nigeria



Report of the Receiver Manager

The Receiver Manager submits the report together with the audited financial statements for the year ended 31 December 2019, which disclose the state of affairs of the Company.

Incorporation

Arik Air Limited was incorporated in Nigeria under the Companies and Allied Matters Act as a private limited liability Company, and is domiciled in Nigeria. Arik Air Limited ('the Company' or 'Arik Air') was incorporated on 2 July 2004 and commenced business operations on 1 January 2006. The commercial flight operations commenced on 30 October 2006.

Principal activities

The principal activities of the Company are the provision of scheduled and chartered flight services to members of the general public, corporations and government establishments. As at the balance sheet date, the Company owned a fleet of twenty-two (22) aircrafts.

Appointment of Receiver Manager

In February 2017, the Asset Management Corporation of Nigeria (AMCON) in exercise of its powers under the AMCON Act 2010 (as amended) appointed Mr Oluseye Opasanya, SAN as Receiver Manager over the entire affairs of the Company. AMCON is a creditor to the Company.

Mr Oluseye Opasanya (SAN) resigned on 6 June 2019 and Kamilu Alaba Omokide (FCA) was appointed as Receiver Manager on 10 June 2019.

Results and dividend

Details of the Company's results for the year are set out on page 14 in the statement of profit or loss and other comprehensive income. The results has been transferred to reserves. No dividend is proposed by the directors (2018:Nil).

	31 December 2019 N '000	31 December 2018 N '000
Revenue	40,647,638	42,703,399
Operating (loss)/profit	(5,146,525)	3,337,223
Loss before taxation	(25,133,641)	(15,101,732)
Loss after taxation	(29,738,325)	(15,101,732)

Directors

The directors who held office during the year and to the date of this report were:

Sir Johnson Arumemi-Ikhide	Chairman
Dr. Michael Arumemi-Ikhide	Director
Mr. Chris Ndulue	Director
Capt. Ado Sanusi	Director
Engr. Olubiyi Sangowawa	Director

The names of the directors stated above are the names on the particulars of directors document filed with the Corporate Affairs Commission of Nigeria (CAC) prior to the appointment of a Receiver Manager.

Appointed due to AMCON debt recovery process:

Capt. Roy Ilegbodu	Chief Executive Officer	(Appointed 6 February 2017)
Oluseye Opasanya	Receiver Manager	(Appointed 6 February 2017; Resigned 6 June 2019)
Kamilu Alaba Omokide (FCA)	Receiver Manager	(Appointed 10 June 2019)

Directors' shareholding

The direct and indirect interests of directors in the issued share capital of the Company as recorded in the register of directors' shareholdings for the purposes of sections 275 and 276 of the Companies and Allied Matters Act are as follows:

	Number of shares held as at 31 December	
	2019 ('000)	2018 ('000)
Sir Johnson Arumemi-Ikhide	1,200,000	1,200,000



Report of the Receiver Manager

Significant Shareholding

According to the register of members at 31 December 2019, the following shareholders of the Company held more than 10% of the issued share capital of the Company:

	Number of shares held	Percentage held
Sir Johnson Arumemi-Ikhide	1,200,000,000	60%
Dame Mary Arumemi-Ikhide	700,000,000	35%

Status of the board of directors

In February 2017, the Asset Management Corporation of Nigeria (AMCON) in exercise of its powers under the AMCON Act 2010 (as amended) appointed Mr Oluseye Opasanya (SAN) as Receiver Manager to oversee the affairs of the Company. The Receiver Manager has taken charge of the Company from the date of the appointment and has authorised the preparation of these financial statements.

On 6 June 2019, Mr Oluseye Opasanya (SAN) resigned from his position as Receiver Manager. Kamilu Alaba Omokide (FCA) was then appointed as Receiver Manager on 10 June 2019.

Directors' interests in contracts

None of the directors has notified the Company for the purpose of section 277 of the Companies and Allied Matters Act of their direct or indirect interest in contracts or proposed contracts with the Company during the year.

Suppliers and technical agreements

The Company's business operations require the importation of specialised aircraft equipment as well as aviation services. Major suppliers are:

- Boeing (provider of B737-700NG and B737-800NG aircraft)
- Bombardier (provider of Dash 8-Q400, CRJ900 and CRJ 1000 aircraft)

Arik Air Limited has technical agreements with Samco Aircraft Maintenance B.V and Ethiopian Airlines for the maintenance of CRJ 900, CRJ 1000, Dash 8-Q400 and B737-700. Tarmac Aerosave provides storage and preservation service for A340-500.

Employment of disabled persons

The Company has a policy of fair consideration of job applications by disabled persons having regard to their abilities and aptitude. The Company's policy prohibits discrimination of disabled persons in the recruitment, training and career development of its employees. At present, the Company has no disabled persons in its employment.

Employee health, safety and welfare

The management of the Company creates awareness among employees and ensure continuous improvement in safety and environmental performance thus various programmes have been implemented including training seminars for employees at all levels and having specific programmes and drills aimed at eliminating unsafe acts in the workplace.

The Company provides medical care for its employees and their families through designated hospitals and clinics.

Fire prevention and fire-fighting equipment are installed in strategic locations within the Company's premises.

Report of the Receiver Manager

Donations and gifts

The Company made the following donations and charitable gifts during the year:

	N'000
Abali Youth Association	300
Oropotoma Ruwhimmini	300
Ikwere/Etche Unity Forum	300
National Association Of Aircraft Pilots and Engineers	300
National Union of Air Transport Employees	300
Air Transport Services Senior Staff Association of Nigeria	300
National Television Authority	200
Lagos State University	250
League of Airport & Aviation Correspondents	750
Institute of Chartered Accountants of Nigeria	500
Honorarium for Aviation Journalist	200
Redeemer's University	250
9 Brigade Primary School Ikeja	250
	4,200

The Company did not make any donation to any political organisation during the year (2018: Nil).

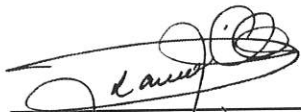
Property, plant and equipment

Information relating to changes in property, plant and equipment is given in Note 14 to the financial statements. In the Receiver Managers' opinion, the market value of the Company's property and equipment is not less than the value shown in the financial statements.

Auditors

PricewaterhouseCoopers have indicated their willingness to continue in office, in accordance with Section 357(2) of the Companies and Allied Matters Act.

By order of the Receiver Manager:



Kamilu Aaba Omokide (FCA)
Receiver Manager

Statement of Receiver Manager's Responsibilities

The Companies and Allied Matters Act requires the receiver manager to prepare financial statements for each financial year that give a true and fair view of the state of financial affairs of the Company at the end of the year and of its profit or loss. The responsibility includes:

- a) Ensuring that the Company keeps proper accounting records that disclose, with reasonable accuracy, the financial position of the Company and comply with the requirements of the Companies and Allied Matters Act;
- b) Designing, implementing, and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error; and
- c) Preparing the Company's financial statements using suitable accounting policies supported by reasonable and prudent judgements and estimates that are consistently applied.

The Receiver Manager accepts responsibility for the annual financial statements, which have been prepared using appropriate accounting policies supported by reasonable and prudent judgements and estimates, in conformity with the International Financial Reporting Standards and the requirements of the Companies and Allied Matters Act.

The Receiver Manager is of the opinion that the financial statements give a true and fair view of the state of the financial affairs of the Company and of its profit or loss. The Receiver Manager further accepts responsibility for the maintenance of accounting records that may be relied upon in the preparation of financial statements, as well as adequate systems of internal financial control.

Nothing has come to the attention of the Receiver Manager to indicate that the Company will not remain a going concern for at least twelve months from the date of this statement.

In February 2017, the Asset Management Company of Nigeria (AMCON) in exercise of its powers under the AMCON Act 2010 (as amended) appointed Mr Oluseye Opasanya (SAN) as Receiver Manager to oversee the affairs of the company. The Receiver Manager has taken charge of the company from the date of the appointment and has authorised the preparation of these financial statements.

On 6 June 2019, Mr Oluseye Opasanya (SAN) resigned from his position as Receiver Manager. Kamilu Alaba Omokide (FCA) was then appointed as Receiver Manager on 10 June 2019.

Overview of the Nigerian Economy

For the Nigerian aviation industry 2019 began on a relatively high note, particularly following the country's recovery from recession. According to the NBS, the contribution of the Aviation industry to Nigeria's economy (in nominal value) increased by 0.14% in 2019, as it rose to N198.62 billion. Prior to 2019, the Aviation Industry contributed N149.35 billion to the country's gross domestic product in 2018, representing 0.12%, but in 2019, the figure increased due to political activities in Nigeria. In 2019, domestic airlines were busy due to political campaigns, which were rampant across the country. The government stability after the election and increased Foreign Direct Investment as well as stable foreign exchange impacted positively on the performance of the Aviation industry during the year.

Real GDP growth was estimated at 2.3% in 2019, marginally higher than 1.9% in 2018. Growth was mainly in transport, an improved oil sector, and information and communications technology. Agriculture was hurt by sporadic flooding and by conflicts between herdsmen and local farmers. Manufacturing continues to suffer from a lack of financing. Household consumption was the key driver of growth in 2019, reinforcing its 1.1% contribution to real GDP growth in 2019.

The effort to lower inflation to the 6%–9% range faced structural and macroeconomic constraints, including rising food prices and arrears payments, resulting in a rate estimated at 11.3% for 2019.



Statement of Receiver Manager's Responsibilities

Overview of the Nigerian Economy (continued)

With fiscal revenues below 7% of GDP, increased public spending widened the deficit, financed mainly by borrowing. At the end of June 2019, total public debt was \$56.5 billion—14.6% higher than the year before. That debt represented 20.1% of GDP, up from 17.5% in 2018. Domestic public debt amounted to \$56.7 billion, and external public debt \$27.2 billion. The share of bilateral debt in total debt was estimated at 12.1%, and that of Eurobonds at 40.8%. High debt service payments, estimated at more than half of federally collected revenues, created fiscal risks.

Current economic state

According to the NBS, the contribution of the Aviation industry to Nigeria's economy increased by 0.14% in 2019.

The growth experienced in the sector is primarily due to an increase in the sale of tickets within the country, which has been stimulated by the relatively stable economy, smooth transition during the election year and the inflow of FDIs into the economy.

The stability in the economy has renewed stakeholder trust in the aviation industry. As a result, foreign airlines have increased the frequency with which they operate in the country and have opened more routes through Nigeria.

This is a promising indication for the aviation industry, as increased travel will help to achieve the objective of becoming the primary travel hub in West Africa and ultimately generate more revenue for the country. Some of the foreign airlines opening new routes in Nigeria include:

- i) Delta Airlines;
- ii) RwandAir; and
- iii) Emirates

In addition, Nigeria was among the member nations to ratify the Single African Air Transport Market (SAATM). It is expected that the SAATM will triple passenger movement in the West African coastal region and throughout the rest of Africa, thereby boosting the GDP of member nations.

An analysis of aviation trends conducted by Oxford Economic in collaboration with the International Air Transport Association found that the role of aviation and the development of its infrastructure is instrumental in the growth of a country's economy. The research concluded that global economic growth is linked to and dependent on growth in aviation.

Arik's challenges with creditors under Receivership

In the course of the receivership, the Receiver Manager received diverse claims of indebtedness from various financial institutions both within and outside the shores of Nigeria, airports and aviation authorities, service providers including staff and insurance providers. In view of the peculiarities of the industry, some of these creditors are considered as very critical to the operation of Arik Air and as such we have to come to a round table talk with them to manage their expectations and enlist their cooperation towards ensuring continuous stabilization of Arik's operations.

Future prospects – Stabilizing Arik's operations

The huge loan portfolio of Arik made it almost impossible to continue running the business, as banks refused to lend and fuel suppliers refused to supply. These posed a great challenge to the whole effort put into stabilization of Arik's operation. We had to enter into negotiation with these critical lenders and we were able to obtain some discount with a more robust and realistic restructured tenor of the net outstanding obligations.



Statement of Receiver Manager's Responsibilities

Future prospects – Stabilizing Arik's operations (continued)

Furthermore, we also looked in the area of reducing the time it takes to maintain aircraft by entering into further discussion with critical Maintenance, Repair and Operations (MRO) companies, who agreed to a workable and realistic restructuring of the net outstanding obligation, leading to the release of aircraft that were held as lien. In order to also cushion the effect of revenue loss due to Aircraft On Ground (AOG) incidents, Arik Air negotiated and executed maintenance agreements with internationally renowned MRO companies which will ensure that faulty aircraft spare parts are promptly replaced with no delay to the flying public thereby improving customer services and consequently reducing loss of revenue to the airline.

In order to also reduce the enormous portfolio of litigation, Arik Air have also taken a proactive decision to settle some cases out of court thereby curtailing or reducing cost and expenses on litigation.

Receiver Manager View on Qualified Balances

The representations of the Receiver Manager, explanations and clarifications are necessary inputs for the preparation of financial records. At the resumption of the Receivership, attempts to engage the major shareholder/director of the Company to obtain explanations on some issues were rebuffed. Secondly, the winding down of Arik Air International by its shareholders who were under the control and direction of major shareholders of Arik Air Ltd, in Receivership, meant that the new management could not access documents utilised for interCompany transactions.

Notwithstanding our best efforts at independent audit circularisation, we were unable to reconcile or place reliance on the completeness, validity and accuracy of some balances on Account Payable, Account Receivable, and InterCompany balances with similar or related ownership as Arik Air Limited (in Receivership). This includes Arik Air International Limited, Ojemai Farms Limited, Rockson International, Hansworth Limited, etc.

Further to the commencement of the Receivership, the Receiver Manager has taken decisions to deal with the cashflow challenges of the Company, exit unprofitable relationships and preserve the operational stability of the airline. A critical part of this has been the immediate suspension of the unprofitable international operations of the airline and cancellation of lease arrangements dedicated to such operations.

We will therefore provide clarifications and explanations on key Pre-Receivership (before Feb 2017) posting impacted by the above, and whose existence, accuracy and completeness could not be confirmed as of the time of the audit, as follows:

- a) Trade Receivables: This includes the sum of N1.7 billion representing receivables from Rockson Engineering Limited. This is a related Company.
- b) Intercompany Receivables: This includes the sum of N2.2 billion representing receivables from Ojemai Farms Limited, Rockson International, Hansworth Limited, and Arik Air International Limited, all related companies to Arik.
- c) Trade Payables: This includes aggregate net receivables of N11.7 billion, comprising N9.6 billion from foreign vendors, N2.1 billion from local vendors and N24.9 payable to certain industry regulatory authorities. Under the Receivership, we have taken several steps to reconcile these balances. These includes:
 - i) Circularization of the creditors to confirm the existence and accuracy of the balances captured on our books. Under this scenario, we sent letters to local and foreign vendors with the objective of reconciling their balances with that of Arik Air Limited. We should however note that this did not yield the required result as only few creditors responded to our letters while we did not receive feedback from a substantial number of creditors. The balances remain largely unreconciled as we could not access financial records on some of the vendor due to the commencement of the Receivership and the winding down of Arik Air International Limited by the Company's shareholders.
 - ii) We have had reconciliation meetings with various federal aviation agencies and regulator without achieving a sign-off. These are critical vendors and partners. Arising from AMCON, Ministry of Finance and CBN intervention, Arik has enjoyed standstill in the payment of the pre-Receivership balances.
 - iii) We have also held reconciliation meetings with key creditors immediately relevant to the operations of the business of the Company covering maintenance, fuelling activities, ground handling, hotels, etc. We negotiated discounts on the outstanding obligations and agreed repayment terms in line with the cash flow capabilities of the Company. These have been duly communicated to the auditors and recognised accordingly.

Statement of Receiver Manager's Responsibilities

Receiver Manager View on Qualified Balances (continued)

- d) **Intercompany Payables:** This includes the sum of N13.1 billion which is payable to Ojemai Investments Limited and Arik Air International Limited. These are related Companies.
- e) **Other Receivables:** This comprises the sum of N9.1 billion which represents maintenance reserve receivable from Standard Chartered Bank (aircraft lessors) named Squa and Night Jar. These payments were made alongside the monthly lease payments made by Arik to the lessors. We have reached out to the lessor at several times with a view to reconciling the position, but the situation remained unreconciled as we disagreed with the claim at the time of the audit.

Receiver Manager View on Taxes

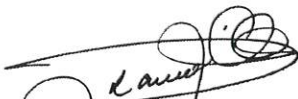
The Receivership team, working with the tax consultant and with the support of AMCON and the Ministry of Finance has worked with the Federal Inland Revenue Service (FIRS) and several state tax authorities to reconcile and resolve various back duty tax obligations. Arik has agreed a tax liability of N5.85 billion for the pre-Receivership period 2011 to 2016 with FIRS. This includes withholding tax, VAT, Company Income Tax, etc. This has inevitably led to enforcement actions from FIRS. The enforcement has however been tempered and efforts are underway to open the FIRS portal to allow for the balance payment of post Receivership tax obligations.

Significant Creditor Action

- a) **Access Bank Plc:** Arik had a property with a carrying value of N3.55 billion used as security for a facility taken from Access Bank Plc. Following a default by Arik, the bank sold the property and transferred N1.25 billion as net proceeds after recovering the outstanding loan balance. N2,295,250.00 loss on sale of property of was charged to the books leaving an outstanding loan balance of N6.3 billion. The Receiver Manager will take this into consideration in agreeing final settlement with the lender.
- b) **African Export-Import Bank Limited:** In 2019, Arik entered negotiations with the bank, which led to a N5.4 billion debt forgiveness in favour of the company but under specific terms. Arik is yet to fulfil the said conditions hence, the loan reduction is yet to be reflected in the books, until conditions precedent is met. As at 31 December 2019, the loan amount stood at N9.2 billion.
- c) **Asset Management Corporation of Nigeria (AMCON):** The Corporation held Arik's 89,876,250 units of ordinary shares of Zenith Bank Plc as collateral shares. In 2019, N224,691,000.00 was received as dividends on the shares and the value was credited to Arik's loan account to reduce the company's obligation. The shares were, however, not in the books of Arik as at reporting date.

AMCON Exit plan

AMCON will continue to interact with existing shareholders with a view to achieving an amicable resolution of the outstanding debts and may consider giving reasonable concessions to Arik. However, where the shareholders are unable to resolve the loans, AMCON will work with various partners to preserve the assets of the Company, its business interests, and achieve reasonable cash flow for creditors using available exit options under the AMCON Act.



Kamilu Alaba Omokide (FCA)

Receiver Manager

May 23, 2023



Independent auditor's report

To the Members of Arik Air Limited (In Receivership)

Report on the audit of the financial statements

Our qualified opinion

In our opinion, except for the effects of the matters described in the Bases for qualified opinion section of our report, the financial statements give a true and fair view of the financial position of Arik Air Limited (In Receivership) (the "company") as at 31 December 2019, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and the requirements of the Companies and Allied Matters Act and the Financial Reporting Council of Nigeria Act.

What we have audited

Arik Air Limited's (In Receivership) financial statements comprise:

- the statement of profit or loss and other comprehensive income for the year ended 31 December 2019;
- the statement of financial position as at 31 December 2019;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies.

Bases for qualified opinion

Included in trade receivables balance is N1.7 billion which is receivable from a debtor. The company has not provided sufficient appropriate audit evidence regarding the existence, accuracy and completeness of this balance. In the absence of evidence to support this balance, we are unable to conclude whether any adjustments to this amount and related balances are necessary.

Included in trade payables are net receivable balances amounting to N11.8 billion, comprising of N9.6 billion receivable from foreign vendors and N2.2 billion receivable from local vendors. No reconciliation has been carried out regarding these balances. No confirmation responses were received. The company has not provided sufficient appropriate audit evidence regarding the existence, accuracy, rights and obligation and completeness of the aggregate trade payables balances. In the absence of evidence to support this balance, we are unable to conclude whether any adjustments to this amount and related balances are necessary.

Included in other current liabilities balance is N14.1 billion which is payable to related parties. The company has not substantiated the existence, accuracy, rights and obligation and completeness of this liability. In the absence of evidence to support this balance, we are unable to determine whether any adjustments to this amount and related balances are necessary.

Included in other assets balance is N2.3 billion which is receivable from related parties. The company has not provided sufficient appropriate audit evidence regarding the existence, accuracy and completeness of these



related party balances. In the absence of evidence to support these balances, we are unable to conclude whether any adjustments to these amounts and related balances are necessary.

Furthermore, included in trade payables is a balance of N25.7 billion arising from transactions with certain industry regulatory authorities. The company has been unable to provide any information on the accuracy, rights and obligation and completeness of this balance; hence we are unable to determine whether any adjustments to these amounts and related balances and disclosures are necessary.

Included in the other assets is N9.1 billion which is receivable from aircraft lessors and maintenance service providers. The company has been unable to provide any information on the accuracy and completeness of this balance; hence we are unable to determine whether any adjustments to these amounts and related balances and disclosures are necessary.

Included in other income is N224.6 million arising from dividend income from investment in Zenith Bank Plc. The company could not provide information regarding the year of acquisition, nor of how the acquisition was funded. In addition, management has not recognised the underlying investment in the financial statements. We were unable to obtain sufficient appropriate audit evidence about the accuracy and carrying amount of the company's investment in Zenith Bank Plc as of 31 December 2019 and the impact on comparative balances. Consequently, we were unable to determine whether any adjustments were necessary to the financial statements for both the current and prior years.

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report.

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

Independence

We are independent of the Company in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards), i.e. the IESBA Code issued by the International Ethics Standards Board for Accountants. We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

Material Uncertainty Relating to Going Concern

We draw attention to Note 2.4.1 in the financial statements, which indicates that the Company incurred a net loss of N25.6 billion during the year ended 31 December 2019 and, as of that date, the Company's total liabilities exceeded its total assets by N218.2 billion. As stated in Note 2.4.1, these events or conditions, along with other matters as set forth in Note 2.4.1, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other information

The receiver manager is responsible for the other information. The other information comprises the Corporate information, Report of the Receiver Manager, Statement of Receiver Manager's Responsibilities, Statement of



Value Added and Five-Year Financial Summary, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express an audit opinion or any form of assurance conclusion thereon.

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

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

As described in the Bases for qualified opinion section above, we were unable to obtain sufficient evidence about the balances stated above. We are unable to conclude whether or not the other information is materially misstated with respect to these matters.

Responsibilities of the receiver manager and those charged with governance for the financial statements

The receiver manager is responsible for the preparation of the financial statements that give a true and fair view in accordance with International Financial Reporting Standards and the requirements of the Companies and Allied Matters Act, and for such internal control as the receiver manager determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the receiver manager is responsible for assessing the company'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 the receiver manager either intends to liquidate the company or to cease operations, or have no realistic alternative but to do so.

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

Auditor's responsibilities for the audit of the financial statements

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

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

- Identify and assess the risks of material misstatement of the 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 company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the receiver manager.
- Conclude on the appropriateness of the receiver manager'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 company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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.

Report on other legal and regulatory requirements

The Companies and Allied Matters Act requires that in carrying out our audit we consider and report to you on the following matters. We confirm that except for the limitation identified above:

- i) We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit;
- ii) The company has kept proper books of account, so far as appears from our examination of those books and returns adequate for our audit have been received from branches not visited by us;
- iii) The company's statement of financial position and statement of profit or loss and other comprehensive income are in agreement with the books of account.

Oladele Oladipo

For: **PricewaterhouseCoopers**
Chartered Accountants
Lagos, Nigeria

Engagement Partner: Oladele Oladipo
FRC/2013/ICAN/00000002951



30 May 2023

**Statements of profit or loss and other comprehensive income
for the year ended 31 December 2019**

<i>In thousands of naira</i>	Note	31 December 2019	31 December 2018
Passengers	4	21,508,992	21,081,758
Cargo and surcharge revenue	4	19,138,646	21,621,641
Revenue		40,647,638	42,703,399
Aviation fuel and oil expense		(8,686,052)	(12,495,238)
Aircraft maintenance expense		(4,506,704)	(3,836,244)
Depreciation and amortisation expenses	14 & 15	(9,459,563)	(6,120,849)
Employee benefit expenses	10	(7,691,704)	(8,118,888)
Landing, navigation and other charges	5	(1,647,135)	(1,646,021)
Loss allowance on trade receivables	6	(713,541)	(26,208)
Other operating expenses	6.1	(6,872,620)	(2,149,202)
Aircraft handling and catering charges	7	(1,354,569)	(2,026,944)
Accommodation and hotel expenses		(135,213)	(138,923)
Insurance expenses	8	(1,330,897)	(1,400,733)
Administrative expenses	9	(1,512,500)	(1,141,765)
Information technology related expenses		(291,932)	(265,161)
Impairment of aircrafts and related technical equipment	14	(1,591,732)	-
Total expenses		(45,794,163)	(39,366,176)
Operating (loss)/profit		(5,146,525)	3,337,223
Finance cost	11	(23,098,972)	(21,603,955)
Finance income	11	146,565	381,829
Finance costs-net		(22,952,407)	(21,222,126)
Other income	12	3,121,626	2,960,179
Minimum tax charge	13	(156,336)	(177,008)
Loss before tax		(25,133,641)	(15,101,732)
Income tax charge	13	(4,604,684)	-
Loss after tax		(29,738,325)	(15,101,732)
Other comprehensive income		-	-
Other comprehensive income for the year, net of tax		-	-
Total comprehensive loss for the year, net of tax		(29,738,325)	(15,101,732)

The notes on pages 18 to 52 form part of these financial statements.

**Statement of financial position
as at 31 December 2019**


<i>In thousands of naira</i>	Note	31 December 2019	31 December 2018
Assets			
Non-current assets			
Property, plant and equipment	14	105,934,510	110,621,261
Right-of-use assets	15	206,648	-
Intangible assets	16	216,771	219,922
Deposit for aircraft	17	13,016,252	13,016,252
Total non-current assets		119,374,181	123,857,435
Current assets			
Inventories	19	2,543,619	2,219,281
Other receivables	18	25,173	13,885
Trade receivables	20	3,107,873	2,248,899
Prepayments	20	1,416,952	202,274
Other assets	21	12,097,879	12,132,864
Cash and cash equivalents	22	2,880,424	6,740,422
Total current assets		22,071,920	23,557,625
Total assets		141,446,101	147,415,060
Equity and liabilities			
Equity			
Share capital	30	2,000,000	2,000,000
Retained earnings		(224,321,004)	(194,582,679)
Total equity		(222,321,004)	(192,582,679)
Non-current liabilities			
Deferred income	27	-	824,184
Lease liabilities	25	130,057	-
Total non-current liabilities		130,057	824,184
Current liabilities			
Trade payables	23	45,354,639	46,212,103
Loans and borrowings	24	257,499,515	229,600,338
Lease liabilities	25	93,316	-
Other current liabilities	26	31,064,516	39,509,388
Deferred income	27	-	555,155
Contract liabilities	28	2,298,768	731,297
Deposit for shares	29	21,600,000	21,600,000
Income tax payable	13	5,726,294	965,274
Total current liabilities		363,637,048	339,173,555
Total equity and liabilities		141,446,101	147,415,060

The notes on pages 18 to 52 form part of these financial statements.

The financial statements on pages 14 to 54 were approved and authorised for issue by the Receiver Manager on May 23, 2023 _____ and were signed on his behalf by:



Kamilu Alaba Ompkide (FCA)
Receiver Manager



Capt. Roy Ilegbodu
Chief Executive Officer



**Statement of changes in equity
for the year ended 31 December 2019**

<i>In thousands of naira</i>	Share capital	Retained earnings	Total equity
As at 1 January 2018	2,000,000	(179,480,947)	(177,480,947)
Loss for the year	-	(15,101,732)	(15,101,732)
As at 31 December 2018	2,000,000	(194,582,679)	(192,582,679)
As at 1 January 2019	2,000,000	(194,582,679)	(192,582,679)
Loss for the year	-	(29,738,325)	(29,738,325)
As at 31 December 2019	2,000,000	(224,321,004)	(222,321,004)

The notes on pages 18 to 52 form part of these financial statements.



Statement of cash flows for the year ended 31 December 2019

	Note	31 December 2019 N '000	31 December 2018 N '000
Operating activities			
Loss before tax		(25,133,641)	(15,101,732)
Non-cash adjustments:			
Depreciation of property, plant and equipment	12	9,358,802	6,045,553
Loss on sale of property, plant and equipment	6.1	2,295,250	-
Impairment of property, plant and equipment	14	1,591,732	-
Depreciation of right of use asset	15	102,818	-
Amortisation of intangible assets	13	100,761	75,296
Rights-of-use assets at date of initial application	15	(122,495)	-
Lease liabilities at date of initial application	25	68,095	-
Foreign exchange difference		1,603,033	(137,604)
Non-cash changes to borrowings		6,678,389	375,841
Government grant	12	(1,379,339)	(1,428,762)
Minimum tax	13	156,336	177,008
Finance income	11	(146,565)	(381,829)
Interest expense on lease liability	11	39,475	-
Interest on loans and borrowings	11	22,804,028	21,237,775
Working capital adjustments:			
Changes in trade and other receivables		(2,049,955)	82,499
Changes in inventory		(324,338)	(621,761)
Changes in trade payables		(857,464)	1,280,743
Changes in other liabilities		(8,444,872)	6,289,639
Changes in contract liabilities		1,567,471	(645,266)
Cash flow from operations		7,907,522	17,247,401
Income tax paid		-	(1,189)
Net cash inflows from operating activities		7,907,522	17,246,212
Investing activities			
Acquisition of property, plant and equipments	12	(9,809,212)	(6,083,122)
Additions to lease liabilities	25	115,802	-
Acquisition of right of use asset	15	(186,972)	-
Proceeds from sale of property, plant and equipments		1,250,180	-
Acquisition of intangible assets	13	(97,610)	(154,264)
Interest received	11	146,565	381,829
Net cash outflows from investing activities		(8,581,248)	(5,855,558)
Financing activities			
Repayments of borrowings		(3,540,310)	(2,887,872)
Net cash outflows from financing activities		(3,540,310)	(2,887,872)
Net increase in cash and cash equivalents		(4,214,037)	8,502,782
Cash and cash equivalent at beginning of the year		578,115	(7,924,667)
Cash and cash equivalent at end of the year	22	(3,635,922)	578,115

1 The Company

In February 2017, the Asset Management Corporation of Nigeria (AMCON) in exercise of its powers under the AMCON Act 2010 (as amended) appointed Mr Oluseye Opasanya (SAN) as Receiver Manager to oversee the affairs of the Company. The Receiver Manager has taken charge of the Company from the date of the appointment and has authorised the preparation of these financial statements.

On 6 June 2019, Mr Oluseye Opasanya (SAN) resigned from his position as Receiver Manager. Kamilu Alaba Omokide (FCA) was then appointed as Receiver Manager on 10 June 2019.

The financial statements of Arik Air Limited (In Receivership) for the year ended 31 December 2019 were authorised for issue by the Receiver Manager. Arik Air Limited, "the Company" or "Arik Air", is a limited liability Company incorporated on 2 July 2004 and domiciled in Nigeria. The Company commenced business operations and commercial flight operations on 30 October 2006. The registered office is located at Arik Air Aviation Center on the grounds of Murtala Muhammed International Airport in Ikeja, Lagos State, Nigeria.

The main activities of Arik Air are the operation of domestic, regional and international flight- scheduled services to corporate organisations and the general public.

2 ACCOUNTING POLICIES

2.1 Basis of preparation

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and interpretations issued by the IFRS Interpretation Committee.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 2.4.

Basis of measurement

The statements have been prepared on a historical cost basis, except for where fair values are used. The financial statements are presented in Naira and all values are rounded to the nearest thousand (N'000), except when otherwise indicated.

2.2 Changes in accounting policy and disclosures

i) New standards, amendments, interpretations adopted by the Company

The following standards became effective for the first time for the financial year beginning on or after 1 January 2019:

- IFRS 16 Leases (Policy effective after 1 January 2019) and
- IFRIC 23 Uncertainty over income tax treatments (Policy effective after 1 January 2019)

The impact of the adoption of IFRS 16 is disclosed in note 3. Other new accounting standards effective for reporting periods beginning on or after 1 January 2019 did not have any impact on the Company's accounting policies and did not require retrospective adjustments to the financial statements.

IFRS 16 Leases (Policy effective after 1 January 2019)

The Company has applied IFRS 16 Leases for the first time for the annual reporting period commencing 1 January 2019. The Company had to change its accounting policies as a result of adopting IFRS 16. The Company has applied IFRS 16 using the modified retrospective approach.

IFRIC 23 Uncertainty over income tax treatments (Policy effective after 1 January 2019)

The interpretation explains how to recognise and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment. The Company has assessed the impact on the business and there is no impact.

ii) New Standards, amendments, interpretations issued but not yet effective

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2020, and have not been applied in preparing these financial statements. These standards are not expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

Definition of Material – Amendments to IAS 1 and IAS 8 (1 January 2020)

The IASB issued definition of material (Amendments to IAS 1 and IAS 8) in October 2018 to clarify and align the definition of material. The amendments are intended to improve the understanding of the existing requirements rather than to significantly impact an entity's materiality judgements.

These amendments are mandatory for annual periods beginning on or after 1 January 2020 with earlier application permitted. The Company does not intend to adopt the amendments before their effective date and does not expect them to have a material impact on its current or future reporting periods.

Notes to the financial statements
For the year ended 31 December 2019

2.2 Changes in accounting policy and disclosures (continued)

ii) New Standards, amendments, interpretations issued but not yet effective (continued)

Conceptual framework for financial reporting – Revised (1 January 2020)

The IASB has issued a revised Conceptual Framework which will be used in standard-setting decisions with immediate effect. Key changes include:

- increasing the prominence of stewardship in the objective of financial reporting
- reinstating prudence as a component of neutrality
- defining a reporting entity, which may be a legal entity, or a portion of an entity
- revising the definitions of an asset and a liability
- removing the probability threshold for recognition and adding guidance on derecognition
- adding guidance on different measurement basis, and
- stating that profit or loss is the primary performance indicator and that, in principle, income and expenses in other comprehensive income should be recycled where this enhances the relevance or faithful representation of the financial statements.

These amendments are mandatory for annual periods beginning on or after 1 January 2020. The Company does not intend to adopt the amendments before their effective date and does not expect them to have a material impact on its current or future reporting periods.

There are no other IFRSs or IFRIC interpretations that are not yet effective that would be expected to have a material impact on the Company.

2.3 Summary of significant accounting policies

The following are the significant accounting policies applied by the Company in preparing its financial statements:

Foreign currency transactions

The financial statements are presented in Naira, which is also the functional currency. Transactions denominated in a currency other than the currency of the primary economic environment in which the Company operates (Naira) are recorded at the rates ruling when the transactions occur. Foreign currency monetary assets and liabilities are translated at the rates ruling at the reporting date. Exchange differences arising on the translation of monetary assets and liabilities are recognised immediately in profit or loss, except for foreign currency borrowings qualifying as a hedge of a net investment in a foreign operation; in which case exchange differences are recognised in other comprehensive income and accumulated in the foreign exchange reserve along with the exchange differences arising on the translation of the foreign operation.

2.3.1 Fair value measurements

Arik Air discloses financial instruments such as loans and receivables at fair value at each balance sheet date.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- in the principal market for the asset or liability, or
- in the absence of a principal market, in the most advantageous market for the asset or liability,
- the principal or the most advantageous market must be accessible to by Arik Air.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

Arik Air uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 — Quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable; and
- Level 3 — Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For assets and liabilities that are recognised in the financial statements on a recurring basis, Arik Air determines whether transfers have occurred between levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

2.3.3 Revenue from contracts with customers

The Company is principally engaged in the operation of domestic, regional and international flight-scheduled services to corporate organisations and the general public.

Revenue from contracts with customers is recognised when control of the services are transferred to the customer at an amount that reflects the consideration to which the Company expects to be entitled in exchange for those services. The Company has generally concluded that it is the principal in its revenue arrangements because it typically controls the services before transferring them to the customer.

The disclosures of significant accounting judgements, estimates and assumptions relating to revenue from contracts with customers are provided in note 2.4.6.

Aviation services:

Passenger services

Passenger services include Scheduled flight and surcharge, Charter services, and Interline services. Revenue from these services rendered to customers is recognised overtime, using a measure of progress when control is transferred to the customer, generally as services are being delivered to customers by transporting customers to agreed destinations.

The Company has assessed that as it performs, the customer simultaneously receives and consumes the benefits provided by the Company. Performance obligation relating to each of these services are distinct services which the customer can benefit from on its own and within the context of the contract.

The Company measures its progress towards satisfaction of the performance obligation using the output method. This has no financial impact since the Company can demonstrate that the invoiced amount corresponds directly with the value to the customer of its performance completed to date.

Cargo services

Revenue is recognised on contract with customers when carriage is performed. Revenue from these services rendered to customers is recognised overtime, using a measure of progress when control is transferred to the customer, generally as services are being delivered to customers by transporting customers' cargo to agreed destination.

The Company has assessed that as it performs, the customer simultaneously receives and consumes the benefits provided by the Company. Performance obligation relating to cargo services are distinct services which the customer can benefit from on its own and within the context of the contract.

The Company measures its progress towards satisfaction of the performance obligation using the output method. This has no financial impact since the Company can demonstrate that the invoiced amount corresponds directly with the value to the customer of its performance completed to date.

Loyalty points programme

The Company has a loyalty points programme, Frequent Flyer Program, which allows customers to accumulate points, referred to as miles, that can be redeemed for free tickets. The loyalty miles give rise to a separate performance obligation as they provide a material right to the customer.

A portion of the transaction price is allocated to the loyalty points awarded to customers, based on the relative stand-alone selling price of the class of ticket awarded to the customer and is recognised as a contract liability until the miles earned are redeemed. Revenue is recognised upon redemption or expiration of miles earned by the customer.

When estimating the stand-alone selling price of the loyalty miles, the Company considers the likelihood that the customer will redeem the points. The Company updates its estimates of the miles that will be redeemed on an annual basis and any adjustments to the contract liability balance are charged against revenue.

Significant financing component

The Company receives short-term advance payments from its customers for the sale of tickets. Using the practical expedient in IFRS 15, the Company does not adjust the promised amount of consideration for the effects of a significant financing component if it expects, at contract inception, that the period between the transfer of the promised good or service to the customer and when the customer pays for that good or service will be one year or less.

Contract balances

- Contract assets

A contract asset is the right to consideration in exchange for services transferred to the customer. If the Company performs by transferring services to a customer before the customer pays consideration or before payment is due, a contract asset is recognised for the earned consideration that is conditional.

- Trade receivables

A receivable represents the Company's right to an amount of consideration that is unconditional (i.e., only the passage of time is required before payment of the consideration is due). Refer to accounting policies of financial assets under financial instruments – initial recognition and subsequent measurement.

- Contract liabilities

A contract liability is the obligation to transfer services to a customer for which the Company has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before the Company transfers services to the customer, a contract liability is recognised when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue when the Company performs under the contract.

2.3.4 Taxation

(a) Income tax

The current income tax liabilities for the current period are measured at the amount expected to be paid to the taxation authorities. The tax rates and tax laws used to compute the amount are determined in accordance with the Companies Income Tax Act (CITA) and the Tertiary Education Trust Fund Act (TETF). Minimum tax is imposed where the Company has no taxable profit.

Current income tax relating to items recognised directly in equity is recognised in equity through other comprehensive income and not in the income statement. Current tax payable for current and prior periods shall be to the extent unpaid. If the amount already paid in respect of current and prior periods exceeds the amount due for those periods, the excess shall be recognised as an asset.

(b) Deferred tax

Deferred tax is provided using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are recognized for all taxable temporary differences, except:

- Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- In respect of taxable temporary differences associated with investments in subsidiary where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.
- Deferred tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilized, except:
 - Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
 - In respect of deductible temporary differences associated with investments in subsidiary, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized.

Tax relating to items recognized in other comprehensive income is recognized in other comprehensive income and tax relating to items recognized directly in equity is recognized directly in equity and not in the income statement.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable Company and the same taxation authority. Otherwise, deferred tax assets and liabilities are presented separately within the financial statements.

2.3.5 Property, plant and equipment

Property, plant and equipment is stated at historical cost excluding the costs of day-to-day servicing, less accumulated depreciation and accumulated impairment in value. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits from its use will flow to the Company and the cost can be measured reliably. Borrowing costs for long term constructions projects are capitalised if the recognition criteria are met. An assessment of the useful life of an item of property and equipment is assessed annually and any changes in the expected useful life are accounted for by changing the amortization period or method, as appropriate, and treated as changes in accounting estimates.

Depreciation is calculated using the straight-line method to write down the cost of property, plant and equipment to their residual values over their estimated useful lives. Depreciation begins when an asset is available for use and ceases at the earlier of the date that the asset is derecognized or classified as held for sale in accordance with IFRS 5 - Non-current Assets Held for Sale and Discontinued Operations. Land is not depreciated. The estimated useful lives of assets are as follows:

Buildings	50 years
Furniture and fittings	10 years
Office and ground equipment	10 years
In-flight entertainment	12 years
Computer equipment	4 years
Motor vehicles	5 years
Aircraft	30 years
Aircraft parts	Fleet life

Capital work-in-progress is not depreciated

Construction costs relate to offices under construction and this is classified as work in progress and measured at cost. On completion of construction, the related amounts are transferred to the appropriate category of property, plant and equipment.

2.3.5 Property, plant and equipment (continued)

Property, plant and equipment is derecognized on disposal or when no future economic benefits are expected from its use. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognised in 'Other income' in the statement of profit or loss in the year the asset is derecognised.

Componentisation

Arik Air componentizes its aircraft into:

- Airframe	30 years
- Engines	30 years
- Landing gear and Auxiliary Power Unit (APU)	30 years

These are parts that have costs that are significant in relation to the total cost of the asset. Arik Air identifies the significant parts of the asset on initial recognition in order for it to depreciate the asset properly. An existing part of an asset is derecognised when it is replaced, regardless of whether it has been depreciated separately, and the carrying value of the part that has been replaced is estimated, if necessary.

Where it is not practicable for Arik Air to determine the carrying amount of the replaced part, it may use the cost of the replacement as an indication of what the cost of the replaced part was at the time it was acquired or constructed.

Major overhaul expenditure, including replacement spares and labour costs, is capitalised and amortised over the average expected life between major overhauls usually over a period of 24-36 months. All other replacement spares and other costs relating to maintenance of fleet assets (including maintenance provided under 'pay-as-you-go' contracts) are charged to the income statement on consumption or as incurred respectively.

2.3.6 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the respective asset. All other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

2.3.7 Leases

Leases are classified as finance leases and operating leases.

Company is the lessee

Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by another party, the lessor, are classified as operating leases. Payments, including prepayments, made under operating leases (net of any incentives received from the lessor) are charged to the profit or loss on a straight-line basis over the period of the lease. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognised as an expense in the period in which termination takes place.

Finance lease

Leases of assets where the Company has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in long term liabilities if the tenure is more than one year. The interest element of the finance cost is charged to the profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. Property, plant and equipment acquired under finance leases are depreciated over the estimated useful life of the asset.

The impact of the adoption of IFRS 16 and the new accounting policies are disclosed in note 3.

2.3.8 Intangible assets

Intangible assets in Arik Air comprises of computer software and landing slots. Costs associated with maintaining computer software programmes are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Company are recognised as intangible assets when the following criteria are met:

- it is technically feasible to complete the software product so that it will be available for use;
- management intends to complete the software product and use or sell it;
- there is an ability to use or sell the software product;
- it can be demonstrated how the software product will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and
- the expenditure attributable to the software product during its development can be reliably measured.

2.3.8 Intangible assets (continued)

Directly attributable costs that are capitalised as part of the software product include the software development employee costs and an appropriate portion of relevant overheads.

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment. Whenever there is an indication that the intangible asset may be impaired an impairment assessment is carried out. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least once at the end of each year. Gains or losses arising from de-recognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the income statement when the asset is derecognised.

Computer software

Computer software development costs recognised as assets are amortised over their estimated useful lives, which is four years.

Landing slots

Landing slots relate to take off and landing rights. Landing slots acquired are capitalised at cost. Subsequently, landing slots are measured at cost and are assessed for impairments at least annually whether or not there are indicators of impairment. Capitalised landing rights based within the European Union (EU) are not amortised, as regulations within the EU consider them to have an indefinite economic life. However, where a slot is leased, the lease rental is expensed in the period they are incurred.

2.3.9 Impairment of non-financial assets

The Company assesses assets or groups of assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If any such indication of impairment exists, an estimate of the asset's recoverable amount is made. Individual assets are grouped for impairment assessment purposes at the lowest level (cash generating unit) at which there are identifiable cash flows that are largely independent of the cash flows of other groups of assets.

An asset group's recoverable amount is the higher of its fair value less costs to sell and its value in use. Where the carrying amount of an asset group exceeds its recoverable amount, the asset group is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are adjusted for the risks specific to the asset group and are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money. Impairment losses are recognized in profit or loss.

Impairment losses recognized in prior periods can be reversed up to the original carrying amount, had the impairment loss not been recognized. Such reversal is recognized in profit or loss. After such a reversal, the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Impairment losses of continuing operations, including impairment on inventories, are recognized in the statement of profit or loss in those expense categories consistent with the function of the impaired asset, except for a property previously revalued where the revaluation was taken to other comprehensive income. In this case, the impairment is also recognized in other comprehensive income up to the amount of any previous revaluation.

Intangible assets that have an indefinite useful life or intangible assets not ready to use are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. Prior impairments of non-financial assets (other than goodwill) are reviewed for possible reversal at each reporting date.

2.3.10 Financial instruments

Financial instruments – initial recognition and subsequent measurement

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

2.3.10 Financial instruments (continued)

i) Financial assets

Initial recognition and measurement

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

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Company's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Company has applied the practical expedient, the Company initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Company has applied the practical expedient are measured at the transaction price determined under IFRS 15. Refer to the accounting policies on revenue from contracts with customers.

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

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

Subsequent measurement

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

- Financial assets at amortised cost (debt instruments)
 - Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments)
 - Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments)
 - Financial assets at fair value through profit or loss
- The Company's financial assets are measured at amortised cost.

Financial assets at amortised cost (debt instruments)

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

- Financial assets at amortised cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.
- The Company's financial assets at amortised cost includes trade receivables, and cash and cash equivalent.

Derecognition

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

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

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

Impairment of financial assets

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

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12-months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

2.3.10 Financial instruments (continued)

i) Financial assets

Impairment of financial assets (continued)

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

ii) Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, or payables, as appropriate.

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

The Company's financial liabilities include trade and other payables, loans and borrowings and bank overdraft.

Loans and borrowings

This is the category most relevant to the Company. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the EIR method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the EIR amortisation process.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included as finance costs in profit or loss.

This category generally applies to interest-bearing loans and borrowings.

Derecognition

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

iii) Offsetting of financial instruments

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

2.3.11 Inventories

Inventories are initially recognised at cost, and subsequently at the lower of cost and net realisable value. Cost is determined using the first-in, first-out (FIFO) method. Cost comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Costs include directly attributable costs incurred in bringing inventories to the present location and condition for intended use by management. Net realizable value is determined by reference to prices existing at the reporting date.

2.3.12 Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within interest bearing liabilities in current liabilities on the statement of financial position.

For the purpose of the statement of cash flows, cash and cash equivalents consist of cash and short-term deposits as defined above, net of outstanding bank overdrafts.

2.3.13 Provisions

Provisions are recognized when the Company has a present obligation whether legal or constructive, as a result of past event for which it is probable that an outflow of resources embodying economic benefits will be required to settle the obligations and a reliable estimate can be made of the amount of the obligation in accordance with the International Accounting Standards (IAS) 37 Provisions, Contingent Liabilities and Contingent Assets.

The expense relating to any provision is presented in the statement of profit or loss net of any reimbursement. Provisions are reviewed at the end of each financial year and are adjusted to reflect current best estimates.

Notes to the financial statements
For the year ended 31 December 2019

2.3.14 Employee benefits

Wages, salaries, annual leave and sick leave

Liabilities for wages and salaries, including non-monetary benefits, and compensated absence are recognised in other payables in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled.

Post-employment benefit

Defined contribution plan

The Company operates a funded defined contribution retirement benefit scheme for its employees under the provisions of the Pension Reform Act 2014. The minimum employer and the employee contributions are 8% each of the qualifying employee's salary. The contribution payable to a defined contribution plan is in proportion to the services rendered to the Company by the employees and is recorded as an expense within profit or loss. The Company's obligation is limited to amounts contributed. Obligations in respect of the Company's contributions to the scheme are recognised as an expense in the profit or loss account on an annual basis.

2.3.15 Deferred income

Deferred income arises as a result government intervention. Deferred income is recognised where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the related costs, for which it is intended to compensate, are expensed. When the grant relates to an asset, it is recognised as income in equal amounts over the expected useful life of the related asset.

When the Company receives grants of non-monetary assets, the asset and the grant are recorded at nominal amounts and released to profit or loss over the expected useful life in a pattern of consumption of the benefit of the underlying asset by equal annual instalments.

The Company's loans at a rate below the prevailing market rate received from government agencies and parastatals are recognised as deferred income in the financial statements.

2.3.16 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new ordinary shares or options are shown in equity as a deduction, net of tax, from the proceeds.

2.3.17 Trade payable

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.3.18 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

2.4 Significant accounting judgements, estimates and assumptions

The preparation of the Company's financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods. The most significant uses of judgement and estimates are as follows:



Notes to the financial statements For the year ended 31 December 2019

2.4 Significant accounting judgements, estimates and assumptions (continued)

2.4.1 Going concern

The Company incurred a loss after tax of N29.7 billion during the year ended 31 December 2019 (2018: N15.1 billion). The Company was also at a net liability position of N222.3 billion as at 31 December 2019 (2018: N192.6 billion). The Company also did not settle its liabilities that were due in the year and in prior years and was subsequently taken over by the Asset Management Corporation of Nigeria (AMCON) on 9 February 2017. The Company also cancelled its international flights.

These circumstances indicate the existence of a material uncertainty that creates significant doubt relating to the Company's ability to continue as a going concern.

The management of Arik Air has made an assessment of the Company's ability to continue as a going concern and is satisfied that the Company has the resources to continue in business for the foreseeable future and has made the plans for the Company.

On 9 February 2017, the Asset Management Corporation of Nigeria (AMCON) appointed a Receiver Manager over the affairs of the Company. Consequently, the Receiver Management streamlined operations by cancelling international operations. Management's plan is to build and strengthen the domestic routes and West coast areas before resuming international operations. Currently, the Company has resumed flights on 17 domestic routes and 4 West coast regions. The cancellation of international operations significantly decreased the operating costs of the airline such as landing fees, fuel costs and crew wages.

Management is also re-negotiating existing obligations with non-financial institutions.

The Company is still in existence and management believes that the Company will continue to exist in the nearest future.

These financial statements do not reflect the adjustments to the carrying value of assets and liabilities of the classifications that would be necessary if the Company were unable to realise its assets and settle its liabilities as a going concern in the normal course of operations. Such adjustments could be material.

The Company has carried out an assessment of the impact of the COVID 19 pandemic. See details in note 34.

2.4.2 Fair value of financial instruments

Where the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be derived from active markets, they are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but where observable market data are not available, judgement is required to establish fair values. The judgements include considerations of liquidity and model inputs such as discount rates, prepayment rates, time to maturity and default rate assumptions for debt securities. Further information about the assumptions made in determining fair values is disclosed in note 31).

2.4.3 Income taxes

The Company is subject to income taxes. Significant judgement is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Company recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

2.4.4 Impairment of non-financial assets

The Company assesses whether there are any indicators of impairment for all non-financial assets at each reporting date. Intangible assets with indefinite economic lives are tested for impairment annually and at other times when such indicators exist. The recoverable amount of the cash generating units requires estimates.

Other non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable.

2.4.5 Residual value and useful lives of assets

The Company exercises judgement to determine useful lives and residual values of property, plant and equipment. The assets are depreciated down to their residual values over their estimated useful lives. Further details are provided in notes 2.3.5 and 14.

The Company based its assumptions and estimates on parameters available when the financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Company. Such changes are reflected in the assumptions when they occur.



Notes to the financial statements For the year ended 31 December 2019

2.4.6 Revenue from Contracts with Customers

The Company applied the following judgements that significantly affect the determination of the amount and timing of revenue from contracts with customers:

Determining the timing of satisfaction of aviation services

The Company concluded that revenue for its aviation services is to be recognised over time because the customer simultaneously receives and consumes the benefits provided by the Company. The fact that another entity would not need to re-perform the service that the Company has provided to date demonstrates that the customer simultaneously receives and consumes the benefits of the Company's performance as it performs.

The Company determined that the output method is the best method in measuring progress of the aviation services because the Company can demonstrate that the invoiced amount corresponds directly with the value to the customer of its performance completed to date.

Determining whether the loyalty points provide material rights to customers

The Company operates a loyalty points programme, which allows customers to accumulate miles when they purchase tickets. The miles can be redeemed for free tickets, subject to a minimum number of miles obtained. The Company assessed whether the loyalty points provide a material right to the customer that needs to be accounted for as a separate performance obligation.

The Company determined that the loyalty points provide a material right that the customer would not receive without entering into the contract. The free ticket the customer would receive by exercising the loyalty points do not reflect the stand-alone selling price that a customer would pay without an existing relationship with the Company. The customers' right also accumulates as they purchase additional tickets.

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Company based its assumptions and estimates on parameters available when the financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising that are beyond the control of the Company. Such changes are reflected in the assumptions when they occur.

Revenue recognition - Estimating stand-alone selling price – Frequent Flyer loyalty program

The Company estimates the stand-alone selling price of the loyalty miles awarded under the Frequent Flyer Program. The stand-alone selling price of the loyalty miles redeemed is calculated by multiplying the redemption miles by the average monetary value assigned to each class of ticket awarded to customers. To estimate the miles redeemable, the Company uses available information on number of miles accrued by customers and maps these miles to the client pricing (on an average basis –based on the various classes of ticket issued to customers at the date of sale). Upon redemption, provision (contract liability) created on accumulated miles that are now redeemed are credited back to revenue.

The Company applies customers' historical accrued and redeemed miles as the main inputs in its estimation. The redemption rate is updated annually and the liability for the unredeemed miles is adjusted accordingly. In estimating the value of the miles issued, the Company considers the mix of different class of tickets that will be awarded in the future in exchange for loyalty miles and customers' destination preferences. The Company ensures that the value assigned to the loyalty miles is commensurate to the stand-alone selling price of the tickets eligible for redemption (i.e., the value of each mile is equivalent to the stand-alone selling price of any ticket eligible for redemption divided by the number of miles required). Miles awarded expire in three years from the award day.

2.4.7 Provision for expected credit losses of trade receivables

The Company uses a provision matrix to calculate ECLs for trade receivables. The provision rates are based on days past due for group of various customer segments that have similar loss patterns.

The provision matrix is initially based on the Company's historical observed default rates. The Company will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., gross domestic product) are expected to deteriorate over the next year which can lead to an increased number of defaults in the manufacturing sector, the historical default rates are adjusted. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation between historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Company's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future. The information about the ECLs on the Company's trade receivables is disclosed in note 32.2.

2.4.8 Leases

The Company cannot readily determine the interest rate implicit in the lease, therefore, its incremental borrowing rate (IBR) has been used to measure its lease liabilities. The IBR is the rate of interest that the Company would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Company 'would have to pay', which requires estimation when no observable rates are available or when they need to be adjusted to reflect the terms and conditions of the lease. The Company estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the Company's stand-alone credit rating).

The Company estimates the IBR using the following steps:

Step 1: Reference rate: This is generally a government bond reflecting risk free rate. Repayment profile was considered when aligning the term of the lease with the term for the source of the reference rate.

Step 2: Financing spread adjustment: Use of credit spreads from debt with the appropriate term by considering Company's stand-alone credit rating or similar Company's credit rating.

Step 3: Lease specific adjustment: Use of market yield for the leased assets, as an additional data point and to sense-check the overall IBRs calculated.

Extension and termination options - Determining the lease term

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

For leases of properties, the following factors are normally the most relevant:

- If there are significant penalties to terminate (or not extend), the Company is typically reasonably certain to extend (or not terminate).
- If any leasehold improvements are expected to have a significant remaining value, the Company is reasonably certain to extend (or not terminate).
- Otherwise, the Company considers other factors, including historical lease durations and the costs and business disruption required to replace the leased asset.

The lease term is reassessed if an option is actually exercised (or not exercised) or the Company becomes obliged to exercise (or not exercise) it. The assessment of reasonable certainty is only revised if a significant event or a significant change in circumstances occurs, which affects this assessment, and is within the control of the Company.

3 Changes in accounting policy and disclosures - impact of new standards adopted

This note explains the impact of the adoption of IFRS 16 Leases on the Company's financial statements. As indicated in Note 2.2 (i) above, the Company has adopted IFRS 16 Leases from 1 January 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transition provisions in the standard.

The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balances on 1 January 2019. The new accounting policies are disclosed in Note 3.1.

3.1 Leases

Leases (policy prior to 1 January 2019)

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at the inception date. The arrangement is assessed for whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset or assets, even if that right is not explicitly specified in an arrangement.

Company as a lessor

Leases in which the Company does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same bases as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

3.1 Leases (continued)

Leases (policy subsequent to 1 January 2019)

The Company assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

To assess whether a contract conveys the right to control the use of an identified asset, the Company assesses whether:

- the contract involves the use of an identified asset – this may be specified explicitly or implicitly. If the supplier has a substantive substitution right, then the asset is not identified;
- the Company has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
- the Company has the right to direct the use of the asset. The Company has this right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used.

In cases where the decision about how and for what purpose the asset is used is predetermined, the Company has the right to direct the use of the asset if either:

- the Company has the right to operate the asset; or
- the Company designed the asset in a way that predetermines how and for what purpose it will be used.

Company as a lessee

The Company applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Company recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets. The Company elected not to separate lease and non-lease components for leases of its warehouse and office buildings.

i) Right-of-use assets

The Company recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets, as follows:

- Office buildings 2 years
- Residential buildings 2 years

If ownership of the leased asset transfers to the Company at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

The right-of-use assets are also subject to impairment.

ii) Lease liabilities

At the commencement date of the lease, the Company recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Company and payments of penalties for terminating the lease, if the lease term reflects the Company exercising the option to terminate.

Variable lease payments that do not depend on an index or a rate are recognised as expenses (unless they are incurred to produce inventories) in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Company uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

The Company's lease liabilities are included in Interest-bearing loans and borrowings.

iii) Short-term leases and leases of low-value assets

The Company applies the short-term lease recognition exemption to its short-term leases of motor vehicles, residential apartments and some warehouses (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). The Company does not have any leased assets categorised as low-value assets. Lease payments on short-term leases are recognised as expense on a straight-line basis over the lease term.

iv) Extension and termination options

Extension and termination options are included in the Company's lease arrangements. These are used to maximise operational flexibility in terms of managing the assets used in the Company's operations. Most of the extension options are subject to mutual agreement by the lessee and lessor and some of the termination options held are exercisable only by the Company.

3.1 Leases (continued)

Company as a lessor

Leases in which the Company does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Rental income arising is accounted for on a straight-line basis over the lease term and is included in revenue in the statement of profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

3.2 Impact on the financial statements

On adoption of IFRS 16, the Company recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 19.61%.

i) Practical expedients applied

In applying IFRS 16 for the first time, the Company has used the following practical expedients permitted by the standard:

- accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases
- excluding initial direct costs for the measurement of the right-of-use asset at the date of initial application

The Company has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Company relied on its assessment made applying IAS 17 and IFRIC 4 Determining whether an arrangement contains a lease.

ii) Impact on the financial statements

The following table summarises the impact of the transition to IFRS 16 on the statement of financial position as at 1 January 2019 for each affected individual line item. Line items that were not affected by the changes have not been included.

	As at 31 December 2018 N'000	Impact of IFRS 16		As at 1 January 2019 N'000
		Reclassification N'000	Remeasurement N'000	
Assets				
Non-current				
Right-of-use assets	-	54,400	68,095	122,495
Prepayments	54,400	(54,400)	-	-
Liabilities				
Non-current				
Lease liabilities			-	-
Current				
Lease liabilities			68,095	68,095
iii) Measurement of lease liabilities				1 January 2019
				N'000
Operating lease commitments disclosed as at 31 December 2018				-
Discounted using the lessee's incremental borrowing rate of at the date of initial application				68,095
Add: finance lease liabilities recognised as at 31 December 2018				-
(Less): short-term leases not recognised as a liability				68,095
Lease liability recognised as at 1 January 2019				<u>68,095</u>
Of which are:				68,095
Current lease liabilities				-
Non-current lease liabilities				<u>68,095</u>
iv) Measurement of right-of-use assets				

Right-of-use assets were measured at an amount equal to the lease liability. The recognised right-of-use assets relates to the lease of office space and residential buildings. There was no impact on retained earnings as at 1 January 2019.

Notes to the financial statements
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4 Revenue

<i>In thousands of naira</i>	2019	2018
Scheduled flight revenue	16,434,634	18,815,205
Scheduled flight revenue - under FlyForValue arrangement (note 37)	2,686,955	-
Charter revenue	2,387,043	2,266,553
Interline revenue	360	-
Passenger revenue	21,508,992	21,081,758
Cargo revenue	443,035	412,730
Surcharge revenue*	18,695,611	21,208,911
Cargo and other revenue	19,138,646	21,621,641
Total revenue from contracts with customers	40,647,638	42,703,399

*Surcharge revenue includes excess baggage fees, fuel surcharge, surcharge on refunds and penalties.

Geographical markets - 2019

	Within Nigeria	Outside Nigeria
Passenger revenue	38,103,454	2,101,149
Cargo and other revenue	443,035	-
Total revenue from contracts with customers	38,546,489	2,101,149

Timing of revenue recognition
Services transferred over time

Passenger revenue	-	40,204,603
Cargo and other revenue	-	443,035
Total revenue from contracts with customers		40,647,638

Geographical markets - 2018

	Within Nigeria	Outside Nigeria
Passenger revenue	39,443,904	2,846,765
Cargo and other revenue	404,134	8,596
Total revenue from contracts with customers	39,848,038	2,855,361

Timing of revenue recognition
Services transferred over time

Passenger revenue	-	42,290,669
Cargo and other revenue	-	412,730
Total revenue from contracts with customers		42,703,399

5 Landing, navigation and other charges

<i>In thousands of naira</i>	2019	2018
Navigation cost	449,863	673,414
Airport charges	602,368	316,068
Landing and parking fees	594,904	656,539
Total landing, navigation and other charges	1,647,135	1,646,021

6 Loss allowance on trade receivables

<i>In thousands of naira</i>	2019	2018
Loss allowance on trade receivables	713,541	26,208

Notes to the financial statements
For the year ended 31 December 2019

6.1 Other operating expenses

<i>In thousands of naira</i>	2019	2018
Marketing expenses	1,056,851	738,933
Loss on sale of assets*	2,295,250	-
FlyForValue expenses	2,161,769	-
Ferry flight	654	31,176
Charter expenses	6,927	62,034
Collection charges	408	72,107
Licence expenses	2,618	2,452
Postal expenses	629	148
Transport cost	166,503	197,960
Donation	4,200	5,800
Security charges	25,640	28,653
Non-aircraft fueling expenses	185,876	204,110
Advertisement	9,568	96,040
Vehicle maintenance	33,638	87,694
Repairs and maintenance expenses	50,000	81,702
Electricity, water and similar expenses	58,941	74,578
Other expenses	813,148	465,815
Total other operating expenses	6,872,620	2,149,202

*This represents the loss on sale of property used as collateral for a loan on which the company defaulted. The carrying value of the property was N3.55 billion while Arik received a net proceeds of N1.25 billion after the lender had recovered the outstanding loan balance.

7 Aircraft handling and catering charges

<i>In thousands of naira</i>	2019	2018
Airline handling cost	790,313	1,162,858
Catering expenses	564,256	864,086
Total aircraft handling and catering charges	1,354,569	2,026,944

8 Insurance expenses

<i>In thousands of naira</i>	2019	2018
Insurance expenses - aircraft	1,249,774	1,315,344
Insurance expenses - vehicles	4,537	37,544
Insurance expenses - others	76,586	47,845
Total insurance expenses	1,330,897	1,400,733

9 Administrative expenses

<i>In thousands of naira</i>	2019	2018
Professional and management fees	906,673	491,062
Auditors remuneration	35,000	50,000
Printing, stationery and other assesories	78,045	77,319
Directors expenses/Tac expenses	-	6,140
Telephone expenses	584	566
ROU asset depreciation	102,818	-
Rents and rates expenses	345,100	466,480
Other administrative expenses	44,280	50,198
Total administrative expenses	1,512,500	1,141,765

Notes to the financial statements
For the year ended 31 December 2019

10 Staff numbers and costs

<i>In thousands of naira</i>	2019	2018
Salaries and wages	4,672,314	4,964,093
Defined contribution plan	310,168	325,052
Other short term benefits	157,892	112,251
Staff rotation cost	94,596	182,905
Pilot training and simulation cost	307,640	443,727
Out of station and local allowances	1,868,611	1,772,679
Medical expenses	141,196	143,015
Other staff expenses	139,287	175,166
Total employee benefit expenses	7,691,704	8,118,888
	Number	Number
	2019	2018
Senior staff	44	44
Supervisory and junior staff	1,640	1,705
Total	1,684	1,749

The table below shows the numbers of employees who earned above N300,000 in the year.

N	N	2019	2018
		Number	Number
300,001 -	500,000	27	33
500,001 -	600,000	79	85
600,001 -	700,000	92	98
700,001 -	800,000	325	286
800,001 -	900,000	21	73
900,001 -	1,000,000	5	14
1,000,001 -	1,200,000	86	88
1,200,001 -	1,400,000	4	6
1,400,001 -	1,600,000	52	52
1,600,001 -	1,800,000	35	41
1,800,001 -	2,000,000	385	405
2,000,001 -	2,200,000	111	118
2,200,001 -	2,400,000	15	16
2,400,001 -	3,000,000	99	111
3,000,001 -	4,000,000	126	128
4,000,001 -	6,000,000	31	34
6,000,001 -	8,000,000	17	15
8,000,001 -	10,000,000	1	1
10,000,001 -	12,000,000	5	5
12,000,001 -	16,000,000	20	37
16,000,001 and above		36	38
Total		1,572	1,684

11 Finance cost

<i>In thousands of naira</i>	2019	2018
Bank charges	255,469	366,180
Interest expense on lease liability	39,475	-
Interest on loans and borrowings	22,804,028	21,237,775
Total finance cost	23,098,972	21,603,955
Finance income		
Interest income	146,565	381,829
Finance costs-net	22,952,407	21,222,126

Notes to the financial statements
For the year ended 31 December 2019

12 Other income

<i>In thousands of naira</i>	2019	2018
Deferred income (see Note 27)	1,379,339	1,428,762
Insurance claims	55,804	50,854
Income from aircraft and engine management	-	97,576
Shave-off income*	262,176	593,549
Dividend from investment in Zenith Bank Plc	224,691	-
Refund of stamp duty deposit	603,433	-
Foreign exchange translation gain	136,893	223,345
Others	459,290	566,093
Total other income	3,121,626	2,960,179

*Shave-off income represent income arising from debt forgiveness from several trade creditors to the Company.

13 Taxation

13a Income tax

The major components of income tax expense are:

Statement of profit or loss

<i>In thousands of naira</i>	2019	2018
Minimum tax charge	156,336	177,008
Income tax expense (note 39)	3,675,590	-
Education tax (note 39)	929,094	-
Deferred tax charge	-	-
Total income tax expense	4,604,684	-

A reconciliation between tax expense and the product of accounting profit multiplied by the domestic tax rate for the years ended 31 December 2019 and 31 December 2018 is as follows:

<i>In thousands of naira</i>	2019	2018
Accounting loss before income tax	25,133,641	15,101,732
At Nigeria's statutory income tax rate of 30%	7,540,092	4,530,520
Adjustments in respect to current income tax of prior years (note 39)	4,604,684	-
Effect of permanent differences	1,322,208	1,894,250
Effect of temporary differences	(7,614,749)	(6,424,769)
Income tax expense reported in the statement of profit or loss	5,852,235	-

In line with IFRIC 21, N156 million (2018: N177 million) arising from minimum tax computations is included in the charge for the year on the statement of financial position but above the line in the statement of profit or loss and other comprehensive income for the year.

Movement in current tax payable

<i>In thousands of naira</i>	2019	2018
At beginning of the year	965,274	789,455
Tax paid	-	(1,189)
Prior year tax under provision (Note 39)	4,604,684	-
Income tax charge	156,336	177,008
At end of the year	5,726,294	965,274

As at 31 December 2019, the company had a deferred tax asset balance of N48.4 billion (2018: N40.8 billion) arising from utilised tax losses. Management has not recognised this balance as it is not certain if taxable profits would be available against which these assets can be utilised in the near future.

Notes to the financial statements
For the year ended 31 December 2019

14 Property, plant and equipment

	Aircraft and technical equipment	Land	Buildings	Furniture & fittings	Computer, office & ground equipment	Motor Vehicles	Capital work-in-progress	Total
<i>In thousands of naira</i>								
Cost:								
At 01 January 2018	189,650,051	1,436,583	856,022	828,474	3,137,474	1,038,297	5,460,171	202,407,072
Additions	5,751,830	-	50,007	36,829	194,581	49,876	-	6,083,123
At 31 December 2018	195,401,881	1,436,583	906,029	865,303	3,332,055	1,088,173	5,460,171	208,490,195
Additions	9,636,228	-	2,137	13,723	120,850	36,274	-	9,809,212
Write-off	(3,023,365)	-	-	-	-	-	-	(3,023,365)
Reclassification*	44,014	-	103,245	(119,844)	(27,415)	-	-	-
Disposal	-	-	-	-	-	-	(3,545,430)	(3,545,430)
At 31 December 2019	202,058,758	1,436,583	1,011,411	759,182	3,425,490	1,124,447	1,914,741	211,730,612
Accumulated depreciation:								
At 01 January 2018	49,286,844	-	112,259	497,432	2,600,691	821,437	-	53,318,663
Depreciation charge for the year	5,864,802	-	17,284	56,980	53,189	53,298	-	6,045,553
At 31 December 2018	55,151,646	-	129,543	554,412	2,653,880	874,735	-	59,364,216
Impairment:								
At 01 January 2018	38,504,717	-	-	-	-	-	-	38,504,717
Impairment charge for the year	-	-	-	-	-	-	-	-
At 31 December 2018	38,504,717	-	-	-	-	-	-	38,504,717
Depreciation charge for the year	9,096,866	-	17,504	48,313	147,215	48,904	-	9,358,802
Write-off	(3,023,365)	-	-	-	-	-	-	(3,023,366)
Reclassification*	(126,496)	-	11,327	(15,083)	130,252	-	-	-
At 31 December 2019	61,098,652	-	158,374	587,641	2,931,347	923,639	-	65,699,653
Impairment charge for the year	1,591,732	-	-	-	-	-	-	1,591,732
At 31 December 2019	40,096,449	-	-	-	-	-	-	40,096,449
Net book value:								
At 31 December 2019	100,863,656	1,436,583	853,036	171,540	494,142	200,808	1,914,741	105,934,510
At 31 December 2018	101,745,517	1,436,583	776,486	310,891	678,175	213,438	5,460,171	110,621,261

Due to the difficult operating environment, some aircrafts were not operational and were on ground as at 31 December 2019. An independent valuation of the company's aircrafts was carried out by valuers (McLarens Aviation) to determine the fair value of aircrafts. Included in the income statement for the year ended 31 December 2019 is impairment charge of N1.6 billion. There was no impairment charge for the year ended 31 December 2018.

The aircrafts together form a cash generating unit as they are not allocated to different revenue streams. In accordance with IAS 36, a comparison of value in use and fair value less cost to sell was done and the higher of the two which is the fair value less costs of disposal was selected. The fair value hierarchy is level 2 and is based on the market approach.

Technical equipment include in-flight entertainment and aircraft parts.

No borrowing costs were capitalised during the year ended 31 December 2019 (2018: Nil).

*Reclassification relates to reconciliation of movement schedule to the fixed asset register.

Notes to the financial statements
For the year ended 31 December 2019

15 Right-of-use assets

The Company has adopted IFRS 16 Leases from 1 January 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transition provisions in the standard. This note provides information for leases where Arik Air Limited is a lessee.

15.1 Amounts recognised in the statement of financial position

<i>In thousands of naira</i>	Office building	Residential apartments	Total
Cost:			
At 1 April 2019 (Date of initial application)	-	122,495	122,495
Addition	-	186,972	186,972
At 31 December 2019	-	309,467	309,467
Accumulated depreciation:			
At 1 April 2019 (Date of initial application)	-	-	-
Depreciation for the year	-	102,818	102,818
At 31 December 2019	-	102,818	102,819
Net book value:			
At 31 December 2019	-	206,649	206,648

15.2 Amounts recognised in the statement of profit or loss

<i>In thousands of naira</i>	2019	2018
Depreciation charge of right-of-use assets	102,818	-
Interest expense on leases	115,802	-
Rent expense relating to short-term leases (included in administrative expenses)	345,100	-

16 Intangible assets

<i>In thousands of naira</i>	Computer software	Landing & take-off slots	Total
Cost:			
At 01 January 2018	229,254	10,547,717	10,776,971
Addition	154,264	-	154,264
At 31 December 2018	383,520	10,547,717	10,931,235
Addition	97,610	-	97,610
At 31 December 2019	481,130	10,547,717	11,028,845
Accumulated amortisation and impairment:			
At 01 January 2018	88,300	10,547,717	10,636,017
Amortisation for the year	75,296	-	75,296
Impairment loss	-	-	-
At 31 December 2018	163,596	10,547,717	10,711,313
Amortisation for the year	100,761	-	100,761
Impairment loss	-	-	-
At 31 December 2019	264,357	10,547,717	10,812,074
Net book value:			
At 31 December 2019	216,773	-	216,771
At 31 December 2018	219,924	-	219,922

An intangible asset should be regarded as having an indefinite useful life when, based on an analysis of all relevant factors (such as legal, regulatory, contractual, competitive and economic), there is no foreseeable limit on the period over which the asset is expected to generate net cash inflows for the entity. The landing slots represent slots at Heathrow Airport (LHR), London, United Kingdom and J.F Kennedy Airport, New York, United States of America (JFK). The (LHR) and (JFK) slots were acquired in 2009 and 2010 respectively. Airport slot gives the owner of that slot the ability to fly in/out of that airport so long as the owner continues to operate and contribute to the airline's cash flows indefinitely. However, in 2017 the routes were no longer operated and the slots became unavailable to Arik Air based on IATA rules. Hence, the landing and take-off slots were fully impaired in 2017.

17 Deposit for aircraft

<i>In thousands of naira</i>	2019	2018
Deposit Boeing	13,016,252	13,016,252
Deposit DAE	-	-
	13,016,252	13,016,252

This amount represents advance payment made by the Company for the acquisition of aircraft and aircraft engines.

Notes to the financial statements
For the year ended 31 December 2019

18 Other receivables

<i>In thousands of naira</i>	2019	2018
Current		
Staff advance	25,173	13,885

19 Inventories

<i>In thousands of naira</i>	2019	2018
Consumables	2,435,384	2,126,795
Diesel and lubricants	5,066	-
Catering items	40,146	30,906
Other inventory	63,023	61,580
Total inventories	2,543,619	2,219,281
Amount of inventory charged to cost of sales	2,074,623	745,409
Amount of inventory written off during the period	468,996	409,194

20 Trade and other receivables

a Trade receivables

<i>In thousands of naira</i>	2019	2018
Current		
Trade receivable	3,147,058	1,574,543
Due from related parties	1,670,151	1,670,151
Impairment on trade receivables	(1,709,336)	(995,795)
Total trade receivables	3,107,873	2,248,899

Analysis of impairment on trade receivables

<i>In thousands of naira</i>	2019	2018
At 1 January	995,795	969,587
Increase in loss allowance	713,541	26,208
At 31 December	1,709,336	995,795

b Prepayments

<i>In thousands of naira</i>	2019	2018
Advance payment to suppliers	17,974	17,974
Rent	7,260	18,060
Insurance	726,909	38,364
Others	664,809	127,876
	1,416,952	202,274

21 Other assets

<i>In thousands of naira</i>	2019	2018
Deposit for aircraft maintenance	9,287,685	9,087,524
Due from related parties	2,279,913	2,279,913
Work advances	654,084	529,727
Others	522,355	722,425
Impairment on other assets	(646,158)	(486,725)
	12,097,879	12,132,864

Impairment for other assets consists of impairment for related parties receivable and other advance payments made to suppliers.



Notes to the financial statements
For the year ended 31 December 2019

22 Cash and cash equivalents

<i>In thousands of naira</i>	2019	2018
Cash at bank	2,880,424	6,740,422
	2,880,424	6,740,422

Cash and cash equivalent include the following for the purpose of the statement of cash flows:

<i>In thousands of naira</i>	2019	2018
Cash at bank and in hand	2,880,424	6,740,422
Bank overdrafts (Note 24)	(6,516,346)	(6,162,307)
Cash and cash equivalents	(3,635,922)	578,115

23 Trade payables

<i>In thousands of naira</i>	2019	2018
Aviation agencies	25,731,449	24,906,617
Other trade payables	19,623,190	21,305,486
Trade payables	45,354,639	46,212,103

24 Loans and borrowings

<i>In thousand</i>	2019	2018
Current		
Bank overdrafts	6,516,346	6,162,307
Loans	250,983,169	223,438,031
Total loans and borrowings	257,499,515	229,600,338

Details of outstanding loan balances as at 31 December are as follows:

	2019	2018
Source of loan		
Asset Management Corporation of Nigeria (AMCON)	193,761,634	172,072,376
Export Development Canada	19,626,409	18,340,211
Access Bank Plc	6,336,121	7,037,762
Promissory Notes	13,532,478	8,244,196
African Export-Import Bank	9,187,162	11,009,557
Bank of Industry	2,705,217	2,047,188
Ecobank Transnational Inc	5,834,147	4,686,741
Total loans	250,983,169	223,438,031

The contractual outstanding amount for Asset Management Corporation of Nigeria (AMCON) loan is N208.5 billion(2018: N177.8 billion). The difference between the contractual amount and the amount stated above is as a result of the recognition of government grant at the inception of the loan granted at rates below the prevailing market rate and measured inline with IFRS 9.

The loans from Nigerian insitutions have tenor ranging between 6 - 160 months with interest rate of between 3% - 24% per annum. The loans are secured on real estate, aircraft and aircraft parts, personal guarantee of the chairman of Arik Air Limited and lien on domiciled collections. The Company's interest-bearing borrowings are measured at amortised cost. There were breaches to the loan covenants hence the loans are now classified as current liabilities.

The loans from non-Nigerian insitutions have tenor ranging between 30 - 120 months with interest rate of between 4.3% - 6.2% per annum. The loans are secured on aircraft and aircraft parts, and lien on domiciled collections. The Company's interest-bearing borrowings are measured at amortised cost. There were breaches to the loan covenants and loans are now classified as current.

25 Lease liabilities

<i>In thousands of naira</i>	2019	2018
Cost		
At 1 April 2019 (Date of initial application)	68,095	-
Additions	115,802	-
Interest on lease liability	39,476	-
Payments made during the year	-	-
At 31 March 2020	223,373	-
Lease liabilities can be further analysed as follows:		
	2019	2018
Current lease liabilities	93,316	-
Non-current lease liabilities	130,057	-

26 Other current liabilities

<i>In thousands of naira</i>	2019	2018
Accrued expense	3,509,804	9,460,235
PAYE liabilities	2,999,878	2,769,078
Due to related parties	14,134,886	14,524,224
Pension liabilities	2,150,556	2,177,965
Other tax liabilities	5,398,918	5,096,174
Other payables	2,870,474	5,481,712
Total other current liabilities	31,064,516	39,509,388

Accrued expenses relate to accruals for insurance cost, rents and rates, professional fees and other short term expenses which are expected to be paid within 12 months of the statement of financial statement position date.

Notes to the financial statements
For the year ended 31 December 2019

27 Deferred income

<i>In thousands of naira</i>	2019	2018
As at 1 January	1,379,339	2,808,101
Released to the statement of profit or loss	(1,379,339)	(1,428,762)
As at 31 December	-	1,379,339
Current	-	555,155
Non-current	-	824,184
		1,379,339

Deferred income relates to the income from loans received from the Federal Government of Nigeria through the Bank Of Industry (BOI) and the Asset Management Company of Nigeria (AMCON) granted at rates below the prevailing market rate. The difference between the interest rate on the loan and the prevailing market rate is regarded as grant received from government. This income has been deferred and recognised as earned in the statement of profit or loss over the tenor of the loans.

28 Contract liabilities

<i>In thousands of naira</i>	2019	2018
Advanced ticket sales	2,267,801	702,963
Loyalty points unredeemed (Note 28.1)	30,967	28,334
	2,298,768	731,297
Current	2,298,768	731,297
Non-current	-	-

28.1 Loyalty points unredeemed

<i>In thousands of naira</i>	2019	2018
At 1 January	28,334	11,293
Deferred during the year	13,773	22,221
Recognised as revenue during the year	(11,140)	(5,180)
At 31 December	30,967	28,334

Loyalty points unredeemed

These amounts relate to the accrual and redeemed loyalty points transactions. As at 31 December 2019, the estimated liability for unredeemed points amounted to N28.3 million (2018: N28.3 million).

29 Deposit for shares

<i>In thousands of naira</i>	2019	2018
Deposit from Director	21,600,000	21,600,000

This represents deposit made by a director. The Company is awaiting the increase of its authorised shares capital to enable it issue additional ordinary shares.

30 Share capital

<i>In thousand</i>	2019	2018
Authorised ordinary shares at N1 each (units)	2,000,000	2,000,000
Authorised ordinary shares at N1 each (amount)	2,000,000	2,000,000
Shares issued and fully paid		
2 billion ordinary shares at N1 each	2,000,000	2,000,000

Notes to the financial statements
For the year ended 31 December 2019

31 Fair value of financial instruments

(i) Fair values versus carrying amount

The fair values of financial assets and liabilities, together with the carrying amounts shown in the statement of financial position, are as follows:

<i>In thousands of naira</i>	Carrying value	Fair Value		
		Level 1	Level 2	Level 3
31 December 2019				
Assets carried at amortised cost				
Trade and other receivables	3,107,873	-	-	-
Cash and short-term deposits	2,880,424	-	2,880,424	-
Liabilities carried at amortised cost				
Trade and other payables	76,419,155	-	-	-
Lease liabilities	93,316	-	93,316	-
Interest-bearing loans and borrowings	250,983,169	-	250,983,169	-
Bank overdrafts	6,516,346	-	6,516,346	-
31 December 2018				
Assets				
Trade and other receivables	2,248,899	-	2,248,899	-
Cash and short-term deposits	6,740,422	-	6,740,422	-
Liabilities				
Trade and other payables	85,721,491	-	85,721,491	-
Interest-bearing loans and borrowings	223,438,031	-	223,438,031	-
Bank overdrafts	6,162,307	-	6,162,307	-

The carrying value of cash and cash equivalent, trade and other receivables, trade and other payables, bank overdrafts and loans and receivables approximates their fair values as at the reporting dates.

(ii) Methodologies and assumptions used:

Assets for which fair value approximates carrying value

For financial assets and financial liabilities that have a short term maturity (less than three months) it is assumed that the carrying amounts approximate their fair value. These includes bank overdraft, cash at hand and at bank.

Financial liabilities measured at amortised cost

Interest bearing loans and borrowings

Fair value of interest bearing loans and borrowings in the books of the Company at each reporting date was determined by discounting the future expected cash outflows on the loans using a discount rate which reflect the market rate of loans and advances as at the end of the each reporting date. The average prime lending rate published by the Central Bank of Nigeria was used as the discount rate in determining the present value of interest bearing loans and borrowings at the reporting dates.

iii The different levels have been defined 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 (that is, as prices) or indirectly (that is, derived from prices).

Level 3 - Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

All the Company's financial assets and liabilities are measured at amortized cost. The fair values hierarchy are as shown above.

Notes to the financial statements For the year ended 31 December 2019

32 Risk management framework

(i) Overall risk management objectives

Arik Air's risk management framework provides a firm-wide definition of risk and codifies the core governing principles for the risk management function. The purpose of this framework is in particular to:

- ~ Provide an enterprise-wide definition of risk
- ~ Define the Company's overall approach, objectives, strategy, policies and risk appetite towards its significant risks; and
- ~ Define the process required to manage risk such as identification, monitoring, control and mitigation.

(ii) Risk mitigation and control

Once a risk has been identified and assessed, an appropriate risk response shall be defined and approved in line with the Company's risk mitigation strategy. The risk mitigation strategy defines the conditions for accepting, transferring, mitigating and avoiding inherent risks within the Company.

Each department within the Company operates in terms of documented standard operating procedures (SOPs) incorporating policies and procedures to mitigate exposures. These policies are subject to regular review and update.

The Company's other policies and procedure documents incorporate to a greater or lesser extent some elements of risk recognition and control.

Furthermore, business units and departmental heads shall ensure the following:

- a) There are policies, processes and procedures to control and mitigate significant risks that have been identified by the Company.
- b) Control activities for the risk management are an integral part of the regular activities of Arik; and
- c) Controls and systems are sufficient to control and mitigate the identified risks before they become major concerns.

(iii) Risk mitigation strategy

The Company develops adequate mitigation strategies to effectively minimize the frequency and severity of risk events.

Risk response options include:

Risk acceptance: Acceptance of a residual risk (that is outstanding risks after controls responses have been applied or minor risks where any response is not likely to be cost-effective compared to the possible cost of bearing the risk impact).

Risk appetite (maximum loss to be tolerated) will be set for significant residual risks and will be the basis for triggering alternative risk response options.

Risk transfer: Specific actions to reduce risk likelihood or impact by transferring ownership and/or liability or otherwise sharing a portion of the risk with a particular third party. Arik Air will continuously explore available risk sharing/transfer techniques suitable for mitigating operational risks in processes, activities, and systems, and select the most appropriate tools.

The following risk transfer tools/techniques will be employed in mitigating operational risks:

- Insurance
- Liability acceptance clauses in contract agreements.



Notes to the financial statements

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32 Risk management framework (Continued)

Risk mitigation: These are specific actions to reduce the likelihood and/or severity of risk events. The objective of risk reduction is to reduce residual risk (that is outstanding operational risk that Arik Air may be unable to further mitigate through risk management activities without dropping business activities) within the acceptable tolerance limit or threshold. The risk mitigation activities entail the use of internal controls to minimize likelihood and/or severity of risk events. A properly designed and consistently enforced internal control system will enable Arik Air to safeguard the Company's earnings and capital. Some of the key internal control measures that Arik Air employs include:

- Segregation of duties/dual controls (maker-checker concept)
- Access control policies
- Clarity of responsibilities and reporting lines
- Senior level approvals for transactions/policies

Risk avoidance: Specific actions taken to exit activities that are likely to culminate in excessive risk the choice of avoidance as a risk response approach shall be informed if after consideration:

- Either the cost of other responses (acceptance, transfer and mitigation) exceeds the desired benefits; or
- No response can be identified that would reduce the impact and likelihood of the risk to an acceptable limit. The risk mitigation strategy above will guide the action planning stage of the periodic self-assessment and independent control assessment processes. Management will challenge risk assessments conducted by the business units and make appropriate risk response recommendations aimed at protecting/safeguarding the earnings and capital of Arik Air. Any related disputes as a result of the risk response recommendations shall be escalated to the Management for a final decision.

Risk management policies

The company's activities expose it to a variety of financial risks – market risk (foreign exchange risk, price risk and interest rate risk), credit risk and liquidity risk. Finance management team identifies and mitigates financial risks in co-operation with the other operating units.

32.1 Market risk

Market risk is the risk that the fair value or cash flows of a financial instrument will fluctuate due to changes in market prices. Market risk reflects interest rate risk, currency risk and other price risks.

(i) Fuel price risk

The company is exposed to aviation fuel price risk. However, this risk is partially offset by having fixed price contracts in place with local suppliers in Nigeria where most of the consumption takes place. Fuel contracts with suppliers include volume discounts and include assurances for continuous supply.

The following table demonstrates the sensitivity of financial instruments to a reasonably possible change in fuel prices, with all other variables held constant, on profit before tax and equity.

	31 December 2019		31 December 2018	
	Increase/ (decrease) in price (%)	Effect on profit before tax	Increase/ (decrease) in price (%)	Effect on profit before tax
<i>In thousands of naira</i>				
Aircraft fuel expenses	+50%	4,343,026	+50%	6,247,619
Aircraft fuel expenses	-50%	(4,343,026)	-50%	(6,247,619)

Notes to the financial statements

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32 Risk management framework (Continued)

32.1 Market risk (continued)

The company is exposed to commercial price risk (price competition). Some of this risk is offset by the safety record of Arik compared to other airlines, whereby, passengers are willing to pay such as a premium to fly Arik for safety reasons. The maintenance of the aircraft fleet by international organizations like Lufthansa Cityline, Lufthansa Technik and Samco gives safety comfort to discerning customers. This in addition to the young fleet it operates. As part of Arik's plan to maintain this position and grow market share domestically and internationally, the company has recently launched a loyalty program – Arik Affinity Wings for frequent flyers and an all-in-one shop program - Arik Explorer to take care of air and land travel and hotel reservations for customers.

The dominance is also secured with its ownership of key infrastructure, such as the maintenance hangar and real estate. Continuous expansion is expected through added capacity of new planes. Increased propensity to travel has increased advent of new entrants in the industry but the market share and infrastructure with back office improvements are mitigants put in place by management.

(ii) Foreign currency risk

Foreign currency risk is the risk of the value of an investment or a liability changing due to changes in currency exchange rates.

The company operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US Dollar and Euros. Foreign exchange risk arises from future commercial transactions, assets and liabilities already recognized and all foreign investments.

90-95% of sales is in Naira. A depreciating Naira increases exposure to foreign currency denominated balances. To mitigate this, management has set up policy to purchase foreign exchange from the Central Bank of Nigeria to meet the payments for foreign transactions such as aircraft maintenance and aircraft lease costs, with additional requirements being funded from foreign operation revenue and approved currency dealers in the market.

The following table demonstrates the sensitivity of financial instruments to a reasonably possible change in the US Dollar and Euro with all other variables held constant, on profit/(loss) before tax:

There were no changes in methods and assumptions used in preparing the sensitivity analysis from the previous period.

	31 December 2019		31 December 2018	
	Increase/ (decrease) in rate (%)	Effect on profit before tax	Increase/ (decrease) in rate (%)	Effect on profit before tax
<i>In thousands of naira</i>				
US \$	+10%	(4,535,485)	+10%	(4,604,230)
	-10%	4,535,485	-10%	4,604,230
Euro €	+10%	(1,207,294)	+10%	(1,209,623)
	-10%	1,207,294	-10%	1,209,623

The table below summarises the Company's exposure to foreign currency exchange risk as at 31 December 2019. Included in the table are the Company's financial instruments at their carrying amounts categorised by currency.

	Naira N'000	USD N'000	Euro N'000	GBP N'000	Others N'000	Total N'000
Financial assets						
Cash and cash equivalents	2,799,862	52,167	23,807	4,588	-	2,880,424
Trade receivable	2,911,734	196,139	-	-	-	3,107,873

Notes to the financial statements

For the year ended 31 December 2019

32 Risk management framework (Continued)

32.1 Market risk (continued)	Naira N'000	USD N'000	Euro N'000	GBP N'000	Others N'000	Total N'000
Financial liabilities						
Trade payables	16,060,943	16,789,584	12,096,752	26,253	381,107	45,354,639
Loans and borrowings	222,349,823	28,813,571	-	-	-	251,163,394

The table below summarises the Company's exposure to foreign currency exchange risk as at 31 December 2018. Included in the table are the Company's financial instruments at their carrying amounts categorised by currency.

	Naira N'000	USD N'000	Euro N'000	GBP N'000	Others N'000	Total N'000
Financial assets						
Cash and cash equivalents	6,482,798	245,859	518	433	10,814	6,740,422
Trade receivable	2,052,760	196,139	-	-	-	2,248,899
Financial liabilities						
Trade payables	16,573,460	17,134,531	12,096,752	26,253	381,107	46,212,103
Loans and borrowings	193,212,808	29,349,768	-	-	-	222,562,576

(iii) Interest rate risk

This is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Company's interest rate risk arises from long-term borrowings. The borrowings represent the major interest-bearing positions. The Company policy is to maintain part of its borrowings with international banks at reduced rates. The Company's borrowings are denominated in Nigerian Naira and US Dollars.

The Company's policy on managing interest rate risk is to negotiate favorable terms with the banks to reduce the impact of the exposure to this risk and to obtain competitive rates for loans and for deposits.

The table below shows the impact on Arik's Air net assets if interest rates on long term borrowings increased or decreased by 5%, with all other variables held constant. Mainly as a result of higher or lower interest expense on borrowings.

Borrowing

<i>In thousands of naira</i>	2019	2018
Effect 5% increase in interest rate	(1,154,949)	(1,080,198)
Effect 5% decrease in interest rate	1,154,949	1,080,198

Interest rate risk is also managed by treasury department to ensure idle cash is effectively and efficiently utilized.

To mitigate risks, borrowings are closely monitored and sometimes restructured. Management ensures that banking transactions are only with banks with good capital base. Management also ensures that some of the collecting banks are also borrowing banks so that repayments can be deducted at source. The treasury department manages the interests and negotiates / recalculates interest periodically to ensure appropriate deductions.

Notes to the financial statements
For the year ended 31 December 2019

32 Risk management framework (Continued)

32.2 Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Company is exposed to credit risk from its operating activities (primarily trade receivables) and from its financing activities, including deposits with banks and financial institutions, and other financial instruments.

Trade receivables

Customer credit risk is managed by the revenue unit subject to the Company's established policy, procedures and control relating to customer credit risk management. Credit quality of the customer is assessed based on an extensive credit rating scorecard and individual credit limits are defined in accordance with this assessment. Outstanding customer receivables are regularly monitored and any deliveries to major customers are generally covered by bank guarantee obtained from reputable banks and other financial institutions.

An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due for groupings of various customer segments with similar loss patterns (i.e., by customer type). The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. Generally, trade receivables are written-off if past due for more than one year and are not subject to enforcement activity. The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets disclosed in Note 30.2. The Company does not hold collateral as security. The Company evaluates the concentration of risk with respect to trade receivables as low, as its customers are located in several jurisdictions and industries and operate in largely independent markets.

Sensitivity analysis on ECL Model

The most significant forward looking information with impact on the ECL allowance of the Corporation include:

- Unemployment rate
- Inflation rate
- Crude oil price

The table below demonstrates the sensitivity of the ECL allowance to movements in the significant forward looking indicators for financial assets, with all other variables held constant:

	ECL allowance N'000	Net effect N'000
Unemployment rate %		
10% increase	1,065,500	69,706
No change	995,795	-
10% decrease	936,047	(59,748)
Inflation rate %		
10% increase	1,075,458	79,664
No change	995,795	-
10% decrease	921,110	(74,685)
Crude oil price		
10% increase	926,089	(69,706)
No change	995,795	-
10% decrease	1,073,467	77,672

Financial instruments and cash deposits

Credit risk from balances with banks and financial institutions are managed by the Company's treasury department in accordance with the Company's policy. Investments of surplus funds are made only with approved counterparties and within credit exposure limits assigned to each counterparties. Counterparty credit limits are reviewed by the Company's Receiver Management team on an annual basis, and may be updated throughout the year subject to approval of the company's Receiver Management team. The limits are set to minimize the concentration of risks and therefore mitigate financial loss through potential counterparty's failure to make payments. The Company's maximum exposure to credit risk for the components of the statement of financial position is the carrying amounts. The Company does not hold collateral as security.

Notes to the financial statements
For the year ended 31 December 2019

32 Risk management framework (Continued)

32.2 Credit risk (continued)

Below is a breakdown of the Company's financial assets that are exposed to credit risk and the maximum credit risk exposure before other credit enhancements at the reporting date.

	Maximum exposure	
	31 December 2019	31 December 2018
<i>In thousands of naira</i>		
Trade receivables	3,107,873	2,248,899
Other assets	12,097,879	12,132,864
Cash and bank balances	2,880,424	6,740,422
Financial assets bearing credit risk	18,086,176	21,122,185

31 December 2019	Trade receivables	Other assets	Cash and bank balances	Total
<i>In thousands of naira</i>				
Neither past due nor impaired	-	9,817,966	2,880,424	12,698,399
Past due but not impaired	3,107,873	2,279,913	-	5,387,786
Impaired	1,709,336	646,158	-	2,355,494
Gross	4,817,209	12,744,037	2,880,424	20,441,670
Provisions for doubtful debts	(1,709,336)	(646,158)	-	(2,355,494)
	3,107,873	12,097,879	2,880,424	18,086,176

31 December 2018	Trade receivables	Other assets	Cash and bank balances	Total
<i>In thousands of naira</i>				
Neither past due nor impaired	-	9,852,951	6,740,422	16,593,373
Past due but not impaired	2,248,899	2,279,913	-	4,528,812
Impaired	995,795	486,725	-	1,482,520
Gross	3,244,694	12,619,589	6,740,422	22,604,705
Provisions for doubtful debts	(995,795)	(486,725)	-	(1,482,520)
	2,248,899	12,132,864	6,740,422	21,122,185

31 December 2019	Trade receivables								Total
	Current	Days past due							
	1 - 30 days	31 - 60 days	61 - 90 days	91 - 120 days	121 - 150 days	151 - 365 days	>365 days		
<i>In thousands of naira</i>									
Expected credit loss rate	1.31%	3.18%	5.55%	9.68%	13.91%	20.74%	39.01%	100.00%	
Estimated total gross carrying amount at default	167,893	140,395	115,346	-	12,770	79,762	4,301,044	-	4,817,209
Expected credit loss	2,191	4,459	6,403	-	1,776	16,540	1,677,967	-	1,709,336



Notes to the financial statements
For the year ended 31 December 2019

32 Risk management framework (Continued)

32.2 Credit risk (continued)

31 December 2018

In thousands of naira

	Trade receivables								Total
	Current	1 - 30 days	31 - 60 days	61 - 90 days	91 - 120 days	121 - 150 days	151 - 365 days	>365 days	
Expected credit loss rate	1.31%	3.18%	5.55%	9.68%	13.91%	20.74%	37.64%	100.00%	
Estimated total gross carrying amount at default	183,901	127,059	29,646	113,341	242,208	95,909	2,452,630	-	3,244,694
Expected credit loss	2,400	4,035	1,646	10,968	33,685	19,888	923,172	-	995,795

Financial assets that are neither past due nor impaired

	31 December 2019	31 December 2018
<i>In thousands of naira</i>		
Cash at bank		
A	-	-
A+	-	1
AA-	-	-
B	74,632	988,447
B+	988,447	1,222,425
B-	1,705,920	1,645,503
Not rated	111,425	2,884,046
	2,880,424	6,740,422

Bank ratings are based on Fitch ratings as at the year end dates.

Notes to the financial statements
For the year ended 31 December 2019

32 Risk management framework (Continued)

32.3 Liquidity risk

Liquidity risk is the risk that an entity will have difficulties in paying its financial liabilities/meeting its obligations.

Cash flow forecasting is performed in the organization's monthly planning. The treasury department creates and monitors the forecasts for liquidity requirements to ensure it has sufficient cash or make cash available to meet operational needs while maintaining sufficient repayments for the committed borrowing facilities at all times, so that the company does not breach borrowing limits. Such forecasting takes into consideration the financial requirements, debt financing plans, compliance with critical vendors' payments and government agencies and other payment requirements.

The sweeping of revenue collections and utilization of cash and bank credit limits is regularly monitored by the treasury department. Cash flow monitoring is also managed by treasury to ensure idle cash is utilized or transferred to operations accounts with overdraft balances to cushion the effect of interest payments.

The Company has not enjoyed tax holidays.

The table below summarises the maturity profile of the undiscounted cash flows of the Company's financial assets and liabilities and on the basis of their earliest possible contractual maturity.

31 December 2019	Less than 3					Total N'000
	On demand N'000	months N'000	3 to 12 months N'000	1 - 5 years N'000	Over 5 years N'000	
Financial assets						
Other assets	-	12,097,879	-	-	-	12,097,879
Trade receivables	3,107,873	-	-	-	-	3,107,873
Cash and cash equivalents	-	2,880,424	-	-	-	2,880,424
Total assets	3,107,873	14,978,303	-	-	-	18,086,176

31 December 2019	Less than 3					Total N'000
	On demand N'000	months N'000	3 to 12 months N'000	1 - 5 years N'000	Over 5 years N'000	
Financial liabilities						
Trade payables	-	-	45,354,639	-	-	45,354,639
Lease liabilities	-	-	93,316	130,057	-	223,373
Loans and borrowings	257,499,515	-	-	-	-	257,499,515
Total liabilities	257,499,515	-	45,447,955	130,057	-	303,077,527
Total liquidity gap	(254,391,642)	14,978,303	(45,447,955)	(130,057)	-	(284,991,351)

31 December 2018	Less than 3					Total N'000
	On demand N'000	months N'000	3 to 12 months N'000	1 - 5 years N'000	Over 5 years N'000	
Financial assets						
Other assets	-	12,132,864	-	-	-	12,132,864
Trade receivables	-	2,248,899	-	-	-	2,248,899
Cash and cash equivalents	-	6,740,422	-	-	-	6,740,422
Total assets	-	21,122,185	-	-	-	21,122,185

31 December 2018	Less than 3					Total N'000
	On demand N'000	months N'000	3 to 12 months N'000	1 - 5 years N'000	Over 5 years N'000	
Financial liabilities						
Trade payables	-	-	46,212,103	-	-	46,212,103
Loans and borrowings	229,600,338	-	-	-	-	229,600,338
Total liabilities	229,600,338	-	46,212,103	-	-	275,812,441
Total liquidity gap	(229,600,338)	21,122,185	(46,212,103)	-	-	(254,690,256)

Notes to the financial statements For the year ended 31 December 2019

33 Contingent liabilities, commitments and operating lease arrangements

Contingent liabilities

After the recognition of the tax under provision in note 39 to this financial statement, management is still in the process of reconciling its final tax exposure for 2011 to 2016 years of assessment with the tax authority. Consequently, the final tax liabilities may differ from the tax under provision recognised.

The company had no material contingent liabilities as at 31 December 2018.

Commitments

Amount committed to aircraft acquisition as at 31 December 2019 are as analysed in Note 17. There were no other capital expenditure contracted at the balance sheet date.

34 Capital management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

Consistent with others in the industry, the Company monitors capital on the basis of the gearing ratio, (net debt as a percentage of total capital). Net debt is defined as the total borrowings, finance leases and net interest-bearing deposits and cash and cash equivalents less overdrafts.

The Company is not subject to externally imposed capital requirements.

Total capital is defined as the total of capital, reserves and net debt.

The gearing ratios at each year end were as follows:

<i>In thousands of naira</i>	2019	2018
Total equity (N'000)	(222,321,004)	(192,582,679)
Net debt (N'000) (a)	257,499,515	229,600,338
Total Capital (N'000) (b)	35,178,511	37,017,659
Gearing ratio (%) (a)/ (b)	732%	620%

There are no changes to the company's objectives, policies and processes of managing capital.

35 Comparatives

Where necessary, comparatives figures have been adjusted to confirm with changes in presentation in the current year.

36 Related party disclosure

The following table provides the total amount of transactions that have been entered into with related parties for the relevant financial year.

The relationship between Arik Air Limited and its related parties are disclosed below, irrespective of whether there were transactions between them during the reporting year.

Name	Relationship
Ojemai Investment Limited	Common ownership
Rockson Engineering	Common ownership
Rockson International	Common ownership
Ojemai Farms Limited	Common ownership
Hansworth Limited	Common ownership
Arik Air International Limited	Common ownership

Notes to the financial statements
For the year ended 31 December 2019

36 Related party disclosure (continued)

The table below show the transactions that occurred between related parties during the relevant financial year:

(a) Receivables from related parties	2019	2018
<i>In thousands of naira</i>		
Trade receivables		
Rockson Engineering Limited	1,670,151	1,670,151
Other assets		
Ojemai Farms Limited	900	900
Rockson International	486,200	486,200
Hansworth Limited	11,871	11,871
Arik Air International Limited	1,780,942	1,780,942
	<u>2,279,913</u>	<u>2,279,913</u>
Total related party receivables	<u>3,950,064</u>	<u>3,950,064</u>

No impairment was recognised in 2019 (2018: Nil).

(b) Payables to related parties	2019	2018
<i>In thousands of naira</i>		
Ojemai Investment Limited	195,653	518,469
Arik Air International Limited	13,939,233	14,005,755
	<u>14,134,886</u>	<u>14,524,224</u>

Receivables and payables from/to related parties are without tenor and are unsecured and the consideration to be provided in settlement could either be cash and cash equivalent or services.

(c) Purchases from related parties	2019	2018
<i>In thousands of naira</i>		
Ojemai Investment Limited	165,376	165,376

(d) Loan from key management	2019	2018
<i>In thousands of naira</i>		
Directors current account	-	-

Loan from key management of the company during the year were unsecured in nature and bear no interest .

(e) Key management compensation

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company. Key management personnel include the Chief Executive Officer, Receiver Manager, and Chief Financial Officer. The compensation paid or payable to key management for employee services is shown below:

<i>In thousands of naira</i>	2019	2018
Salaries and other short-term employee benefits	111,744	111,744
Post-employment benefits (gratuity and pension)	11,174	11,174
	<u>122,918</u>	<u>122,918</u>

*The remuneration of the Receiver Manager is borne by AMCON. The directors did not receive any emoluments during the year (2018:nil)

Notes to the financial statements

For the year ended 31 December 2019

(f) Operating lease

The land (head office) occupied by Arik Air Limited is on a lease agreement with Ojemai investment Limited being the lessor with an option to renew the lease agreement. There are no restrictions on the Company by the lease contract. However, Arik Air Limited (in receivership) recognised an estimated lease amount based on the assessment of an independent estate manager pending when the old amount is re-negotiated. The amount is recognised in the statement of profit or loss and other comprehensive income.

37 Fly for Value arrangement

Arik Air Limited (In Receivership) (Arik) entered a tripartite wet (ACMI) lease agreement with Syphax Airlines and FlyForValue Aviation Limited (FFV) in which Arik is the lessee. Syphax is the aircraft lessor with a valid Airworthiness Certification issued by the Tunisia Civil Aviation and Airport Authority and 2 x Bombardier CRJ-900 aircrafts, with the cover of crew, maintenance and insurance (ACMI) available for lease. This arrangement is structured such that FlyForValue Aviation Limited meets all the financial obligations of the lease and both companies have agreed on how the revenue generated from passengers uplift is shared. The passengers uplift is seen to be Arik's because Arik has the primary responsibility for the flight meeting the customer specifications as the flights are operated under its designated flight numbers and call signs. Arik is in charge of satisfying the performance obligation which is flight service. This arrangement has been accounted for inline with IFRS 9 and IFRS 16. Arik is the Principal in these revenue arrangement and the accounting policies in note 2.2.3 remain applicable.

38 Impact of COVID

In the first quarter of 2020, there was a COVID -19 outbreak which has spread globally. The outbreak has been declared a Public Health Emergency of International concern by World Health Organisation (WHO) in March 2020. As at the date of this report, several cases have been confirmed in Nigeria by the Nigerian Centre for Disease Control.

In the light of these recent developments and its underlying impact, the Company experienced revenue losses in its 2020 financial year due to the lockdown. However, after the lockdown was lifted, normal operations commenced and there has been significant improvements in 2022 in respect of load-factor and revenue compared to 2020 financial year. Also, members of staff who proceeded on leave without pay have been called back. The Company has also adopted hybrid (i.e remote and physical) working practices, where appropriate.

Management continues to monitor the outbreak and have put in place measures to mitigate against a significant impairment of the carrying value of assets. The management is confident that there are no plans to liquidate any of the Company's operations as a result of the impact of COVID- 19 outbreak.

39 Tax liability disclosure

On 24 May 2021, Arik Air Limited (In Receivership) (Arik) received a letter from the Federal Inland Revenue Service (FIRS) communicating tax liabilities amounting to N33.65 billion which represents unpaid tax liabilities for the 2011 to 2016 year of assessment (YOA).

Management assessed the liability to be N5.8 billion, which has been communicated to the FIRS. The tax under provision for company income tax and education tax has been recognised as prior year under provision in this financial statement while the company did not make provision for value added tax and withholding tax due to having adequate provision to cover its exposure. The analysis of the tax amount is stated below:

	N'000
Company income tax (CIT) - Note 13	3,675,590
Education tax - Note 13	929,094
Value added tax (VAT)	1,220,586
Withholding tax (WHT)	40,189
	<u>5,865,459</u>

40 AFREXIM Shave-off

In 2019, Arik Air Limited (In receivership) entered into an agreement with African Export–Import Bank Limited, which led to a N5.4 billion (\$10.2m) debt forgiveness in favour of the company with specified conditions. As at balance sheet date, Arik Air Limited is yet to adequately evidence that the said conditions have been fulfilled, the loan shave-off is yet to be recorded in the books of the company, until conditions precedent are met.

41 Events after the reporting date

There are no other subsequent events or transactions that have occurred since the date of the statement of financial position or are pending that would have material effect on the financial statements as at and for the year ended 31 December 2019 except for the impact of COVID 19 disclosed in note 38 and the tax liability disclosed in note 39 above.



**Statement of value added
for the year ended 31 December 2019**

<i>In thousands of Naira</i>	31 December 2019	%	31 December 2018	%
Revenue	40,647,638		42,703,399	
Other income	3,121,626		2,960,179	
Finance income	146,565		381,829	
Bought in goods and services:				
Local	(17,279,539)		(15,182,068)	
Foreign	(11,519,692)		(10,121,379)	
Value added	15,116,598	100	20,741,960	100
Applied as follows:				
Pay salaries, wages and other entitlements	7,691,704	51	8,118,888	39
Pay interest on funds provided	23,098,972	153	21,603,955	104
Provide for depreciation and amortisation of assets	9,459,563	63	6,120,849	30
Consumed in the business	(29,738,325)	(197)	(15,101,732)	(73)
Value added	15,116,598	100	20,741,960	100

This statement represents the distribution of the wealth created through the use of the company's assets through its own efforts.

Five-year financial summary for the year ended 31 December 2019

Statement of financial position

	2019	2018	2017	2016	2015
<i>In thousands of Naira</i>					
Non-current assets	119,374,181	123,857,435	123,603,293	141,409,946	177,168,833
Current assets	22,071,920	23,557,625	20,311,482	22,717,514	34,203,716
Current liabilities	(363,637,048)	(339,173,555)	(319,909,204)	(296,835,226)	(210,942,957)
Non-current liabilities	(130,057)	(824,184)	(1,082,646)	(2,812,370)	(54,526,956)
Net liabilities	(222,321,004)	(192,582,679)	(177,077,075)	(135,520,136)	(54,097,364)
Capital and reserves					
Share capital	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000
Reserves	(224,321,004)	(194,582,679)	(179,077,075)	(137,520,136)	(56,097,364)
Shareholders' funds	(222,321,004)	(192,582,679)	(177,077,075)	(135,520,136)	(54,097,364)

Statement of profit or loss and other comprehensive income

	2019	2018	2017	2016	2015
<i>In thousands of Naira</i>					
Revenue	40,647,638	42,703,399	28,433,731	61,857,010	61,788,869
Loss before minimum tax	(24,977,306)	(14,924,724)	(41,784,076)	(85,065,488)	(45,406,553)
Minimum tax	(156,336)	(177,008)	(117,808)	(136,458)	(88,800)
Loss before taxation	(25,133,641)	(15,101,732)	(41,901,884)	(85,201,946)	(45,495,353)
Taxation	(4,604,684)	-	-	-	-
Loss after taxation	(29,738,325)	(15,101,732)	(41,901,884)	(85,201,946)	(45,495,353)