Airline Disclosure Guide

Segment Reporting

In association with KPMG

Purpose of Airline Disclosure Guides

These Airline Disclosure Guides (ADGs) have been compiled by the IATA Industry Accounting Working Group (IAWG), which consists of senior finance representatives from IATA member airlines. This working group's mandate is to promote consistency in the application of International Financial Reporting Standards (IFRS) and to lobby accounting standard setters to take into consideration the interests of airlines globally.

The ADGs cover the latest accounting practices, principally from airlines reporting under IFRS related frameworks, to highlight key issues, judgements and disclosures made by airlines. They are designed to help in the development and analysis of airlines annual reports. The sample for the disclosures used in the ADGs comes mainly from annual reports of members of the IAWG and of IATA's Financial Committee.

The ADGs are not intended as critical assessments of specific disclosures or accounting policies nor as a guide of best practice. Furthermore, they do not provide accounting advice or detailed analysis of the underlying standards, including relevant disclosure requirements, and they should not be used as a substitute for referring to the standards and interpretations of IFRS.

KPMG is a global network of member firms, providing audit, tax and advisory services and has provided the IATA IAWG with assistance in compiling the ADGs. The views expressed in the ADGs are not necessarily the views of KPMG.

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Introduction and scope

Introduction

Segment information provides users of the financial statements with the information needed to evaluate an entity's business activities and the economic environment in which it operates. This core principle is considered when forming judgements about how and what information is disclosed. The users of the financial statements are often interested in the segment disclosure and one motivation may be that it can assist in the development of valuation models.

The approach to segment reporting under IFRS 8 includes four steps:

- Identification of operating segments.
- Aggregation of operating segments.
- Determination of reportable segments.
- Disclosure of segment information.

In addition, some links exist between IFRS 8 and IAS 36 as IAS 36 requires that each cash-generating unit or group of units to which goodwill is allocated cannot be larger than an operating segment before aggregation [IAS 36.80(b)] and that impairment losses and reversals are disclosed for each reportable segment [IAS 36.129].

Airlines may also provide information on their business activities in other sources of information, such as management reports, press releases or analyst presentations. Such information may provide additional insight into the operations of the airlines.

Scope

This ADG provides insights into current industry practice based on analysis of a sample of 17 entities that report under IFRS related frameworks. It is organised into the following five sections:

IFRS 8 segment information

1 Identification and aggregation of operating segments

2 Reportable segments

3 IFRS 8 Disclosures

Interaction with other areas of reporting

4 Disclosures on impairment – CGUs and their interaction with IFRS 8 segments

5 Information provided on business activity in other sources of financial information other than financial statements

1. Identification and aggregation of operating segments

Identification

IFRS 8.5 defines an operating segment as a component of an entity:

- That engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity)
- Whose operating results are regularly reviewed by the enterprise's CODM to make decisions about resources to be allocated to the segment and assess its performance.
- For which discrete financial information is available.

What is a Chief Operating Decision Maker ("CODM")?

The term identifies a function, not necessarily a manager with a specific title. That function is to allocate resources to and assess the performance of the operating segments of an entity. Often the chief operating decision maker of an entity is its chief executive officer or chief operating officer but, for example, it may be a group of executive directors or others [IFRS 8.7].

Aggregation

Under IFRS 8 two or more operating segments may be aggregated into a single operating segment when the operating segments have economic characteristics so similar that they can be expected to have the same future prospects. Aggregation is permitted only if these operating segments have similar products and services, production processes, customers, distribution methods and regulatory environments. [IFRS 8.12]

The aggregation of operating segments is performed before determining which segments are reportable; therefore, operating segments may be aggregated even though individually they may exceed the quantitative thresholds for determining which ones are reportable.

Observed practice

Airlines often derive their revenues from various streams (e.g. passenger, cargo, maintenance, catering), but discrete financial information on each stream may not always be separately monitored. In addition, the way this information is monitored by the CODM may vary between airlines, and as a result reported operating segments also vary.

When an airline clearly identifies different business areas which it manages and reports upon internally, then those different business areas form a basis for segmentation and more than one segment may be identified (e.g. low cost branch, cargo, maintenance, catering) provided that the criteria stated under IFRS 8 are met.

However, even if several operating segments are identified, airlines may aggregate them where they meet the aggregation criteria under the standard.

In practice in the airline industry it appears that operations with significantly different risks and returns are likely to be separately identified and monitored internally rather than geographical regions.

Based on the analysis undertaken for this ADG, the number of segments and method of deriving these segments can vary significantly across the industry. In the sample considered here the number of segments ranged from 1 to 5. However, four main types of segmental information prevail in our sample:

- Business units relate to the nature of the services being provided and the revenue being earned. They most typically include passenger revenue, cargo and maintenance.
- Operating entities represent individually run and operated brands or businesses.
- Combination is where the segments identified are a mixture of business units and operating entities (the later being in general the low cost or regional entities).
- Whole business is where the whole operations are considered one segment as the reporting to the CODM to be made by the business is performed on the whole considering resource allocation for benefit of a group network.

Some examples of these different types of segmental categorisation are shown on the next page.

Example disclosure
"Combination": Air France KLM 2015 Half Year Report

The segment information is prepared on the basis of internal management data communicated to the Executive Committee, the Group's principal operational decision-making body.

The Group is organised around the following segments:

Passenger network: Passenger network operating revenues primarily come from passenger transportation services on scheduled flights with the Group's airline code (except Transavia), including flights operated by other airlines under code-sharing agreements. [...].

Cargo: Cargo operating revenues come from freight transport [...].

Maintenance: Maintenance operating revenues are generated through maintenance services provided to other airlines and customers globally.

Transavia: The revenues from this segment come from the "low cost" activity realised by Transavia. Until December 31, 2014, these revenues had been included in the "Others" segment. The revenues relating to this activity are henceforth disclosed on a separate business for both the actual and the 2014 comparative figures.

Other: The revenues from this segment come primarily from catering supplied by the Group to third-party airlines.

Example disclosure
"Operating entities": International Airline Group 2014 Annual Report

British Airways, Iberia and Vueling are managed as individual operating companies. Each airlines operates its network operations as a single business unit. [...] The IAG Management Committee makes resource allocation decision based on network profitability, primarily by reference to the passenger markets in which the companies operate.

Example disclosure
"Whole business": EasyJet 30 September 2014 Annual Report

EasyJet has one operating segment, being its route network, based on management information provision to the Executive Management Team, which is EasyJet's Chief operating Decision Maker. Resource allocation decisions are made for the benefit of the route network as a whole, rather than for individual routes within the network. Performance of the network is assessed based on the consolidated profit or loss before tax for the year.

Example disclosure
"Businesses": Turkish Airlines 2014 Annual Report

There are two operating segments of the Group, air transportation and aircraft technical maintenance operations; these include information for determination of performance evaluation and allocation of resources by the management. The Company management uses the operating profit calculated according to TAS while evaluating the performances of the segments.

A number of factors are likely to be at play in the airline deciding how it reports its operations to the CODM and therefore how it presents its segments in its financial statements. This could depend on how diversified respective airlines are (i.e. low cost airlines may focus on that service only whereas others may have significant cargo/regional businesses, maintenance as well).

Differing organisational structures and strategy will also be a factor in determining the segments. For example, whether the airline has a cargo fleet or just a belly-hold cargo operation; has outsourced or vertically integrated support operations such as maintenance or catering; is structured by operating airline brands (e.g. IAG) or by type of activity (e.g. Lufthansa and Air France-KLM); and whether it has distinct full-service and low cost operations (e.g. IAG, Qantas, Air France-KLM).

1. Identification and aggregation of operating segments (cont.)

Segment identification and aggregation could be impacted by strategic decisions and is subject to modification in relation to activity growth and development (low cost activities development, sector consolidation, activity outsourcing).

The table below shows the number of segments reported by the airlines in our sample and the nature of those segments (excluding segment type "others"):

Segmental reporting categories by airline sampled (17 airlines)

Nb of segment	Airline	Whole business	Business Units (1)	Operating companies	Combination (2)	Total
1	Air New Zealand	X				*35%*
	Air Canada	X				
	Air China	X				
	Easy Jet	X				
	Japan Airlines	X				
	Ryanair	X				
2	Cathay Pacific		X			*23%*
	Emirates		X			
	TAM Linhas Aereas		X			
	Turkish Airlines		X			
3	International Airlines Group (IAG)			X		
	Kenya Airways		X			*18%*
	Singapore Airlines		X			
4	Korean Air Lines		X			*6%*
5	Lufthansa				X	
	Air France – KLM				X	*18%*
	Qantas		X			
Total		35%	47%	6%	12%	100%

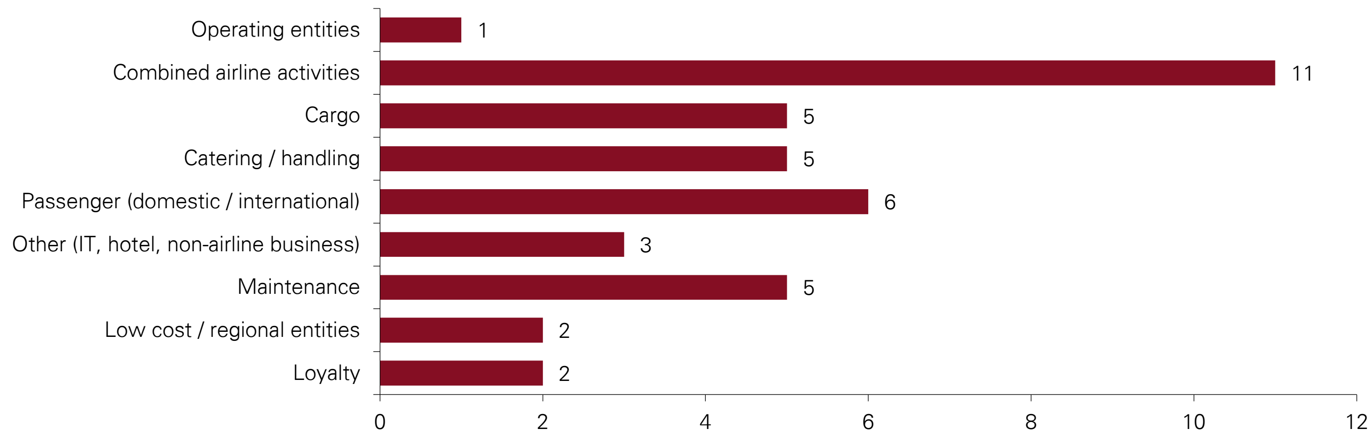
6 entities with one segment

11 entities with more than one segment

17 entities

Note: (1) Mainly Passenger, Cargo/Logistic, Maintenance, Catering.
(2) Operating companies in addition to business units mainly for Regional or low cost airlines/brand .

Products and services constituting the segments (17 airlines)



2. Reportable segments

Under IFRS 8 only reportable segments are required to be disclosed separately. Those can comprise single operating segments or an aggregation of operating segments. Under IFRS 8 segments are required to be reported separately if they meet certain quantitative thresholds such as:

The segment's reported revenue (external sales and inter-segment transfers) is 10 percent or more of the combined revenue (internal and external) of all operating segments.

- The absolute amount of the segment's reported profit or loss is 10 percent or more of the greater, in absolute amount, of:
  - The combined reported profit of all operating segments that did not report a loss; and
  - The combined reported loss of all operating segments that reported a loss.
- The segment's assets are 10 percent or more of the combined assets of all operating segments. [IFRS 8.13]

Operating segments that do not meet any of the quantitative thresholds may be considered reportable, and disclosed separately, if management believes that information about these segments would be useful to readers of the financial statements or more reportable segments need to be identified to meet the 75% test.

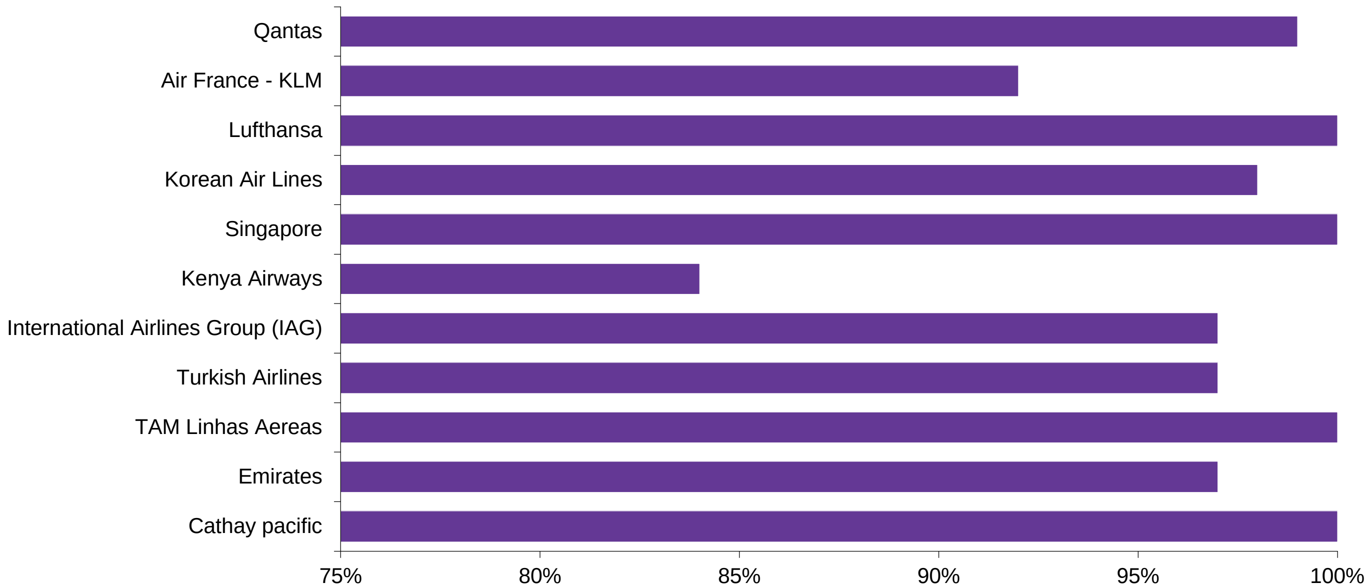
The total external revenue of identified reportable segments needs to constitute a least 75% of the entity's total consolidated revenue; additional operating segments need to be identified as reportable segments until this threshold is met. [IFRS 8.15]

Observed practice

In this chapter, we only focus on airlines with more than one segment (11 airlines from our sample of 17).

As illustrated in the diagram below, external revenues of the identified reportable segments constitute at least 75 percent of the total revenue for these 11 airlines.

Proportion of total revenues represented by separately reported segments (11 airlines)



The revenues generated by the segments disclosed generally account for more than 90% of total revenues.

3. IFRS 8 Disclosures

This section of the ADG considers the following categories of IFRS 8 disclosures:

3.1 Disclosures of general information

3.2 Disclosures of measures of segment performance

3.3 Entity-wide disclosures

It should be noted, relevant to all these sections, that IFRS 8 does not provide any exemption from the required disclosures due to "competitive harm", meaning that an airline may not decide not to disclose segmental information due to competitive commercial sensitivity [IFRS 8 BC43-45].

3.1 Disclosures of general information

Under IFRS 8 (IFRS 8.22), an entity shall disclose general information about:

- The factors used to identify the entity's reportable segments, including the basis of organisation (for example, whether management has chosen to organise the entity around differences in products and services, geographical areas, regulatory environments, or a combination of factors and whether operating segments have been aggregated).
- The judgements made by management in applying the aggregation criteria. This includes a brief description of the operating segments that have been aggregated in this way and the economic indicators that have been assessed in determining that the aggregated operating segments share similar economic characteristics. (this requirement is effective for annual periods beginning on or after 1 July 2014).
- The types of products and services from which each reportable segment derives its revenues.

Observed practice

Factors used to identify reportable segments

Airlines generally indicate that their segmentation is based on the CODM monitoring and describe each segment (main entities, general description of business and significant terms of transaction between segments if any).

Types of products and services

Out of our sample of 17 airlines:

- Ten airlines disclose segments based on business units alone or as part of a combination type approach. Such segmentation defines in itself the types of products and services from which the segments derive their revenues.
- One airline uses operating entities' segmentation (IAG), noting that the CODM reporting is focused at this level. Further information on the products and services are given in the income statement, where passenger, cargo and other revenue information on a consolidated level in its income statement.
- Six airlines consider the whole-business as a segment. However, in their income statement they separately disclose passenger, cargo, contract services or other revenues. Similarly, in their income statements easyJet distinguishes "seat revenues" from "non-seat" revenues and Ryanair details "Scheduled revenues" and "ancillary revenues".

3.2 Disclosures of measures of segment performance and position

IFRS 8 requires an entity to report a measure of profit or loss for each reportable segment, and a measure of total assets and liabilities for each reportable segment if such amounts are provided regularly to the CODM. It also requires an entity to disclose the following about each reportable segment if the specified amounts are included in the measure of segment profit or loss reviewed by the CODM or are otherwise provided regularly to the CODM, even if not included in that measure of segment profit or loss: revenues from external customers, revenues from transactions with other operating segments of the same entity, interest revenue, interest expense, depreciation and amortisation, material items of income and expense disclosed in accordance with IAS 1, equity-accounted earnings, income tax, and material non-cash items other than depreciation and amortisation. [IFRS 8.23]

The segment information reported is the measure reported to the CODM for the purposes of making decisions about allocating resources to the segment and assessing its performance. [IFRS 8.25] As a result, these measures might include non-GAAP profit measures, e.g. information based on adjusted operating profit.

To help users of financial statements understand an entity's segment disclosures, entities are required to provide sufficient explanation of the basis on which the information reported was prepared. Such disclosure includes differences in the basis of measurement between the consolidated amounts and the segment amounts and indicates whether allocations of items were made symmetrically. [IFRS 8.20,.27] In addition, entities are required to provide reconciliation disclosures. A reconciliation is required from the total for all reportable segments to the amounts reported in the primary financial statements for revenues, profit or loss measures and any other material items disclosed. A reconciliation is also required for total of the reportable segments' assets and liabilities to the entity's assets and liabilities in the financial statements, but only if the segment assets/liabilities are regularly reported to the CODM. All material reconciling items should be separately identified and disclosed e.g. the amount of each material adjustment made to reconcile the accounting policies used in determining segment profit or loss to the entity's amounts is identified and described separately. [IFRS 8.28].

It is also possible that segmental information is reported internally to the CODM in a currency that is different to the presentation currency used in the entity's financial statements. In this case the entity may present this information in the financial statements either in the presentation currency, possibly with a note to detail the internal reporting currency, or in the currency in which it is internally reported to the CODM. Where the latter option is chosen, this will need to be carefully identified and will result in additional reconciling items.

Observed practice

In this chapter, we only focus on airlines with more than one segment (11 airlines from our sample as defined in previous chapter).

Use of non-GAAP performance measures

Some airlines (Lufthansa, IAG and Qantas) disclose non-GAAP performance measures in the segment note on the basis that these are provided internally to the CODM.

These non-GAAP measures aim at showing results adjusted for items which are not considered to be a recurring part of the normal course of business like restructuring and/or merger costs, aircraft adjustments such as accelerated depreciation charges:

- Lufthansa discloses an operating result and a segment result with adjustments between the two for items such as impairment losses and return on investments.
- IAG discloses an "operating profit before exceptional items by segment".
- Qantas reports underlying EBIT by segment. As net finance costs are not allocated by segment and remain under the Corporate activity, PBT (Profit Before Tax) is only given for group overall and Corporate. The concept of "Underlying" aims at adjusting for non-recurring items.

Reporting currency

Korean Airlines is the only airline in our sample that presents the segment note in both Korean won (functional currency) and USD. The translation of Korean won amounts into U.S. dollar amounts is included solely for the convenience of readers outside of the Republic of Korea. The currency rate is specified is the note describing significant accounting policies in the annual financial statements.

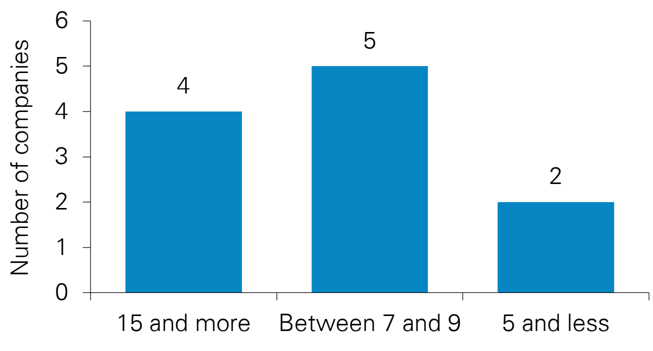
3.2 Disclosures on measures of segment performance (cont.)

Allocation of revenues, costs and assets between segments

Airlines provide various levels of detail regarding income and expense items by segments (mostly regarding expenses).

Inter-segment sales are disclosed by all the airlines in our sample. The basis of allocation between reportable segments is not detailed or is only very briefly described to note that these transactions are at arm's length.

Number of income and expense items disclosed (11 airlines)



Example disclosure
"Note 42 – Segment reporting": Lufthansa 2014 Annual Report

> Sales and revenues between segments are based on arm's length prices. Administrative expenses are charged as cost allocations.

Example disclosure
"Note 6 – Segment information": Air France KLM 2014 Annual Report

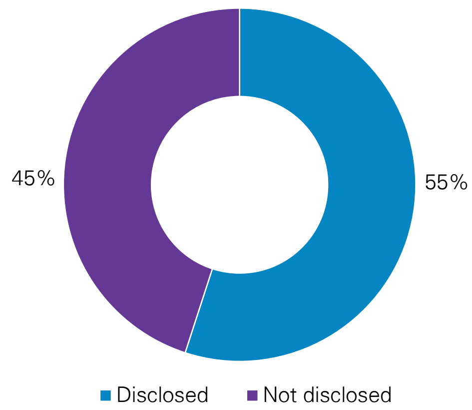
> Inter-segment transactions are realised and evaluated based on normal market conditions.

Disclosure of assets and liabilities by segment

55% of the airlines of our sample having more than one segment provide a split of assets by segment. In most cases these airlines also provide a split of their liabilities.

Where a split is provided, there are generally few details of the assets and liabilities given other than a single figure. There was one exception to this, Singapore Airlines, for which the disclosure provided is shown on page 12.

Number of Airlines disclosing assets by segment (11 airlines)



Specific information regarding how assets have been allocated to segments is not generally provided by our sample. This could indicate that the allocation of assets to segments is achieved without any significant challenges.

There are circumstances where allocating assets to segments could be challenging for airline industry. For example, it may be difficult to determine how to allocate a value to belly-hold space in passenger jets used for freight where passenger and freight transport are separate segments.

Reconciliation with entity's financial statements

All the airlines in our sample presented a reconciliation between the items disclosed at segment level and the consolidated financial statements, either in respect of the use of non-GAAP profit measures or in respect of unallocated items.

Unallocated assets, liabilities or costs, most of the time, appear to relate to net financial debt, pensions, hedging, taxes or corporate costs.

3.2 Disclosures on measures of segment performance (cont.)

Example disclosure
“Segment results, detailed split of expenses”: Turkish Airlines 2014 Annual Report

Segment Results:
1 January – 31 December 2014

	Aviation	Technic	Inter-segment elimination	Total
Sales to External Customers	23,711,122,730	446,678,675	-	24,157,801,405
Inter-Segment Sales	83,944,048	1,366,495,349	(1,450,439,397)	-
Segment Revenue	23,795,066,778	1,813,174,024	(1,450,439,397)	24,157,801,405
Cost of Sales	(19,741,568,451)	(1,492,993,984)	1,421,938,064	(19,812,624,371)
Gross Profit	4,053,498,327	320,180,040	(28,501,333)	4,345,177,034
Administrative Expenses	(398,266,097)	(238,241,325)	37,758,827	(598,748,595)
Marketing and Sales Expenses	(2,452,694,825)	(11,224,759)	1,663,723	(2,462,255,861)
Other Operating Income	171,585,839	19,200,950	(12,209,345)	178,577,444
Other Operating Expenses	(88,982,199)	(16,176,900)	966,977	(104,192,122)
Operating Profit	1,285,141,045	73,738,004	(321,151)	1,358,557,900
Income from Investment Activities	210,861,713	25,650	-	210,887,363
Expenses from Investment Activities	(51,999,813)	(200,509)	-	(52,200,322)
Share of Investments’Profit/Loss Accounted by Using The Equity Method	161,739,125	(965,394)	-	160,773,731
Operating Profit/Loss before Financial Income/[…]	1,605,742,070	72,597,753	(321,151)	1,678,018,672
Financial Income	1,012,338,099	12,777,881	(44,906,755)	980,209,225
Financial Expense	(413,302,692)	(28,685,157)	44,906,755	(397,081,094)
Profit Before Tax From Continuing Operations	2,204,777,477	56,690,447	(321,151)	2,261,146,803

3.2 Disclosures on measures of segment performance (cont.)

Example disclosure
"Segment information": Singapore Airlines 2015 Annual Report

Segment Information (in $ million)

Other Information as at 31 March 2015	Airline operations 2015	Engineering services 2015	Cargo operations 2015	Others 2015	Total of segments 2015	Eliminations 2015	Consolidated 2015
Segment assets	19,821,40	1,177,20	1,606,60	175,3	22,780,50	(1,099,20)	21,681,30
investments in associated and joint venture companies	624.8	465,3			1,090,10		1,090,10
Long-term investments	1,110,40	14,6			1,125,00		1,125,00
Accrued interest receivable	24,6			0,2	24,8		24,8
Total assets	21,581,20	1,657,10	1,606,60	175,5	25,020,40	(1,099,20)	23,921,20
Segment liabilities	6,456,20	228,4	583,3	50,3	7,318,20	(1,109,10)	6,209,10
Provisions	1,090,60	0,2	16,2	0,1	1,107,10		1,107,10
Finance lease commitments			99,3		99,3		99,3
Loans	307	33,2			340,2		340,2
Notes payable	1,300,00				1,300,00		1,300,00
Defined benefit plans	155,5		4,9		160,4		160,4
Accrued interest payable	12,9		0,6		13,5		13,5
Tax liabilities	1,558,10		150,9	8,2	1,761,20	0,3	1,761,50
Total liabilities	10,880,30	44	855,2	58,6	12,099,90	(1,108,80)	10,991,10
Capital expenditure	2,536,00	305,8	47	0,7	2,663,20		2,633,20
Purchase of intangible assets	25,4	47,5	0,6	0,7	30,9		30,9
Depreciation	1,376,40	4,	119	1,8	1,538,60	0,2	1,538,80
Impairment of property, plant and equipment	23,5	41,4	7	1,2	31,7		31,7
Amortisation of intangible assets	22,8	1,4	1,4	0,3	25,9		25,9
Non-cash items other than depreciation, impairment of property, plant and equipment and amortisation of intangible assets	47,6	(1,7)	3,3		49,2		49,2

3.3 Entity wide disclosures

Entity-wide disclosures related to the following items are required, regardless of whether the information is used by the CODM in assessing segment performance [IFRS 8.31-34]:

- Revenue from external customers for products and services.
- Revenue from external customers by geographical areas.
- Geographical information about non-current assets other than financial instruments, deferred tax assets, post-employment benefit assets and rights arising from insurance contracts.
- Information about the extent of reliance on major customers, where relevant (i.e. revenues from an individual external customer that represent 10 percent or more of an entity's total revenue).

Observed practice

Although revenue is often managed and reported on a geographical basis, airlines usually consider their assets and costs on a functional rather than geographic basis.

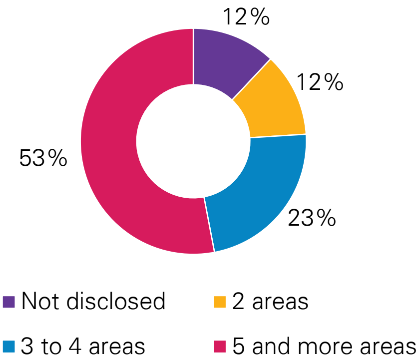
Revenue from external customers for products and services

Please refer to section 3.1 Disclosures on general information of this ADG.

Revenue by geographical areas

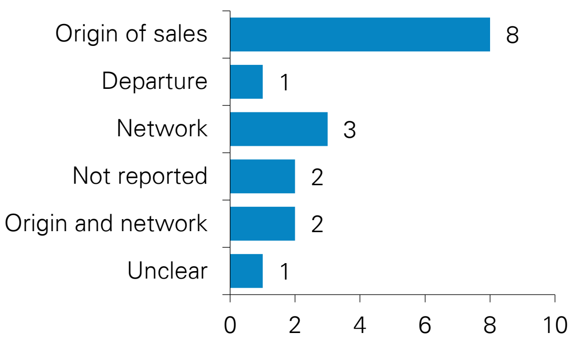
One particular application issue faced by airlines is the lack of a standard set of geographic regions between airlines. Given the lack of specific guidance in IFRS 8, airlines use various methods to determine geographic areas.

There are no uniform definition of routes/region in use within the industry. Geographical definition is directly linked to sales organisation and network definition.



The methods that are typically used by airlines to define geographic sectors are:

- Origin method – the country or region where the sales originated (47% of the sample population)
- Departure method – the country or region where the flight departed (6% of the sample population)
- Destination method – the country or region of the ticket destination
- Network approach – takes into account both departure and arrival location (i.e. Europe – North America and North America – Europe sectors as part of the same "Atlantic" area). In this case domestic would be classified separately (18% of sample population).



The method predominantly used by airlines is the 'origin method'. This is most likely due to the simplicity of gathering point of sale data related to tickets.

Only two airlines mention directly origin and network method in their financial statements (Air France-KLM and Lufthansa (by reference to the management report for the latter)). Two airlines (TAM and Kenya Airways) do not report information in their financial statement on sales by geographical area.

3.3 Entity-wide disclosures (cont.)

Practical application of the methods outlined for identifying geographical segments may require judgment as to:

- Uniform definition of regions and continents
- Classification of feeder service revenue (i.e. Philadelphia-JFK-LON. Assuming the purpose of the trip is to fly from Los Angeles to London, the revenue could either be split between the "USA" area and the "Atlantic" area, or the revenue could be allocated in full to an Atlantic area assuming that the end sectors are ancillary to the main leg of the flight).

Information provided on the allocation methodology is generally limited.

The allocation methodology may also vary significantly between airlines. For example easyJet indicates that it uses a specific method (departure method) consisting in splitting the geography "according to the location of the first departure airport on each booking", rather than using the origin method like most of the other airlines, although the information disclosed in the end may be close. As regards destination method, various allocation types can be found and may be based on the destination of the global journey, or on the destination of each flight making up the journey.

Geographical allocation of assets

Allocation of fleet assets is not always straightforward as most airlines deploy their fleet around their network, not restricting individual aircraft to particular routes (i.e. creating difficulties of allocation between routes).

Methods of allocating assets and costs vary. Some methods adopted by airlines include:

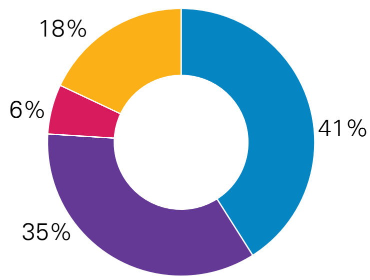
- Location method – location of entities assets. Regional airlines may be able to use this method but this could be less relevant to worldwide airlines as aircrafts move flexibly around the world.
- Deployment approach – If assets and associated costs are limited to certain routes (i.e. specific fleet types owned by the airline are deployed on an "Atlantic" area only).
- No disclosure – As a result of aircraft moving flexibly around the world, many airlines state that a disclosure of assets on a geographic basis in an accurate manner is not possible.

Geographical asset disclosures within our sample predominately fall into two categories:

- Seven of the 17 contain no disclosure.
- Six state that there is no reasonable method for allocation as the fleet is deployed flexibly across network.

Three airlines (Qantas, Singapore Airlines and Korean Airlines) base the geographical split on where their registered company is located (e.g. Australia for Qantas).

Assets by geographical area



Identification of an individual external customer that represent 10% or more of an entity's total revenue

None of the airlines in our sample of 17 included a significant customer of this nature in their financial statement disclosure. Given the nature of scheduled airlines selling to a large number of corporate clients and of course the public directly, this is perhaps not surprising.

4. Disclosures on impairment – CGUs and their interaction with IFRS 8 segments

Under IAS 36, for the purpose of assessing impairment, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups thereof – e.g. a plant or division of a larger entity (such a group is known as cash-generating unit or CGU).

Some links exist between IAS 36 and IFRS 8, in that IAS 36 requires each CGU or group of CGUs to which goodwill is allocated to be no larger than an operating segment before aggregation [IAS36.80(b)] and that impairment losses and reversals are disclosed for each reportable segment [IAS 36.129].

IAS 36 requires disclosure in respect of each individual CGU for which the carrying amount of goodwill or intangible asset with indefinite useful life allocated to the CGU is significant in comparison to its carrying amount. [IAS 36.134].

Observed practice

The purpose of this section is to consider how these requirements are generally fulfilled and to review whether additional information is provided on CGUs.

Size of the CGUs (as regards the 17 airlines included in the sample)

The CGUs disclosed by airlines management for the purpose of goodwill impairment testing do not appear to be larger than segments.

Allocation of impairment losses on segments (as regards the 17 airlines included in the sample)

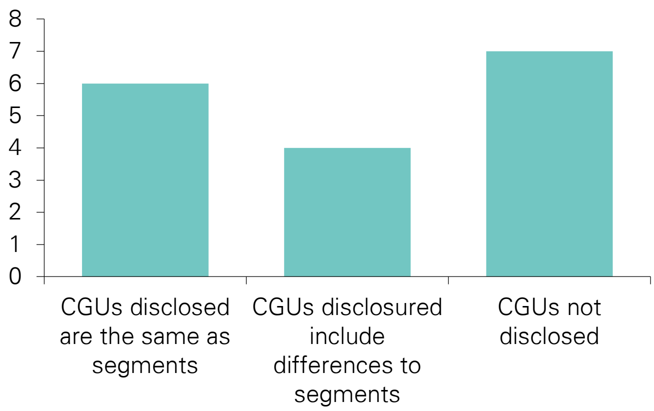
The airlines sampled do allocate impairment losses to each segment. In some cases (Cathay Pacific, TAM Linhas Aereas and Korean Airlines) the amounts are included in line "depreciation and amortisation").

Additional information provided on CGUs (as regards the 17 airlines included in the sample)

Airlines provide various levels of details regarding the definitions of CGUs:

- Six of the 17 airlines in the sample disclose all their CGUs: Air France-KLM, IAG, EasyJet, Tam Linhas Aereas, Qantas and Air Canada. These CGUs correspond to the segments identified under IFRS 8 (first example on the next page).
- Four of the 17 airlines disclose part of the CGUs. Three airlines (Emirates, Lufthansa, Singapore Airlines) present the CGUs used for goodwill testing only and one airline (Turkish Airlines) mentions specifically the CGUs with long-life tangible assets. The link with the reported segments is either explicit or implicit. These CGUs are consistent and either smaller than or of the same size as the segments identified under IFRS 8 (second example on the next page).
- The remaining seven airlines do not disclose information related to their CGUs (41% of the sample).

Airlines disclosing their CGUs (17 airlines)



Example disclosure
"Note 23 – Impairment of specific assets and Cash Generating Units": Qantas 2014 Annual Report

Management has identified the lowest identifiable group of assets that generates largely independent cash inflows being Qantas International, Qantas Domestic, Qantas Freight, Qantas Loyalty and the Jetstar Group CGUs.

Example disclosure
"Note to the consolidated Balance sheet – Note 16 Goodwill and tangible assets with an indefinite useful life": Lufthansa 2014 Annual Report.

The following table provides an overview of the goodwill tested and assumptions made in the respective impairment tests regarding the smallest possible cash-generating unit (CGU) in each case.

Name of the CGU	**Deutsche Lufthansa AG and regional partners**	**SWISS Aviation Training Ltd.**	**LSG Sky Chefs USA Group**	**LSG Sky Chefs Korea**	**LSG Sky Chefs Havacilik Hizmeleri A.S.**	**ZAO Aero MEAL**	**Constance Food Group**	**Various LSG companies[1]**
Segment	*Passenger Airline Group*	*Passenger Airline Group*	*Catering*	*Catering*	*Catering*	*Catering*	*Catering*	*Catering*
Carrying amount of Goodwill	€249m	€3m	€277m	€58m	€0m	€4m	€10m	€15m
Impairment losses	-	-	-	-	-	-	-	€2m
Revenue growth p.a. over planning period	3.0% to %6.2	-4.5% to 12.5%	1.3% to 9.6%	0.6% to 4.1%	-8.0% to 7.0%	-7.9% to 1.2%	3.0% to 3.8%	-41.9% to 11.5%
EBITDA margin over planning period	8.0% to 8.3%	24.5% to 28.1%	5.2% to 7.1%	28.5% to 29.2%	0.6% to 2.3%	13.5% to 14.8%	7.2% to 7.5%	5.6% to 31.7%
Investment ratio over planning period	6.5% to 8.3%	6.4% to 54.7%	4.0% to 9.7%	1.7% to 1.8%	1.8% to 2.9%	1.0% to 1.6%	0.3%	1.0% to 130.9%
Duration of planning period	3 years	3 years	3 years	3 years	3 years	3 years	3 years	3 years
Revenue growth p.a. after end of planning period	2.2%	1.0%	2.0%	3.0%	3.5%	3.0%	3.0%	1.0% to 4.0%
EBITDA margin after end of planning period	7.85%	26.2%	7.1%	29.2%	2.3%	13.8%	7.2%	8.3% to 31.7%
Investment ration after end of planning period	6.5%	12.4%	3.1%	1.6%	2.0%	0.9%	1.5%	1.7% to 5.7%
Discount rate	6.1%[3]	6.2%[3]	6.2%[2]	6.0%[2]	5.7%[2]	6.0%[2]	6.0%[2]	5.7% to 6.5%[2]

Note: (1) Goodwill of less than EUR 5m in any individual instance.
(2) Pre-tax rate.
(3) After-tax rate.

5. Business activity information provided outside the financial statements

In addition to the information provided in the financial statements related to segment reporting, companies also provide information on their business activities in their management reports, in press releases and analysts' presentations.

The purpose of this chapter is to consider the interaction between this information and the information provided in the financial statements.

Observed practice

Allocation of Revenues on Cargo, MRO and Low cost segments

All airlines of our sample (except for EasyJet) disclose in the other sources of financial information revenue from cargo operations, although only 4 of them have identified Cargo as a segment in the notes to the financial statements.

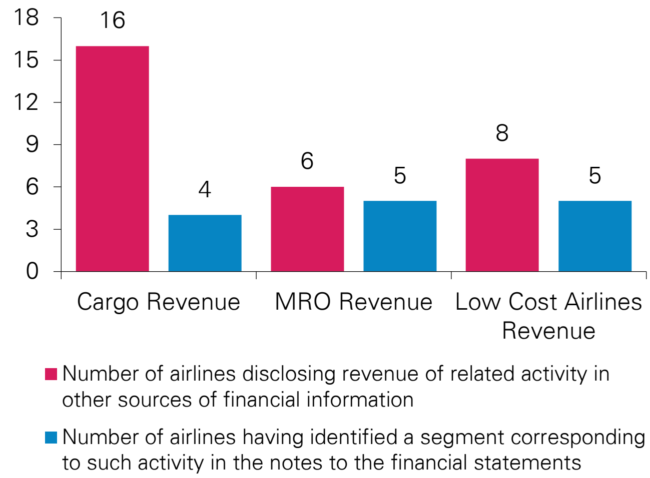
Among the 16 airlines disclosing cargo revenue, 4 airlines have a cargo revenue higher than 10% of the total revenue from their operations (Cathay Pacific, Emirates, TAM Linhas Aereas and Korean Airlines) but did not identify this activity as a segment under IFRS 8.

Allocation of revenue on MRO activity is mainly provided by airlines that identified it as a segment. Only Air New-Zealand discloses additional information on contract services which are related to MRO activity, despite having no MRO segment.

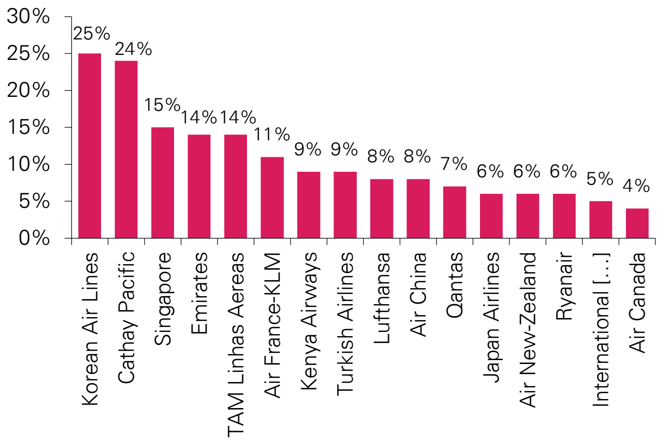
Several airlines provide information on the revenue of their low cost activities even though they do not represent a segment:

- Turkish Airlines provides in the note "Other Services" of the 2014 annual report the revenue passengers of its low cost airline AnadoluJet.
- Kenya Airways also provides JamboJet revenues.
- Singapore Airlines discloses the revenue of its low cost airline Tiger Airways. The case of Singapore Airlines may be specific as the inclusion of Tiger Airways in the Group results from an acquisition in late 2014.
- Air France-KLM disclosed the revenue of its Transavia operation through other sources of financial information in 2014. Transavia subsequently became a separate segment in the financial statements as of 30 June 2015.

Number of Airlines disclosing revenue on Cargo, MRO and Low Cost fleets (Complete sample – 17 airlines)



% Cargo Revenue over total Revenue



Sources: Management reports, analyst's presentations.

5. Business activity information provided outside the financial statements (cont.)

Other details provided on cargo, MRO and low cost segments

- Only Lufthansa provides additional information for all its segments such as EBITDA and CVA ("Cash Value Added" to be replaced by EACC, "Earnings After Cost of Capital" in 2015) in its management report.
- Regarding cargo, apart from revenues, most airlines provide volume and yield information.
- As regards low cost activities, three airlines provide additional information, either in the financial statements or other published information, where there is no dedicated segment:
  - Turkish Airlines provided in the note "Other Services" of the 2014 annual report, some figures regarding its low cost airlines AnadoluJet, such as Available seat-km, Revenue Passenger – Km, etc.)
  - Kenya Airways only provided investments information in its low cost subsidiary JamboJet (shares, profit/loss before tax, comprehensive income).
  - Air France-KLM provided comments of the new and fast developing activity of Transavia in 2014.

Example disclosure

"Additional financial items": Lufthansa 2014 Annual Report, management report, paragraph related to "Logistics" segment

Key Figures Logistics		**2014**	**2013[2]**	**Change in %**
Revenue	€m	2,435	2,443	(0.3)
Carrying of which with companies of the Lufthansa Group	€m	25	24	4.2
Operating result	€m	100	79	26.6
Adjusted operating margin	%	4.3	3.6	0.7 pts
Segment result	€m	120	89	34.8
EBITDA[1]	€m	187	134	39.6
CVA	€m	49	(41)	
Segment capital expenditure	€m	214	318	(32.7)
Employees as of 31.12.	number	4,663	4,660	0.1
Average number of employees	number	4,656	4,625	0.7
Freight and mail	Thousand tonnes	1,669	1,715	(2.7)
Available cargo tonne-kilometres	millions	12,354	12,490	(1.1)
Revenue cargo tonne-kilometres	millions	8,612	8,731	(1.4)
Cargo load factor	%	69.7	69.9	(0.2) pts

Note: (1) Before profit/loss transfer from other companies.. (2) Previous year's figures have been adjusted.

Example disclosure

"Additional information regarding low cost activities": Air France-KLM Registration Document, management report, other businesses' description

12 month financial year to	**2014**	**2013**	**Actual change**
Number of passengers *(in thousands)*	9,908	8,896	+11.4%
Capacity *(in millions of ASK)*	21,299	19,675	+8.3%
Traffic *(in millions of RPK)*	19,136	17,716	+8.0%
Load factor	89.9%	90.0%	-0.2pt
Total passenger revenues *(in €m)*	1,056	984	+7.3%
Scheduled passenger revenues *(in €m)*	1,001	948	+5.6%
Unit revenue per ASK *(in € cents)*	4.94	4.98	-0.7%
Unit revenue per RPK *(in € cents)*	5.50	5.53	-0.5%
Unit cost per ASK *(in € cents)*	5.11	4,660	+0.3%
Income/(loss) from current operations *(in €m)*	(36)	(23)	-13

Further details are usually provided on cargo and low cost activities even if these activities may not have been identified as a segment. The level of information provided depends on what the airline wants to highlight in its financial communication.

6. Sources

Airlines	No. Segments	Sources
Air Canada	1	Air Canada 2014 Annual report
Air China	1	Air China 2014 Annual report
Air France-KLM	5	Air France – KLM 2015 Half year report and 2014 Annual report
Air New Zealand	1	Air New Zealand 2014 Annual report
Cathay Pacific	2	Cathay Pacific Airways Limited Annual Report 2014
EasyJet	1	EasyJet 2014 Annual report
Emirates	2	Emirates 2015 Annual report
International Airlines Group	3	International Airlines Group, 2014 Annual Report and Accounts
Japan Airlines (JAL)	1	Japan Airlines 2014 Annual report
Kenya Airways	3	Kenya Airways 2014 Annual report
Korean Air Lines	4	Korean Air Lines 2014 Annual report
Lufthansa	5	Lufthansa 2014 Annual report
Qantas	5	Qantas 2014 Annual Report
Ryanair	1	Ryanair 2014 Annual report
Singapore Airlines	3	Singapore Airlines 2014 Annual report
TAM Linhas Aereas	2	TAM Lihnas Aereas 2014 Annual report
Turkish Airlines	2	Turkish Airlines 2014 Annual report

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