

AirArabia

Integrated Report Air Arabia PJSC 2021

Air Arabia PJSC
and its subsidiaries

Consolidated financial statements
For the year ended December 31, 2021

Air Arabia PJSC and its subsidiaries
Consolidated Financial Statements
For the year ended December 31, 2021

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Air Arabia PJSC Board of Directors report 2021

The year 2021 witnessed a gradual recovery after the global impact of COVID 19 in all sectors including the aviation sector. The tight cost scrutiny, and strong operational efficiency has led to a very positive full year result given all the known circumstances.

Governments and airports have got a better hold of the pandemic, and the introduced measures have had fewer negative impacts compared to 2020. The vaccination scheme that the UAE government rolled out was a very successful one, under which 100% of our staff have been vaccinated.

The pandemic is not over yet, we remain alert and cautious. However, the business sentiment remains positive and follows a promising gradual pattern towards reinstating the full pre-pandemic operational schedule.

Air Arabia business model remains resilient, and the dedication and contribution of each member of the team has certainly made Air Arabia stand out during this year. The board of directors is pleased and would like to thank the group employees for all their hard work.

Air Arabia Group is also developing a holistic approach to sustainability across all its businesses which lead to underline why understanding, anticipating, and effectively managing environmental, social and governance (ESG) matters is critical to delivering on our mission to serve our clients, customers, and communities. ESG matters are important consideration in how we do business, including our corporate governance systems that runs at every level in the organization, risk management and methodology to serve customers and support for local communities. Our main driver is the sustainability and efficiency embedded in the culture and management of the airline. Equally important, we believe that the core items that are critical of our ESG approach are practiced across the organization through efficient operations and environment friendly practices. For Air Arabia, this means we are leveraging our business and policy expertise, and presence to help drive an inclusive recovery, expand, and accelerate sustainability.

**Board of Directors**

Independent Auditor's Report To the Shareholders of Air Arabia PJSC

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Air Arabia PJSC (the "Company"), and its subsidiaries (collectively referred to as the "Group"), which comprise the consolidated statement of financial position as at December 31, 2021, the consolidated statement of profit or loss, the consolidated statement of other comprehensive income, the consolidated statement of changes in equity, and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2021, and its consolidated financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements" section of our report. We are independent of the Group in accordance with Code of Ethics as issued by International Ethics Standards Board for Accountants (IESBA), and we have fulfilled our other ethical responsibilities in accordance with the requirements of the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independent Auditor's Report**To the Shareholders of Air Arabia PJSC (continued)****Report on the Audit of the Consolidated Financial Statements (continued)****Key Audit Matters**

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the Group for the year ended December 31, 2021. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

i) Measurement of aircraft assets

As disclosed in Note 5 to the consolidated financial statements, the Group holds as at December 31, 2021 aircraft assets with a carrying value of AED 5,038 million. As explained in Note 4, the Group's accounting policy is to measure its aircraft assets at depreciated historical cost less impairment, if any. These aircraft assets are depreciated on a straight-line basis over their estimated useful life, to an estimated residual value at the end of its useful economic life. The estimation of residual value is a key management judgment in the application of the Group's accounting policy on depreciation and, therefore, any changes to residual value will directly impact the depreciation charge for the current and future years. Management also needs to consider if there are any impairment indicators such as the deterioration in current or forecast trade activity, the incurrence of losses or other factors indicating that the assets may be impaired.

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

We have performed the following audit procedures:

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

ii) Revenue recognition

The Group recognises revenue from various sources, notably sale of passenger airline seats, cargo, baggage capacity and other ancillary services. Passenger tickets sold can be of different types depending on the conditions of sale and type of fare purchased. Revenue from passenger and cargo is deferred and classified as a liability on the consolidated statement of financial position until the passenger or freight is lifted (i.e. service provided), at which time revenue is recognised in the consolidated statement of profit or loss. This recognition principle requires the Group to develop assumptions to determine when to recognise revenue in respect of un-availed services relating to tickets not lifted at the anticipated date of travel.

The accounting for passenger revenue is susceptible to management override of controls through the recording of manual journal entries in the accounting records, the override of IT systems to accelerate revenue recognition, or manipulation of inputs used to calculate revenue recorded in respect of unused revenue documents.

**Independent Auditor's Report
To the Shareholders of Air Arabia PJSC (continued)**

Report on the Audit of the Consolidated Financial Statements (continued)

Key Audit Matters (continued)

ii) Revenue recognition (continued)

We have performed the following audit procedures:

- We have evaluated the Group's control environment and the application controls relating to the underlying systems associated with the revenue streams. In particular, we have considered whether the Group's controls relating to revenue are properly designed and implemented to ensure that those systems were accurately capturing the relevant data such as date of sale, date of the provision of the service to the customers and the sale amount;
- We have checked the reasonableness of the Group's accounting policy with respect to recognition of revenue in the period in which the service was provided to the customers;
- We have reviewed management's judgement and assumptions underpinning the estimates of when to recognise revenue in respect of un-availed services;
- We have checked the reasonableness of the Group's accounting policy with respect to recognition of revenue for expired tickets;
- For passenger revenue, we have performed analytical procedures by comparing the passenger revenue for 2021 with the passenger revenue for 2020 and 2019, and understood the reasons for the variance taking into consideration key performance indicators for 2021, 2020 and 2019;
- For cargo revenue, we have tested the revenue per ton carried for 2020 and developed an expectation for 2021 based on the tonnage carried, and compared the results with the cargo revenue recognised and understood the reasons for the variance;
- We have also undertaken other substantive audit procedures to corroborate our findings in respect of the audit tests above; and
- We have assessed the adequacy of the Group's disclosure on revenue recognition in the consolidated financial statements.

iii) Accounting for fuel hedge positions

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

The effective portion of changes in the fair value of the hedge instruments are recognised in the consolidated statement of other comprehensive income until the forecasted transaction occurs, whilst any ineffective portion is recognised directly in the consolidated statement of profit or loss. Judgment is exercised in arriving at this conclusion. As of December 31, 2021, the total fair value of the Group's cash flow hedge instruments, obtained from counterparties, is a net asset of AED 273 million as disclosed in note 22 to the consolidated financial statements.



Independent Auditor's Report

To the Shareholders of Air Arabia PJSC (continued)

Report on the Audit of the Consolidated Financial Statements (continued)

Key Audit Matters (continued)

iii) Accounting for fuel hedge positions (continued)

We have performed the following audit procedures:

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

iv) Valuation of aircraft maintenance obligations

Note 21 to the consolidated financial statements shows a balance for maintenance liabilities amounted to AED 1,572 million as at December 31, 2021. The accounting for maintenance obligations, including the end of lease hand-back requirements, is subject to management assumptions. These assumptions include estimating maintenance accrual for major inspections and overhauls based on technical evaluation of the number of hours flown by each engine, airframe checks at fixed intervals and utilization cycles of landing gears, life limited parts and auxiliary power units. It also includes the cost of performing the required maintenance work at that future return date of leased aircrafts. There is a risk of maintenance and hand-back obligations included in lease agreements being accounted for inappropriately.

We have performed the following audit procedures:

- We have made enquiries of management to establish if there were any new lease or maintenance contracts entered during the year;
- For the ongoing maintenance work under flying hour agreements, we have confirmed that the expenses were recognised at the contractual flying hour rates and checked a sample of the actual flying hours to the Group's operating system to confirm that the expenses recognised were complete and accurate;
- We have validated that the cost drivers of major types of maintenance accrual for appropriateness and reasonableness;
- We have verified the utilization of maintenance accrual during the year for routine and non-routine expenses;
- We have validated the main reason for change in the maintenance accrual balance as at year end;
- We have evaluated the design and implementation of the Group's controls over the maintenance accrual made during the year; and
- We have performed additional substantive audit procedures to corroborate our findings in respect of the audit tests above.

Independent Auditor's Report**To the Shareholders of Air Arabia PJSC (continued)****Report on the Audit of the Consolidated Financial Statements (continued)*****Other Information***

Management is responsible for the other information. The other information comprises the information included in the Annual Report, but does not include the consolidated financial statements and our Auditor's Report thereon. We have obtained the Board of Directors' report prior to the date of our Auditor's Report, and we expect to obtain the remaining sections of the Annual Report after the date of our Auditor's Report.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we have obtained prior to the date of auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Management and Those Charged with Governance for the Consolidated Financial Statements

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

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

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an 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 consolidated financial statements.

**Independent Auditor's Report
To the Shareholders of Air Arabia PJSC (continued)**

Report on the Audit of the Consolidated Financial Statements (continued)

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (continued)

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern;
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation; and
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

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

**Independent Auditor's Report
To the Shareholders of Air Arabia PJSC (continued)**

Report on the Audit of the Consolidated Financial Statements (continued)

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (continued)

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

Report on Other Legal and Regulatory Requirements

Furthermore, as required by the UAE Federal Law No. (2) of 2015, as amended, we report that for the year ended December 31, 2021:

- i) we have obtained all the information and explanations we considered necessary for the purposes of our audit;
- ii) the consolidated financial statements have been prepared and comply, in all material respects, with the applicable provisions of UAE Federal Law No. (2) of 2015, as amended;
- iii) the Group has maintained proper books of account;
- iv) the financial information included in the Directors' report, in so far as it relates to these consolidated financial statements, is consistent with the books of account of the Group;
- v) as disclosed in Note 1 to the consolidated financial statements, the Group has purchased new shares during the year ended December 31, 2021;
- vi) Note 15 to the consolidated financial statements discloses related party transactions, and the terms under which they were conducted;
- vii) based on the information that has been made available to us, nothing has come to our attention which causes us to believe that the Group has contravened during the financial year ended December 31, 2021 any of the applicable provisions UAE Federal Law No. (2) of 2015, as amended, or of the Company's Articles of Association, which would materially affect its activities or the Group's financial position as at December 31, 2021; and
- viii) There have been no social contributions during the year.


GRANT THORNTON


Osama El Bakry
Registration No. 935
Dubai, United Arab Emirates
14 FEB 2022

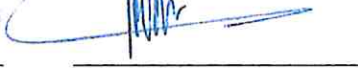
Air Arabia PJSC and its subsidiaries
Consolidated Financial Statements

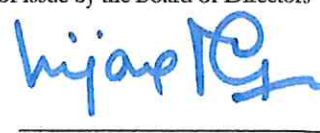
Consolidated statement of financial position
As at December 31, 2021

	Notes	2021 AED'000	2020 AED'000
ASSETS			
Non-current assets			
Property and equipment	5	5,868,484	6,367,172
Right-of-use assets	6	624,390	575,262
Advance for new aircraft	7	381,367	360,281
Investment properties	8	105,970	105,970
Net investment in lease	14	17,406	32,008
Intangible assets	9	1,332,131	1,324,106
Deferred charges	10	30,965	33,476
Investments at fair value through other comprehensive income	11	15,556	10,772
Investments in associates and joint ventures	12	177,949	92,657
Trade and other receivables	14	111,257	29,044
		8,665,475	8,930,748
Current assets			
Inventories		23,504	25,569
Trade and other receivables	14	739,342	497,741
Other investments at amortized cost	16.1	-	50,000
Bank balances and cash	16	3,878,006	3,148,943
		4,640,852	3,722,253
TOTAL ASSETS		13,306,327	12,653,001
EQUITY AND LIABILITIES			
Share capital	17	4,666,700	4,666,700
Statutory reserve	18	639,834	577,475
General reserve	19	78,832	16,473
Other reserves		284,741	(560,549)
Retained earnings/(accumulated losses)		404,859	(192,183)
Total equity		6,074,966	4,507,916
Non-current liabilities			
Provision for staff termination benefits	20	144,637	131,384
Trade and other payables	21	1,350,039	1,792,124
Finance lease liabilities	23	2,584,174	3,072,643
		4,078,850	4,996,151
Current liabilities			
Deferred income		492,131	301,400
Trade and other payables	21	1,970,313	1,635,942
Short term bank borrowings	24	37,634	551,948
Finance lease liabilities	23	652,433	659,644
		3,152,511	3,148,934
Total liabilities		7,231,361	8,145,085
TOTAL EQUITY AND LIABILITIES		13,306,327	12,653,001

These consolidated financial statements were approved and authorised for issue by the Board of Directors on **14 FEB 2022** and signed on their behalf by:


Chairman


Chief Executive Officer


Director of Finance

The accompanying notes from 1 to 38 form an integral part of these consolidated financial statements.

Air Arabia PJSC and its subsidiaries
Consolidated Financial Statements

Consolidated statement of profit or loss
For the year ended December 31, 2021

	Notes	2021 AED'000	2020 AED'000
Revenue	25	3,174,122	1,850,966
Direct costs	26	(2,291,249)	(1,800,242)
GROSS PROFIT		882,873	50,724
Administrative and general expenses	27	(198,498)	(196,361)
Selling and marketing expenses	28	(41,420)	(34,427)
Finance income		62,882	101,989
Finance costs		(137,762)	(138,070)
Share of profit/(loss) on investments in associates and joint ventures	12	89,699	(15,933)
Other income, net	29	62,153	39,895
PROFIT/(LOSS) FOR THE YEAR		719,927	(192,183)
Basic and diluted earnings/(losses) per share (AED)	30	0.15	(0.04)

The accompanying notes from 1 to 38 form an integral part of these consolidated financial statements.

Air Arabia PJSC and its subsidiaries
Consolidated Financial Statements

Consolidated statement of comprehensive income
For the year ended December 31, 2021

	Note	2021 AED'000	2020 AED'000
Profit/(loss) for the year		<u>719,927</u>	<u>(192,183)</u>
Other comprehensive income/(loss)			
<i>Items that will never reclassified subsequently to profit or loss:</i>			
Change in fair value of investments at fair value through other comprehensive	11	8,391	(310)
<i>Items that are or may be reclassified subsequently to profit or loss:</i>			
Cash flow hedge			
Effective portion of changes in fair value		<u>838,732</u>	<u>(437,486)</u>
Total other comprehensive income/(loss) for the year		<u>847,123</u>	<u>(437,796)</u>
TOTAL COMPREHENSIVE INCOME /(LOSS) FOR THE YEAR		<u>1,567,050</u>	<u>(629,979)</u>

The accompanying notes from 1 to 38 form an integral part of these consolidated financial statements.

Air Arabia PJSC and its subsidiaries
Consolidated Financial Statements

Consolidated statement of changes in equity
For the year ended December 31, 2021

	Share capital AED'000	Statutory reserve AED'000	General reserve AED'000	Other reserves		(Accumulated losses)/ retained earnings AED'000	Total AED'000
				Cumulative change in FVOCI AED'000	Cash flow hedge reserve AED'000		
2021							
As at January 1, 2021	4,666,700	577,475	16,473	5,111	(565,660)	(192,183)	4,507,916
Profit for the year	-	-	-	-	-	719,927	719,927
Other comprehensive profit for the year	-	-	-	8,391	838,732	-	847,123
Total comprehensive income for the year	-	-	-	8,391	838,732	719,927	1,567,050
Transfers to reserves	-	62,359	62,359	-	-	(124,718)	-
Transfer from reserves upon disposal of investment	-	-	-	(1,833)	-	1,833	-
As at December 31, 2021	4,666,700	639,834	78,832	11,669	273,072	404,859	6,074,966

The accompanying notes from 1 to 38 form an integral part of these consolidated financial statements.

Air Arabia PJSC and its subsidiaries
Consolidated Financial Statements

Consolidated statement of changes in equity (continued)
For the year ended December 31, 2021

	Share capital AED'000	Statutory reserve AED'000	General reserve AED'000	Other reserves		Retained earnings/ (accumulated losses)	Total AED'000
				Cumulative change in FVOCI AED'000	Cash flow hedge reserve AED'000		
2020							
As at January 1, 2020	4,666,700	577,475	94,543	5,421	(128,174)	341,933	5,557,898
Transfers from reserves (Note 19)	-	-	(78,070)	-	-	78,070	-
<i>Transactions with owners</i>							
Dividends declared (Note 17)	-	-	-	-	-	(420,003)	(420,003)
Loss for the year	-	-	-	-	-	(192,183)	(192,183)
Other comprehensive loss for the year	-	-	-	(310)	(437,486)	-	(437,796)
Total comprehensive loss for the year	-	-	-	(310)	(437,486)	(192,183)	(629,979)
As at December 31, 2020	4,666,700	577,475	16,473	5,111	(565,660)	(192,183)	4,507,916

The accompanying notes from 1 to 38 form an integral part of these consolidated financial statements.

Air Arabia PJSC and its subsidiaries

Consolidated Financial Statements

Consolidated statement of cash flows

For the year ended December 31, 2021

	Notes	2021 AED'000	2020 AED'000
OPERATING ACTIVITIES			
Profit/(loss) for the year		719,927	(192,183)
<i>Adjustments to reconcile profit/(loss) to net cash flows:</i>			
Depreciation and amortization	5,6,9,10	620,485	598,495
Provision for staff terminal benefits	20	17,004	25,112
Allowance for expected credit losses for trade and other receivables	27	27,257	14,856
Ineffective portion of cash flow hedge	22	-	66,620
Write off of intangible assets	9	-	3,211
Loss on sale of property and equipment		-	1,090
Provision for impairment of investment property	8	-	19,000
Share of (profit)/loss on investments in associates and joint ventures	12	(89,699)	15,934
Finance income		(62,882)	(101,989)
Finance costs		137,762	138,070
Operating cash flows before changes in working capital		1,369,854	588,216
<i>Changes in working capital:</i>			
Inventories		2,064	(2,072)
Trade and other receivables		515,015	89,985
Trade and other payables		(125,281)	198,154
Deferred income		190,732	(50,125)
Cash from operations		1,952,384	824,158
Staff terminal benefits paid	20	(3,751)	(38,857)
Net cash flow from operating activities		1,948,633	785,301
INVESTING ACTIVITIES			
Payment of investments in a joint venture	12	(3,588)	(35,997)
Acquisition of property and equipment	5	(31,376)	(28,919)
Payments in relation to advances for new aircrafts-net	7	(21,086)	-
Increase in deferred charges	10	(3,935)	(7,771)
Dividends received from investments in associates and joint ventures	12	7,995	5,000
Proceeds from disposal of investments at fair value through OCI		3,607	-
Proceeds from disposal of other investments		50,000	118,374
Receipts in relation to aircraft lease deposits		-	19,861
Acquisition of intangible assets	9	(10,366)	(17,626)
Change in fixed and margin deposits		(296,195)	160,883
Finance income received		37,580	67,595
Net cash flow (used in)/from investing activities		(267,364)	281,400
FINANCING ACTIVITIES			
Dividends paid to Owners of the Company		-	(420,003)
Payments of principle portion of lease liabilities	23	(627,325)	(231,317)
Net movement on borrowings		(514,314)	199,732
Finance costs paid		(106,763)	(111,739)
Net cash flow used in financing activities		(1,248,402)	(563,327)
Net change in cash and cash equivalents		432,867	503,374
Cash and cash equivalents at the beginning of the year		715,898	212,524
Cash and cash equivalents at the end of the year		1,148,765	715,898
<i>Adjustments for:</i>			
Bank balances and cash	16	3,878,006	3,148,943
Fixed deposits with maturity over 3 months	16	(2,729,241)	(2,433,045)
		1,148,765	715,898

The accompanying notes from 1 to 38 form an integral part of these consolidated financial statements.

Air Arabia PJSC and its subsidiaries

Consolidated Financial Statements

Notes to the consolidated financial statements

For the year ended December 31, 2021

1 Legal status and principal activities

Air Arabia PJSC (the "Company") was incorporated on June 19, 2007 as a Public Joint Stock Company. The Company operates in the United Arab Emirates under a trade license issued by the Economic Development Department of the Government of Sharjah and Air Operator's Certificate Number AC 2 issued by the General Civil Aviation Authority, United Arab Emirates.

The Company's ordinary shares are listed on the Dubai Financial Market, United Arab Emirates. The registered office address is P.O. Box 132, Sharjah, United Arab Emirates.

The consolidated financial statements for the year ended December 31, 2021 includes the consolidated financial performance and position of the Company and its subsidiaries (collectively referred to as the "Group") and the Group's interest in associates and joint ventures.

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

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

Name	Legal/ beneficial ownership interest		Country of operation and Ownership	Principal activities
	2021	2020		
Subsidiaries				
Arabian Management Investment FZE	100%	100%	United Arab Emirates	Business consultancy services.
International Business Company (FZE)	100%	-	United Arab Emirates	Dealing in International Business and shares
Air Arabia Holidays L.L.C	100%	100%	United Arab Emirates	Tour operations
Information System Associates FZC	100%	100%	United Arab Emirates	IT services to aviation industry.
Action Hospitality	100%	100%	United Arab Emirates	Hospitality services, tourism, managing and operating restaurants and hotels.
COZMO Travel LLC	100%	100%	United Arab Emirates	Travel and tours, tourism and cargo services.
<i>Subsidiaries of COZMO Travel LLC (sub-subsidiaries)</i>				
COZMO Travel WLL	100%	100%	Qatar	Travel and tours, tourism and cargo services.
COZMO Travel Limited Company	100%	100%	Kingdom of Saudi Arabia	Travel and tours, tourism and cargo services.
COZMO Travel LLC	100%	100%	Kuwait	Travel and tours, tourism and cargo services.
COZMO Travel LLC	100%	100%	Bahrain	Travel and tours, tourism and cargo services.
COZMO Travel World	100%	100%	United Arab Emirates	Travel agent.
COZMO Travel (Private) Limited	100%	100%	India	Travel and tours, tourism and cargo services.
COZMO Travel World (Private) Limited	100%	100%	India	Travel and tours, tourism and cargo services.
Al Sayara limousine Passengers Transport Per Person Company Owner COZMO Travel LLC	100%	100%	United Arab Emirates	Passengers transport services by rented cars, buses and limousine.
Ibyta Travels L.L.C	100%	100%	United Arab Emirates	Travel and tours, tourism services.
COZMO Travel LLC	100%	100%	Oman	Travel and tours, tourism services.
Al Maqar for Tourism and Travel	100%	100%	Jordan	Travel and tours, tourism services.

Air Arabia PJSC and its subsidiaries

Consolidated Financial Statements

Notes to the consolidated financial statements (continued)

For the year ended December 31, 2021

1 Legal status and principal activities (continued)

Name	Legal/ beneficial ownership interest		Country of operation and ownership	Principal activities
	2021	2020		
<i>Subsidiaries of COZMO Travel LLC (sub-subsidiaries) (continued)</i>				
Gocoymo Business Support Services L.L.C.	100%	100%	Egypt	Travel and tours, tourism services.
<i>Joint ventures</i>				
Alpha Flight Services UAE LLC	51%	51%	United Arab Emirates	Flight and retail catering and ancillary services to the Air Arabia PJSC.
Sharjah Aviation Services LLC	50%	50%	United Arab Emirates	Aircraft handling, passenger and cargo services at the Sharjah International Airport.
Alpha Aviation Academy UAE LLC	51%	51%	United Arab Emirates	Aviation training services.
Air Arabia Abu Dhabi L.L.C.**	49%	49%	United Arab Emirates	International commercial air transportation.
Air Arabia - Egypt Company S.A.E.	40%	40%	Egypt	International commercial air transportation.
Fly Jinnah Services (Private) Limited	45%	-	Pakistan	International commercial air transportation.
Armenian National Airlines (CJSC) (“Fly Arna”)	49%	-	Armenia	International commercial air transportation.
<i>Associates</i>				
Air Arabia Maroc, S.A.***	44.13%	40%	Morocco	International commercial air transportation.
Air Arabia Jordan LLC	49%	49%	Jordan	International commercial air transportation.
Tune Protection Commercial Brokerage LLC	51%	51%	United Arab Emirates	Commercial brokers.

During the year, the Group has entered into joint venture agreements, through its wholly owned subsidiary, International Business Company (FZE) with Lakson Group, one of Pakistan's leading business conglomerates and Armenian National Interests Fund (ANIF) to operate low-cost carriers from Pakistan and Armenia, respectively, under the name of Fly Jinnah Services (Private) Limited and Armenian National Airlines (CJSC) ("Fly Arna").

* This subsidiary was incorporated on September 6, 2020. However, it commenced commercial operations on April 1, 2021.

** During the year ended December 31, 2020, the Group has entered into a joint venture agreement with Etihad Airways Group PJSC to operate first low-cost carrier from Abu Dhabi under the name of Air Arabia Abu Dhabi L.L.C.

***Effective from April 1, 2021, the Group indirectly acquired additional shareholding of 4.13% in Air Arabia Maroc, S.A., an associate through its wholly owned subsidiary "International Business Company (FZE)".

Air Arabia PJSC and its subsidiaries

Consolidated Financial Statements

Notes to the consolidated financial statements (continued)

For the year ended December 31, 2021

2 Basis of preparation

(a) Statement of compliance

The consolidated financial statements of the Group have been prepared in accordance with the International Financial Reporting Standards (IFRSs), and with the applicable requirements of U.A.E Federal Law No. 2 of 2015, as amended. Federal Law By Decree No. 32 of 2021 on Commercial Companies (the "New Companies Law") was issued on September 20, 2021 with an effective date of January 2, 2022, and will entirely replace Federal Law No. 2 of 2015 on Commercial Companies. The Group has twelve months from the effective date to comply with the provisions of the New Companies Law.

(b) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for derivative financial instruments and investments measured at fair value through other comprehensive income (FVOCI), which are measured at their fair values.

(c) Functional and presentation currency

The consolidated financial statements are presented in Arab Emirates Dirham ("AED"), which is the Group's functional currency. All values are rounded to the nearest thousands ("000") except where noted otherwise.

3 New or revised Standards or Interpretations

3.1 New Standards adopted as at 2021

Accounting pronouncements which have become effective in 2021 and have therefore been adopted are as follows:

- COVID-19-related rent concessions beyond June 30, 2021 (Amendments to IFRS 16), and
- Interest Rate Benchmark Reform Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16).

These amendments do not have a significant impact on these consolidated financial statements and therefore the disclosures have not been made.

3.2 Standards, amendments and Interpretations to existing Standards that are not yet effective and have not been adopted early by the Group

Other Standards and Amendments that are not yet effective and have not been adopted early by the Group include:

- References to the Conceptual Framework
- Proceeds before Intended Use (Amendments to IAS 16)
- Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37)
- Annual Improvements to IFRS Standards 2018-2020 Cycle (Amendments to IFRS 1, IFRS 9, IFRS 16); and
- Classification of Liabilities as Current or Non-current (Amendments to IAS 1)

These amendments are not expected to have a significant impact on the consolidated financial statements in the period of initial application and therefore the disclosures have not been made.

4 Summary of significant accounting policies

Overall considerations

These consolidated financial statements have been prepared using the measurement bases specified by IFRS for each type of asset, liability, income and expense. The significant accounting policies and measurement bases are more fully described in the accounting policies in the following pages.

Air Arabia PJSC and its subsidiaries

Consolidated Financial Statements

Notes to the consolidated financial statements (continued)

For the year ended December 31, 2021

4 Summary of significant accounting policies (continued)

Foreign currency transactions and balances

Foreign currency transactions are translated into the functional currency, using the exchange rates prevailing at the dates of the transactions (spot exchange rate). Foreign exchange gains and losses resulting from the settlement of such transactions and from the re-measurement of monetary items denominated in foreign currency at period-end exchange rates are recognised in the consolidated statement of comprehensive income.

Non-monetary items are not re-translated at period-end and are measured at historical cost (translated using the exchange rates at the transaction date), except for non-monetary items measured at fair value which are translated using the exchange rates at the date when fair value was determined.

Foreign operations

In the consolidated financial statements, all assets, liabilities and transactions of the Group's entities with a functional currency other than the AED (the Group's presentation currency) are translated into AED upon consolidation. The functional currency of the entities in the Group has remained unchanged during the reporting period.

On consolidation, assets and liabilities of foreign operations have been translated into AED at the closing rate prevailing at the reporting date. Income and expenses of foreign operations have been translated into the Group's presentation currency at the average rate over the reporting period. The exchange differences arising on translation for consolidation are recognised in other comprehensive income (OCI).

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at December 31, 2021. Control is achieved when the Company is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Specifically, the Company controls an investee if and only if the Company has:

- a. power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- b. exposure, or rights, to variable returns from its involvement with the investee; and
- c. the ability to use its power over the investee to affect its returns.

When the Company has less than a majority of the voting or similar rights of an investee, the Company considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- a. The contractual arrangement with the other vote holders of the investee;
- b. Rights arising from other contractual arrangements; and
- c. The Company's voting rights and potential voting rights.

The Company re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the date the Company gains control until the date the Company ceases to control the subsidiary.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation. Unrealised losses are also eliminated unless the transaction provides evidence of impairment of the assets transferred.

Air Arabia PJSC and its subsidiaries

Consolidated Financial Statements

Notes to the consolidated financial statements (continued)

For the year ended December 31, 2021

4 Summary of significant accounting policies (continued)

Basis of consolidation (continued)

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance.

The financial statements of the subsidiaries are prepared for the same reporting year as of the Company.

If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity, while any resultant gain or loss is recognised in the consolidated statement of comprehensive income. Any investment retained is recognised at fair value.

Business combination and goodwill

Business combinations are accounted for using the acquisition method. The cost of acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interests in the acquiree. For each business combination, the acquirer measures the non-controlling interests in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed and included in administrative and general expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through the consolidated statement of comprehensive income.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognised in accordance with IFRS 9 either in the consolidated statement of comprehensive income or as a change to other comprehensive income. If the contingent consideration is classified as equity, it should not be re-measured until it is finally settled within equity. Other contingent consideration that is not within the scope of IFRS 9, is measured at fair value at each reporting date with changes in fair value recognised in the consolidated statement of comprehensive income.

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in the consolidated statement of comprehensive income.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in these circumstances is measured based on the relative values of the operation disposed of and portion of the cash-generating unit retained.

Air Arabia PJSC and its subsidiaries

Consolidated Financial Statements

Notes to the consolidated financial statements (continued)

For the year ended December 31, 2021

4 Summary of significant accounting policies (continued)

Property and equipment

Property and equipment are initially recognised at cost, including any costs directly attributable to bringing the assets to the location and condition necessary for it to be capable of operating in the manner intended by the Group's management.

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

Property and equipment are stated at cost less accumulated depreciation and any identified impairment losses.

The following estimated useful lives are applied:

• Buildings	15 – 20 years
• Aircrafts	15 years
• Aircraft engines	20 years
• Aircraft rotables and equipment	3 – 10 years
• Airport equipment	3 – 15 years
• Other property and equipment including engine driven pumps ("EDP")	3 – 5 years

Depreciation is charged so as to write off the cost of assets, other than capital work in progress and land, over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the consolidated statement of profit or loss.

Capital work in progress is stated at cost, less any recognised impairment loss. Depreciation of these assets, on the same basis as other property and equipment, commences when the assets are ready for their intended use.

Government grants

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

Leases and right-of-use assets

The Group has recorded right-of-use assets representing the right to use the underlying assets under property and equipment, net investment in lease representing the net present value of receivables from intermediate lease, and the corresponding lease liabilities to make lease payments under other liabilities.

The Group as a lessee

I. Right-of-use assets

The Group 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 re-measurement 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. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets is depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term as follows:

• Aircrafts	9 years
• Hanger	15 years

Right-of-use assets are also subject to impairment.

Air Arabia PJSC and its subsidiaries

Consolidated Financial Statements

Notes to the consolidated financial statements (continued)

For the year ended December 31, 2021

4 Summary of significant accounting policies (continued)

Leases and right-of-use assets (continued)

II. Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if 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 in-substance fixed lease payments or a change in the assessment to purchase the underlying asset and is recognised under other liabilities in the consolidated statement of financial position.

When measuring lease liabilities, the Group discounted lease payments using its incremental borrowing rates range from 2.26 % to 5 % as applicable.

The Group as a lessor

III. Net investments in leases

Leases in which the Group transfers substantially all the risks and rewards incidental to the ownership of an asset to the lessees are classified as finance leases. A receivable is recognised at an amount equal to the present value of the minimum lease payments under the lease agreement, including guaranteed residual value and unamortised initial direct cost which are included in the consolidated financial statements as "Net investments in leases" within trade and other receivables.

IV. Interest income on net investments in leases

The Group follows the finance lease method in accounting for recognition of finance lease. The total unearned interest income, i.e. the excess of aggregate instalment contract receivables plus residual value over the cost of the leased asset is deferred and then amortised over the term of the lease, to produce a systematic return on net investments in leases.

V. The Group as an intermediate lessor

The Group acts as an intermediate lessor in a transaction for which an underlying asset is re-leased by the Group ("intermediate lessor") to a third party, and the lease ("head lease") between the head lessor and Group remains in effect.

The Group classifies the sublease as a finance lease or an operating lease as follows:

- If the head lease is a short-term lease that the entity, as a lessee, has accounted for by recognising the lease payments as an expense on a straight-line basis over the term of the lease, the sublease must be classified as an operating lease;
- Otherwise, the sublease must be classified by reference to the right-of-use asset arising from the head lease, rather than by reference to the economic useful life of the underlying asset (such as the item of property and equipment that is the subject of the lease).

Investment properties

Investment properties are measured initially at cost, including transaction costs. The carrying amount includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met; and excludes the costs of day to day servicing of an investment property.

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal.

Air Arabia PJSC and its subsidiaries

Consolidated Financial Statements

Notes to the consolidated financial statements (continued)

For the year ended December 31, 2021

4 Summary of significant accounting policies (continued)

Investment properties (continued)

Any gains or losses on the retirement or disposal of an investment property are recognised in the consolidated statement of profit or loss in the year of retirement or disposal.

Transfers are made to investment property when, and only when, there is a change in use. For a transfer from investment property to owner occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under property and equipment up to the date of change in use.

Properties under construction

Properties under construction are carried at cost less any impairment in value. Costs are those expenses incurred by the Group that are directly attributable to the construction of asset.

The carrying values of properties under construction are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount.

Intangible assets

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

The useful lives of intangible assets arising out of the acquisition of Air Arabia LLC in 2007, have been estimated to be indefinite (Note 9).

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

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

Intangible assets with indefinite useful lives are tested for impairment annually, or more frequently when there is indication of impairment. For intangible assets with definite useful lives amortisation is calculated to write off the cost of intangible assets less their estimated residual values using the straight-line method over their estimated useful lives and is generally recognised in the consolidated statement of profit or loss. The useful life used in the calculation of amortisation is 5 years.

Deferred charges

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

Inventories

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

Investments in associates and joint ventures

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

Air Arabia PJSC and its subsidiaries

Consolidated Financial Statements

Notes to the consolidated financial statements (continued)

For the year ended December 31, 2021

4 Summary of significant accounting policies (continued)

Investments in associates and joint ventures (continued)

A joint venture is a type of joint arrangement whereby the parties have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about relevant activities require unanimous consent of the parties sharing control. The consideration made in determining significant influence or joint control are similar to those necessary to determine control over subsidiaries.

The Group's investments in its associates and joint ventures are accounted for using the equity method. Under the equity method, the investment in an associate or joint venture is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Group's share of net assets of the associate or joint venture since the acquisition date. Goodwill relating to the associate or joint venture is included in the consolidated carrying amount of the investment and goodwill is neither amortised nor individually tested for impairment. The consolidated statement of profit or loss reflects the Group's share of the results of operations of the associates and joint ventures. Any change in other comprehensive income of those investees is presented as part of the Group's consolidated statement of other comprehensive income.

In addition, when there has been a change recognised directly in the equity of the associate or joint venture, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains/losses resulting from transaction between the Group and the associate or joint venture are eliminated to the extent of the interest in the associate or joint venture.

The aggregate of the Group's share of profit or loss of an associate and joint venture is shown on the face of the consolidated statement of profit or loss outside operating profit. The financial statements of the associate or joint venture are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on its investment in its associate or joint venture. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate or joint venture is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate or joint venture and its carrying value and then recognises the loss in the consolidated statement of profit or loss.

Upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in consolidated statement of profit or loss.

If the ownership interest in a joint venture or an associate is reduced but joint control or significant influence is retained; only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

Impairment of non-financial assets

At the end of the reporting date, the Group reviews the carrying amounts of tangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Air Arabia PJSC and its subsidiaries

Consolidated Financial Statements

Notes to the consolidated financial statements (continued)

For the year ended December 31, 2021

4 Summary of significant accounting policies (continued)

Impairment of non-financial assets (continued)

Recoverable amount is the higher of fair value less cost to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in the consolidated statement of profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

When an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in the consolidated statement of profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Financial instruments

Financial assets

Initial recognition and measurement

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

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them.

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 Group'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 two categories:

- Financial assets at amortised cost (debt instruments); or
- Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition (equity instruments).

Financial assets at amortised cost (debt instruments)

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

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

Air Arabia PJSC and its subsidiaries

Consolidated Financial Statements

Notes to the consolidated financial statements (continued)

For the year ended December 31, 2021

4 Summary of significant accounting policies (continued)

Financial instruments (continued)

Financial assets (continued)

Subsequent measurement (continued)

Financial assets at amortised cost (debt instruments) (continued)

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 the consolidated statement of profit or loss when the asset is derecognised, modified or impaired.

The Group's financial assets at amortised cost includes trade and most other receivables, other investments, bank balances and cash and other non-current financial assets.

Financial assets designated at fair value through OCI (equity instruments)

Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity instruments designated at fair value through OCI when they meet the definition of equity under IAS 32 Financial Instruments: Presentation and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to the consolidated statements of profit or loss. Dividends are recognised as other income in the consolidated statement of profit or loss when the right of payment has been established, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in OCI. Equity instruments designated at fair value through OCI are not subject to impairment assessment.

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 Group's consolidated statement of financial position) when:

- The rights to receive cash flows from the asset have expired, or
- The Group 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 Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a passthrough arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership.

When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of its continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

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 Group could be required to repay.

Air Arabia PJSC and its subsidiaries

Consolidated Financial Statements

Notes to the consolidated financial statements (continued)

For the year ended December 31, 2021

4 Summary of significant accounting policies (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets

The Group 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 Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

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 trade receivables and contract assets, the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group 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.

The Group considers a financial asset in default when contractual payments are 60 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as payables, borrowings, or as derivatives designated as hedging instruments in an effective hedge, 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 Group's financial liabilities include finance lease liabilities, trade and most other payables, cash flow hedge liability (derivative) and short term borrowings.

Subsequent measurement

The measurement of financial liabilities depends on their classification, as described below:

Loans and borrowings

This is the category most relevant to the Group. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost. The effective interest method is the method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Air Arabia PJSC and its subsidiaries

Consolidated Financial Statements

Notes to the consolidated financial statements (continued)

For the year ended December 31, 2021

4 Summary of significant accounting policies (continued)

Financial instruments (continued)

Financial liabilities (continued)

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 consolidated statement of profit or loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated 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.

Fair value of financial instruments

The fair value of the financial instruments that are traded in active markets at each reporting date is determined by reference to quoted market prices or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

For financial instruments not traded in an active market, the fair value is determined using appropriate valuation techniques. Such techniques may include:

- Using recent arm's length market transactions;
- Reference to the current fair value of another instrument that is substantially the same; or
- A discounted cash flow analysis or other valuation models.

Derivative financial instruments

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

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

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

Air Arabia PJSC and its subsidiaries

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Notes to the consolidated financial statements (continued)

For the year ended December 31, 2021

4 Summary of significant accounting policies (continued)

Derivative financial instruments (continued)

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

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

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

Under a cash flow hedge model, the effective portion of the fair value changes of the hedging instrument is recognised in consolidated statement of other comprehensive income (OCI) and the ineffective portion is recognised in the consolidated statement of profit or loss.

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

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

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

If hedge accounting is not applied to a derivative instrument that is entered into as an economic hedge, then derivative gains and losses are shown in the consolidated statements of other comprehensive income.

Provision for staff terminal benefits

Provision for employees' end of service benefits

Provision is made for the full amount of statutory gratuity due to employees for their period of service up to the reporting date in accordance with the applicable labour laws. The gratuity provision is shown under non-current liabilities in the consolidated statement of financial position.

Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and has no legal or constructive obligation to pay further amounts.

Air Arabia PJSC and its subsidiaries

Consolidated Financial Statements

Notes to the consolidated financial statements (continued)

For the year ended December 31, 2021

4 Summary of significant accounting policies (continued)

Provision for staff terminal benefits (continued)

Defined contribution plans (continued)

Obligations for contributions to defined contribution plans are expensed as the related service is provided. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

Contributions for eligible UAE National employees are made to the Pension Authority, in accordance with the provisions of UAE labour Law No. (7) of 1999 relating to Pension and Social Security and charged to the consolidated statement of comprehensive income in the period in which they fall due.

Aircraft maintenance

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

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

Deferred income

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

Provisions and contingent liabilities

Provisions are recognised when present obligations as a result of a past event will probably lead to an outflow of economic resources from the Group and amounts can be estimated reliably. Timing or amount of the outflow may still be uncertain. A present obligation arises from the presence of a legal or constructive commitment that has resulted from past events, for example, legal disputes or onerous contracts. Provisions are not recognised for future operating losses. Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the reporting date, including the risks and uncertainties associated with the present obligation. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. Provisions are discounted to their present values, where the time value of money is material.

Revenue recognition

Revenue from contracts with customers

The Group's revenue primarily derives from transportation services for both passengers and cargo, ticket selling, accommodation income and dividend income. Revenue is recognized when the transportation, tickets or accommodation are provided. The Group considers whether it is an agent or a principal in relation to transportation services by considering whether it has a performance obligation to provide services to the customer or whether the obligation is to arrange for the services to be provided by a third party.

Air Arabia PJSC and its subsidiaries

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Notes to the consolidated financial statements (continued)

For the year ended December 31, 2021

4 Summary of significant accounting policies (continued)

Revenue recognition (continued)

Rendering of services

Passenger tickets are generally paid for in advance of transportation and are recognised, net of discounts as deferred revenue on ticket sales in current liabilities until the customer has flown. Unused tickets are recognised as revenue after the contracted date of departure using estimates regarding the timing of recognition based on the terms and conditions of the ticket and statistical analysis of historical trends. Other revenue including maintenance; handling; hotel and holiday and commissions is recognized as the related performance obligation is satisfied over time using an appropriate methodology which reflects the activity that has been undertaken to satisfy the related obligation.

Hotel revenue

Income from room hire is recognised on a pro-rata basis over the period of occupancy. Revenue from sale of goods, food and beverages is recognised upon issuance of related sales invoices on delivery to guests and customers.

Dividend income

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

Finance income and finance costs

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

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

Operating expenses

Operating expenses are recognised in the consolidated statement of profit or loss upon utilisation of the service or at the date of their origin.

Segmental reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-makers, who is responsible for resource allocation and assessing performance of the operating segments, are the Board of Directors and the Chief Executive Officer.

Significant management judgment, estimates and assumptions in applying accounting policies

When preparing the consolidated financial statements, management undertakes a number of judgment, estimates and assumptions about recognition and measurement of assets, liabilities, income and expenses. The actual results may differ from the judgment, estimates and assumptions made by management, and will seldom equal the estimated results.

Information about significant judgment, estimates and assumptions that have the most significant effect on recognition and measurement of assets, liabilities, income and expenses is provided in the following pages:

Air Arabia PJSC and its subsidiaries

Consolidated Financial Statements

Notes to the consolidated financial statements (continued)

For the year ended December 31, 2021

4 Summary of significant accounting policies (continued)

Significant management judgment, estimates and assumptions in applying accounting policies (continued)

Impairment of goodwill and intangible assets

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

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

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

Impairment of non-financial assets

Impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The fair value less costs to sell calculation is based on available data from binding sales transactions in arm's length transactions of similar assets or observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the asset's performance of the CGU being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes.

Aircraft maintenance costs

The Group incurs liabilities for maintenance costs in respect of its owned aircrafts and leased aircraft. A charge is made in the consolidated statement of profit or loss each month based on the number of flight hours or cycles used to build up an accrual to cover the cost of heavy-duty maintenance checks when they occur. Estimates involved in calculating the provision required include the expected date of the check, market conditions for heavy-duty maintenance checks at the expected date of check, the condition of asset at the time of the check, the likely utilisation of the asset in terms of either flying hours or cycles, and the regulations in relation to extensions to lives of life-limited parts, which form a significant proportion of the cost of heavy-duty maintenance costs of engines. Additional maintenance costs for aircraft engines are considered for accrual based on the estimates made by engineering department on the basis of operational requirements.

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

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

Accrual for aircraft flying costs

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

Air Arabia PJSC and its subsidiaries

Consolidated Financial Statements

Notes to the consolidated financial statements (continued)

For the year ended December 31, 2021

4 Summary of significant accounting policies (continued)

Significant management judgment, estimates and assumptions in applying accounting policies (continued)

Current versus non-current classification

The Group presents assets and liabilities in the consolidated statement of financial position based on current/non-current classification.

An asset is current when it is:

- Expected to be realised or intended to be sold or consumed in the normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be realised within twelve months after the reporting period; or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current.

A liability is current when:

- It is expected to be settled in the normal operating cycle;
- It is held primarily for the purpose of trading;
- It is due to be settled within twelve months after the reporting period; or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

All other liabilities are classified as non-current.

Estimated useful life and residual value of property and equipment, right-of-use assets and intangible assets

The Group estimates the useful lives of property and equipment (except land), right-of-use assets and intangible assets based on the period over which the assets are expected to be available for use or the lease term. The estimated useful lives of property and equipment, right-of-use assets and intangible assets are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets.

Deferred charges

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

Allowance for expected credit losses for trade receivables and amounts due from related parties

The expected credit losses is based on assumption about risk of default and expected loss rates. The Group uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the Group's past history, existing market conditions as well as forward looking estimates at the end of each reporting period.

Determining lease terms

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).

Air Arabia PJSC and its subsidiaries
Consolidated Financial Statements

Notes to the consolidated financial statements (continued)
For the year ended December 31, 2021

4 Summary of significant accounting policies (continued)

Significant management judgment, estimates and assumptions in applying accounting policies (continued)

Determining lease terms (continued)

The following factors are normally the most relevant:

- If there are significant penalties to terminate (or not extend), the Group is typically reasonably certain to extend (or not extend).
- If any leasehold improvements are expected to have a significant remaining value the Group is typically certain to extend (or not extend).
- Otherwise, the Group considers other factors including historical lease durations, 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 Group 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 that is within the control of the lessee.

Air Arabia PJSC and its subsidiaries
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Notes to the consolidated financial statements (continued)
For the year ended December 31, 2021

5 Property and equipment

	Land AED '000	Buildings AED '000	Aircrafts AED '000	Aircraft engines AED '000	Aircraft rotables and equipment AED '000	Airport equipment AED '000	EDP equipment AED '000	Office equipment, furniture, fixtures and motor vehicles AED '000	Capital work-in- progress AED '000	Total AED '000
Gross carrying amount										
At January 1, 2021	89,040	675,857	8,589,345	413,777	105,084	18,919	27,845	99,840	36,385	10,056,092
Additions	-	717	-	-	3,284	-	50	21,758	5,567	31,376
Recharged to related parties	-	-	-	-	-	-	-	-	(1,727)	(1,727)
Transfers	-	-	-	-	5,124	-	12,224	-	(17,348)	-
At December 31, 2021	89,040	676,574	8,589,345	413,777	113,492	18,919	40,119	121,598	22,877	10,085,741
Accumulated depreciation										
At January 1, 2021	-	314,032	3,093,247	135,770	42,975	9,569	26,985	66,342	-	3,688,920
Charge for the year	-	34,587	458,324	16,484	7,932	883	3,335	6,792	-	528,337
At December 31, 2021	-	348,619	3,551,571	152,254	50,907	10,452	30,320	73,134	-	4,217,257
Net carrying amounts at December 31, 2021	89,040	327,955	5,037,774	261,523	62,585	8,467	9,799	48,464	22,877	5,868,484

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Notes to the consolidated financial statements (continued)
For the year ended December 31, 2021

5 Property and equipment (continued)

2020	Land AED '000	Buildings AED '000	Aircrafts AED '000	Aircraft engines AED '000	Aircraft rotables and equipment AED '000	Airport equipment AED '000	EDP equipment AED '000	Office equipment, furniture, fixtures and motor vehicles AED '000	Capital work-in- progress AED '000	Total AED '000
Gross carrying amount										
At January 1, 2020	89,040	675,402	8,589,345	413,777	102,569	18,919	34,763	91,850	12,706	10,028,371
Additions	-	455	-	-	2,515	-	11,386	9,188	5,375	28,919
Disposals	-	-	-	-	-	-	-	(1,198)	-	(1,198)
Transfers	-	-	-	-	-	-	(18,304)	-	18,304	-
At December 31, 2020	89,040	675,857	8,589,345	413,777	105,084	18,919	27,845	99,840	36,385	10,056,092
Accumulated depreciation										
At January 1, 2020	-	278,167	2,634,923	119,286	35,759	8,686	25,770	59,613	-	3,162,204
Charge for the year	-	35,865	458,324	16,484	7,216	883	1,215	6,837	-	526,824
Disposals	-	-	-	-	-	-	-	(108)	-	(108)
At December 31, 2020	-	314,032	3,093,247	135,770	42,975	9,569	26,985	66,342	-	3,688,920
Net carrying amounts at December 31, 2020	89,040	361,825	5,496,098	278,007	62,109	9,350	860	33,498	36,385	6,367,172

The amount of depreciation computed on property and equipment is presented as follows:

	2021 AED '000	2020 AED '000
Direct costs (Note 26)	511,076	511,595
Administrative and general expenses (Note 27)	17,261	15,229
	<u>528,337</u>	<u>526,824</u>

Air Arabia PJSC and its subsidiaries

Consolidated Financial Statements

Notes to the consolidated financial statements (continued)

For the year ended December 31, 2021

5 Property and equipment (continued)

Buildings include hotel apartments, simulator and staff quarters. Simulator and staff quarters are constructed on land in Sharjah, granted by the Government of Sharjah.

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

As at December 31, 2021, work in progress represents various capital projects, mainly related to business system, applications and building refurbishment, amounting to AED 22.88 million (2020: AED 36.39 million). Capital commitments related to these projects are minimal.

All of the Group's non-movable assets are located in the UAE, except for property and equipment with carrying amount of AED 3.2 million (2020: AED 4.6 million), located outside UAE.

At December 31, 2021, aircrafts with carrying amount of AED 4.80 billion (2020: AED 5.22 billion) are held under finance lease (Note 23).

The Group's management conducted an internal assessment of its aircraft assets and considered if there are any impairment indicators such as a deterioration in current or forecast trade activity, the incurrence of losses or other factors indicating that the assets may be impaired. Based on their assessment, the Group's management is of the view that no indicators of impairment arose during 2021 (2020: AED Nil).

6 Right-of-use assets

	Aircrafts AED '000	Hangar AED '000	Total AED '000
2021			
Gross carrying amount			
At January 1, 2021	651,710	16,650	668,360
Additions	132,489	-	132,489
At December 31, 2021	784,199	16,650	800,849
Accumulated depreciation			
At January 1, 2021	84,288	8,810	93,098
Charge for the year (Note 26)	82,529	832	83,361
At December 31, 2021	166,817	9,642	176,459
Net carrying amounts at December 31, 2021	617,382	7,008	624,390
2020			
Gross carrying amount			
At January 1, 2020	382,191	16,650	398,841
Adjustment for lease modification	14,249	-	14,249
Additions	255,270	-	255,270
At December 31, 2020	651,710	16,650	668,360
Accumulated depreciation			
At January 1, 2020	22,086	7,978	30,064
Charge for the year (Note 26)	62,202	832	63,034
At December 31, 2020	84,288	8,810	93,098
Net carrying amounts at December 31, 2020	567,422	7,840	575,262

Air Arabia PJSC and its subsidiaries

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Notes to the consolidated financial statements (continued)

For the year ended December 31, 2021

7 Advance for new aircraft

Advance for new aircrafts represents pre-delivery payments made to suppliers for an amount of AED 381.4 million (2020: AED 360.3 million) in respect of new aircrafts.

8 Investment properties

Investment properties represent certain units under construction in a building located in Dubai Marina, the Emirate of Dubai, United Arab Emirates, amounting to AED 105.9 million as at December 31, 2021 (2020: AED 105.9 million). The Building is approximately 50% complete as at December 31, 2021 (2020: 50% complete).

Management estimates the fair value of investment properties as at December 31, 2021 to be AED 105 million (2020: AED 105 million).

During the year, the Group has not recognised any provision for impairment of the value of building (2020: AED 19 million).

9 Intangible assets

	2021 AED '000	2020 AED '000
Intangible assets *	1,133,609	1,125,584
Goodwill **	198,522	198,522
At December 31,	<u>1,332,131</u>	<u>1,324,106</u>

During the year ended December 31, 2021, intangible assets and goodwill were subject to impairment tests and management concluded that they are not impaired (2020: AED Nil).

* The movement in the intangible assets during the year can be reconciled as follows:

	2021 AED '000	2020 AED '000
At January 1,	1,125,584	1,113,950
Additions during the year	10,366	17,626
Write-off	-	(3,211)
Amortisation during the year	(2,341)	(2,781)
At December 31,	<u>1,133,609</u>	<u>1,125,584</u>

Certain intangible assets were arisen from the acquisition of Air Arabia LLC in 2007, determined by an independent valuer, summarised as follows:

	2021 AED '000	2020 AED '000
Trade name	395,410	395,410
Landing rights	468,273	468,273
Price benefit from related parties	180,281	180,281
Handling license - Sharjah Aviation Services	48,383	48,383
	<u>1,092,347</u>	<u>1,092,347</u>

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Notes to the consolidated financial statements (continued)
For the year ended December 31, 2021

9 Intangible assets (continued)

** Goodwill comprises of the following:

	2021 AED '000	2020 AED '000
Goodwill on acquisition of Air Arabia LLC ***	189,474	189,474
Goodwill on step acquisition of Information Systems Associates FZC	9,048	9,048
At December 31,	<u>198,522</u>	<u>198,522</u>

*** Goodwill arising on of the acquisition of Air Arabia LLC in 2007, determined by an independent valuer, was as follows:

	AED '000
Total fair value of Air Arabia LLC	1,400,000
Fair value of intangible assets	(1,092,347)
Fair value of tangible assets – net	<u>(118,179)</u>
	<u>189,474</u>

The Group, with support from an independent professional services firm, performed impairment tests on goodwill and intangible assets with indefinite useful lives as of December 31, 2021 and 2020. The recoverable amount of goodwill and intangible assets for impairment test purpose has been determined using value-in-use calculations. For calculation purposes the Group's management prepared cash flow projections for 5 years period, and applied a discount rate of between 11.61% to 11.86% (2020: 8.98% to 9.16%).

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

10 Deferred charges

2021	Landing permission charges AED'000	Aircraft upgrade costs AED'000	Processing fee and commission costs AED'000	BFE AED'000	Total AED'000
Gross carrying amount					
At January 1, 2021	51,745	35,073	27,086	19,768	133,672
Additions during the year	-	-	-	3,935	3,935
At December 31, 2021	<u>51,745</u>	<u>35,073</u>	<u>27,086</u>	<u>23,703</u>	<u>137,607</u>
Accumulated amortisation					
At January 1, 2021	51,745	31,599	14,049	2,803	100,196
Charge for the year	-	1,521	2,152	2,773	6,446
At December 31, 2021	<u>51,745</u>	<u>33,120</u>	<u>16,201</u>	<u>5,576</u>	<u>106,642</u>
Net carrying amounts as at December 31, 2021	<u>-</u>	<u>1,953</u>	<u>10,885</u>	<u>18,127</u>	<u>30,965</u>

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Notes to the consolidated financial statements (continued)
For the year ended December 31, 2021

10 Deferred charges (continued)

	Landing permission charges AED'000	Aircraft upgrade Costs AED'000	Processing fee and commission costs AED'000	BFE AED'000	Total AED'000
2020					
Gross carrying amount					
At January 1, 2020	51,745	35,073	27,086	11,997	125,901
Additions during the year	-	-	-	7,771	7,771
At December 31, 2020	51,745	35,073	27,086	19,768	133,672
Accumulated amortisation					
At January 1, 2020	51,745	30,079	11,823	693	94,340
Charge for the year	-	1,520	2,226	2,110	5,856
At December 31, 2020	51,745	31,599	14,049	2,803	100,196
Net carrying amounts as at December 31, 2020	-	3,474	13,037	16,965	33,476

BFE: Buyer-Furnished Equipment

11 Investments at fair value through other comprehensive income

	2021 AED '000	2020 AED '000
Quoted in UAE	15,556	10,772
Movements during the year were as follow:		
	2021 AED '000	2020 AED '000
Opening balance	10,772	11,082
Disposal during the year	(3,607)	-
Change in fair value	8,391	(310)
	15,556	10,772

The market rate as at December 31, 2021 and December 31, 2020 are considered for the calculation of the fair value of the investments that are quoted on the stock exchange market.

12 Investments in associates and joint ventures

	2021 AED'000	2020 AED'000
Investments in associates (Note 12.1)	81,619	27,775
Investments in joint ventures (Note 12.2)	96,330	64,882
	177,949	92,657

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Notes to the consolidated financial statements (continued)

For the year ended December 31, 2021

12 Investments in associates and joint ventures (continued)

12.1 Investments in associates

Investments in associates represent share in net assets of the associates at the reporting date as per equity accounting principles, and the movements during the year are summarised as follows:

	2021 AED'000	2020 AED'000
At January 1,	27,775	32,879
Share of profit/(loss) of Air Arabia Maroc S.A.	38,563	(9,196)
Share of profit of Tune Protection Commercial Brokerage LLC	17,156	4,092
Dividend received during the year from Tune Protection Commercial Brokerage LLC	(1,875)	-
At December 31,	81,619	27,775

12.2 Investments in joint ventures

Investments in joint ventures represent share in net assets of the joint ventures at the reporting date as per equity accounting principles and the movements during the year are summarised below:

	2021 AED'000	2020 AED'000
At January 1,	64,882	44,714
Investment in Fly Jinnah Services (Private) Limited	3,588	-
Investment in Air Arabia Abu Dhabi L.L.C	-	35,997
Share of profit of Alpha Flight Services UAE. LLC	7,915	31
Share of profit/(loss) of Sharjah Aviation Services LLC	21,428	(7,171)
Share of profit/(loss) of Air Arabia Abu Dhabi L.L.C	997	(11,365)
Share of profit of Alpha Aviation Academy L.L.C	3,640	7,676
Dividends received from Alpha Aviation Academy L.L.C	(6,120)	-
Dividends received from Sharjah Aviation Services LLC	-	(5,000)
At December 31,	96,330	64,882

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12 Investments in associates and joint ventures (continued)

12.2 Investments in joint ventures (continued)

	Alpha Aviation Academy L.L.C		Alpha Flight Services UAE LLC		Sharjah Aviation Services LLC		Air Arabia Abu Dhabi L.L.C		Total
	51%	51%	51%	51%	50%	50%	49%	49%	
Percentage of interest	2021	2020	2021	2020	2021	2020	2021	2020	2021
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
Assets	77,886	78,434	125,848	94,653	155,611	138,571	297,290	179,262	656,635
									490,920
Liabilities	67,702	63,387	95,482	79,806	63,778	89,593	244,998	129,006	471,960
									361,792
Net assets	10,184	15,047	30,366	14,847	91,833	48,978	52,292	50,256	184,675
									129,128
Group's share in net assets as presented in the consolidated statement of financial position	5,194	7,674	15,487	7,572	45,917	24,489	25,622	24,625	92,220
									64,360
Profit/(loss) for the year	7,137	3,444	15,519	61	42,855	(14,343)	2,036	(23,194)	67,547
									(34,032)
Group's share of profit/(loss) for the year	3,640	7,676	7,915	31	21,428	(7,171)	997	(11,365)	33,980
									(10,829)
Dividends received by the Group	(6,120)	-	-	-	-	(5,000)	-	-	(6,120)
									(5,000)

Investments in Air Arabia Egypt Company S.A.E and Air Arabia Jordan LLC are fully impaired in the previous years.

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For the year ended December 31, 2021

13 Categories of financial assets and liabilities

Note 4 to the consolidated financial statements provide a description of each classification and measurement of financial assets and financial liabilities and the related accounting policies. The carrying amounts of financial assets and financial liabilities in each category are as follows:

	2021 AED'000	2020 AED'000
Financial assets at amortised cost		
Trade and other receivables	576,356	485,692
Bank balances and cash	3,878,006	3,148,943
Other investment	-	50,000
Cash flow hedge assets (derivative)	273,072	-
Financial assets at fair value through other comprehensive income		
Investments at fair value through other comprehensive income	15,556	10,772
	<u>4,742,990</u>	<u>3,695,407</u>
Financial liabilities at amortised cost		
Trade and other payables	3,287,820	2,764,598
Short term borrowings	37,634	551,948
Finance lease liabilities	3,236,607	3,732,287
Cash flow hedge liabilities (derivative)	-	624,460
	<u>6,562,061</u>	<u>7,673,293</u>

A description of the Group's financial statements risk, including risk management objectives and policies is given in Note 34 and methods used to measure fair value are described in Note 35.

14 Trade and other receivables

	2021 AED'000	2020 AED'000
Current assets		
<i>Financial assets:</i>		
Trade receivables, gross	255,423	230,249
Allowance for expected credit losses	(44,277)	(17,020)
Trade receivables, net	<u>211,146</u>	<u>213,229</u>
Cash flow hedge asset (Note 22)	186,892	-
Net investment in lease *	14,601	14,275
Amounts due from related parties (Note 15)	128,517	96,744
Advances and other receivables, net**	<u>179,609</u>	<u>161,444</u>
	<u>720,765</u>	<u>485,692</u>
<i>Non-financial assets:</i>		
Prepaid aircraft lease rentals	4,389	5,677
Prepaid expenses – others	<u>14,188</u>	<u>6,372</u>
	<u>739,342</u>	<u>497,741</u>
Non-current assets		
<i>Financial asset:</i>		
Cash flow hedge asset (Note 22)	86,180	-
Net investment in lease *	17,406	32,008
Lease deposit receivable	<u>25,077</u>	<u>29,044</u>
	<u>868,005</u>	<u>558,793</u>

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14 Trade and other receivables (continued)

* Net investment in lease represents the present value of the minimum lease payment receivables. The Group subleases one aircraft to Air Arabia Maroc, S.A., an associate. The Group has classified the subleases as finance lease because the subleases are for the whole of the remaining term of head lease.

The following table sets out the lease receivables related to the subleases:

	2021 AED'000	2020 AED'000
Not later than one year	14,601	14,275
Later than one year but not later than five year	17,406	32,008
At December 31,	<u>32,007</u>	<u>46,283</u>

As at December 31, 2021, all of the Group's trade and other receivables have been reviewed for indicators of impairment. Certain trade receivables and other receivables amounting to AED 44.27 million and AED 12 million, respectively, were found to be impaired (2020: AED 17 million and AED 12 million).

The movement in allowance for expected credit losses of trade receivables can be reconciled as follows:

	2021 AED'000	2020 AED'000
As at January 1,	17,020	19,553
Allowance for expected credit losses of trade receivables (Note 27)	27,257	2,856
Written-off during the year	-	(5,389)
As at December 31,	<u>44,277</u>	<u>17,020</u>

** During the year, the Group has not recorded any allowance for expected credit loss of advances and other receivables (2020: AED 12 million) (Note 27).

The ageing of trade receivables which are not impaired at the reporting date are as follows:

		Not	<i>Past due but not impaired</i>		
	Total	past due nor	<60	60-90	>90
	AED'000	impaired	Days	Days	Days
		AED'000	AED'000	AED'000	AED'000
2021	211,146	206,978	3,045	329	794
2020	213,229	85,620	41,645	23,384	62,580

Trade receivables are non-interest bearing and are generally settled in within normal credit terms of 45 to 60 days after which they are considered to be past due. Unimpaired accounts receivable are expected, on the basis of past experience, to be recoverable. Before accepting any new customer, the Group assesses the potential customers' quality and defines credit limits for customer. There are 3 customers who represent more than 23% (2020: more than 26%) of the total balance of trade receivables.

Majority of the trade receivables are from sales agents which are secured mainly by bank guarantees and deposits.

The concentration of credit risk is limited due to the customer base being large and unrelated.

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15 Related parties

The Group in the normal course of business carries on transactions with other enterprises that fall within the definition of related party. The Group's related parties include key management personnel, entities held under common control, associates, joint ventures and others. Transactions with related parties are carried out in the normal course of business and are measured at exchange amounts, being the amounts agreed by both the Board of Directors and the respected related party.

Transactions with related parties included in the consolidated statement of profit or loss are as follows:

	2021 AED'000	2020 AED'000
Rental income from aircraft operating lease (Note 25)	195,420	161,432
Expenses recharged by related parties	(31,813)	(22,639)
Revenue from related parties	45,326	22,945
Management fees from joint ventures and associates (Note 29)	25,504	15,398
Income/(loss) from investments	89,522	(15,933)

Compensation of key management personnel

A number of key management personnel hold positions in the Group that result in them having control or significant influence over the financial or operating activities. Compensation of key management personnel are as follows:

	2021 AED'000	2020 AED'000
Short term benefits	10,000	20,161
Long term benefits	620	592
Board of Directors' remuneration*	-	5,875

* At the Annual General Meeting held on March 10, 2020, Board of Directors proposed, and the shareholders approved Board of Directors' remuneration of AED 5.87 million for the year ended December 31, 2019. During 2021, no remuneration was proposed for the Board of Directors for the year ended December 31, 2020.

Balances with related parties included in the consolidated statement of financial position are as follows:

	2021 AED'000	2020 AED'000
Amounts due from related parties: (Note 14)		
Receivable from associates and joint ventures	69,150	89,321
Other related parties	59,367	7,423
	<u>128,517</u>	<u>96,744</u>
	2021 AED'000	2020 AED'000
Amounts due to related parties: (Note 21)		
Payable to joint ventures	76,894	13,315
Other related parties	2,547	131,163
	<u>79,441</u>	<u>144,478</u>

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

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16 Bank balances and cash

	2021 AED'000	2020 AED'000
<i>Bank balances</i>		
Fixed deposits*	2,729,241	2,433,045
Current accounts	854,747	362,067
Call deposits	287,251	347,946
	<u>3,871,239</u>	<u>3,143,058</u>
Cash in hand	6,767	5,885
Bank balances and cash	<u>3,878,006</u>	<u>3,148,943</u>

*These deposits carry average interest rates of 2.06% (2020: 3.465%) per annum.

16.1 Other investments at amortised cost

	2021 AED'000	2020 AED'000
National Bonds	-	50,000
	<u>-</u>	<u>50,000</u>

Movement of investment in National Bonds during the year can be reconciled as follows:

	2021 AED '000	2020 AED '000
As at January 1,	50,000	150,000
Disposals during the year	(50,000)	(100,000)
As at December 31,	<u>-</u>	<u>50,000</u>

17 Share capital

	2021 AED'000	2020 AED'000
Authorised, issued and fully paid-up share capital (4,666,700 thousand shares of AED 1 each)	<u>4,666,700</u>	<u>4,666,700</u>

Dividends

At the Annual General Meeting held on March 10, 2020, Board of Directors proposed, and the shareholders approved a cash dividend of AED 420 million at AED 0.09 fils per share for the year ended December 31, 2019. During 2021, no dividend was proposed for the year ended December 31, 2020.

18 Statutory reserve

In accordance with the Company's Articles of Association and Article 103 of UAE Federal Law No. 2 of 2015, as amended, a minimum of 10% of the net profit for the year has to be transferred to the statutory reserve. Such transfers are required to be made until the balance on the statutory reserve equals one half of the Company's paid-up share capital. The reserve is not available for distribution except as provided for in the UAE Federal Law.

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19 General reserve

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

During the year ended December 31, 2020 and on the General Assembly dated March 10, 2020, the Board of Directors proposed, and the Shareholders resolved to transfer an amount of AED 78,070,000 from general reserve balance to retained earnings. No such transfer to reserve was made during the year ended December 31, 2021.

20 Provision for staff terminal benefits

	2021 AED'000	2020 AED'000
At January 1,	131,384	145,129
Charge for the year	17,004	25,112
Payments made during the year	(3,751)	(38,857)
At December 31,	144,637	131,384

21 Trade and other payables

	2021 AED'000	2020 AED'000
<i>Financial liabilities</i>		
Maintenance liabilities	1,572,361	1,379,789
Cash flow hedge liability (Note 22)	-	624,460
Accrued expenses	664,702	434,301
Other payables	680,483	459,117
Trade payables	253,797	309,877
Amounts due to related parties (Note 15)	79,441	144,478
Lease deposit payables	37,036	37,036
	3,287,820	3,389,058
<i>Non-financial liability</i>		
Advances from customers	32,532	39,008
	3,320,352	3,428,066
Less:		
Non-current liabilities		
Maintenance liabilities	1,324,032	1,286,790
Cash flow hedge liability (Note 22)	-	479,327
Lease deposit payable	26,007	26,007
	1,350,039	1,792,124
Current liabilities	1,970,313	1,635,942

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

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22 Derivative financial instruments

Fuel derivatives

The Group uses derivative financial instruments for risk management purposes.

Hedging instruments are measured at their fair value at the reporting date and the effective portion of the changes in their fair value is recognised in the consolidated statement of other comprehensive income, as part of the cash flow hedge reserve in line with provisions of IFRS 9.

A loss of AED 67 million was recognised in 2020 relating to the ineffective portion of trade deals and the settlement of the same in the consolidated statement of profit or loss, as part of fuel costs (Note 26).

The Group has reassessed the hedging relationship as at reporting date and concluded that the forecast transactions being hedged are highly probable to occur in the future.

Cash flow hedge (asset)/ liability is categorised into the following:

	2021		2020	
	Term	AED'000	Term	AED'000
Non-current (asset)/liability				
Commodity swaps, forwards options and others	2023-2024	(86,180)	2022-2024	479,327
Current (asset)/liability				
Commodity swaps, collars, forwards options and others	2022	(186,892)	2021	145,143
Total (Note 14)		<u>(273,072)</u>		<u>624,460</u>

23 Finance lease liabilities

The Group has entered into leasing arrangements with leasing companies to finance the purchase of the aircraft. The terms of the leases are 9 - 15 years for aircrafts and hangar:

	2021 AED'000	2020 AED'000
As at January 1,	3,732,287	3,692,474
Additions to lease liabilities for the year	131,645	256,881
Payments made during the year	(627,325)	(231,317)
Adjustment for lease modifications	-	14,249
	<u>3,236,607</u>	<u>3,732,287</u>

Finance lease liabilities are disclosed in the consolidated statement of financial position as follows:

	2021 AED'000	2020 AED'000
Non-current portion of finance lease liabilities	2,584,174	3,072,643
Current portion of finance lease liabilities	652,433	659,644
	<u>3,236,607</u>	<u>3,732,287</u>

The finance lease liabilities are secured by the associated leased aircraft (Note 5).

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23 Finance lease liabilities (continued)

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

Finance lease liabilities are payable as follows:

	2021 AED'000	2020 AED'000
Not later than one year	652,433	659,644
Later than one year but not later than five year	2,109,859	2,139,141
Later than five years	474,315	933,502
At December 31,	<u>3,236,607</u>	<u>3,732,287</u>

The finance charges are calculated based on average interest rate of 2.99% (2020: 2.99%).

24 Short term bank borrowings

	2021 AED'000	2020 AED'000
Short term bank borrowings	<u>37,634</u>	<u>551,948</u>

The Group has availed short term borrowing facilities from banks. These facilities carried interest at 0.65% - 0.7%, and + 1-month LIBOR and 3-month EIBOR per annum (2020: 0.50% - 1.4% + 1-month LIBOR and 3-month EIBOR per annum).

During the year ended December 31, 2020, there had been an amendment to one of the facilities whereby the maturity date for revolving term loan amounting to AED 331 million had been extended for a further period of six months.

25 Revenue

	2021 AED'000	2020 AED'000
Passenger revenue	2,421,458	1,351,990
Aircraft lease rentals - net (Note 15)	195,420	161,432
Other airline related services	225,233	126,564
Service revenue	143,054	94,023
Cargo revenue	145,744	75,984
Revenue from hotel operations	54,573	39,798
Baggage revenue	40,035	22,263
Sales commission and expenses	(51,395)	(21,088)
	<u>3,174,122</u>	<u>1,850,966</u>

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26 Direct costs

	2021 AED'000	2020 AED'000
Depreciation of property and equipment (Note 5)	511,076	511,595
Fuel costs (Note 22)	646,317	449,257
Staff costs	358,156	382,273
Aircraft maintenance expenses	293,598	125,530
Landing and overflying charges	162,294	101,127
Passenger, ground and technical handling charges	148,215	93,754
Depreciation of right-of-use assets (Note 6)	83,361	63,034
Other operating costs	77,675	61,750
Insurance	10,557	11,922
	2,291,249	1,800,242

27 Administrative and general expenses

	2021 AED'000	2020 AED'000
Staff costs	81,316	75,688
Allowance for expected credit losses of trade receivables (Note 14)	27,257	2,856
Depreciation of property and equipment (Note 5)	17,261	15,229
Legal and professional fees	11,082	13,040
Rent	6,579	8,806
Communication costs	5,837	5,443
Travel and accommodation costs	3,749	2,786
Provision for impairment of investment property (Note 8)	-	19,000
Allowance for expected credit losses of advances and other receivables (Note 14)	-	12,000
Other administrative and general expenses	45,417	41,513
	198,498	196,361

28 Selling and marketing expenses

	2021 AED'000	2020 AED'000
Staff costs	22,913	23,771
Advertisement expenses	17,815	9,865
Reservation management expenses	692	791
	41,420	34,427

29 Other income, net

	2021 AED'000	2020 AED'000
Management fees from joint ventures and associates (Note 15)	25,504	15,398
Foreign currency exchange gains	10,117	7,306
Dividend income from others	321	1,271
Others	26,211	15,920
	62,153	39,895

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30 Basic and diluted earnings/(losses) per share

	2021 AED'000	2020 AED'000
Profit/(loss) attributable to the Owners of the Company	719,927	(192,183)
Weighted average number of shares (in '000)	4,666,700	4,666,700
Basic and diluted earnings/(losses) per share (AED)	0.15	(0.04)

31 Operating lease commitments

31.1 The Group is a lessor:

As at December 31, 2021, the Group has leased out 15 aircrafts (2020: 15) under non-cancellable operating lease agreements to related parties.

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

	2021 AED'000	2020 AED'000
Within one year	162,307	180,702
Between 2 and 5 years	260,862	414,130
Above 5 years	-	9,039
	423,169	603,871

The carrying amount of the leased aircrafts owned by the Group under operating leases at the reporting date are as follow:

	2021 AED'000	2020 AED'000
Net book value	1,117,515	1,239,015
Accumulated depreciation	1,159,482	1,037,982
Depreciation charge for the year	121,501	121,501

32 Contingent liabilities

The Group have letters of guarantees and credits entered into as part of the normal course of business and in connection with deposits against leased aircrafts amounting to AED 497.94 million as at December 31, 2021 (December 31, 2020: approximately AED 500 million), which at December 31, 2021 are not expected to result in material losses for the Group in the foreseen future and not consider it probable that there will be an outflow of economic resources with regard to these contingent liabilities.

33 Capital commitments

	2021 AED'000	2020 AED'000
<i>Authorised and contracted:</i>		
Aircraft fleet (Note 7)	23,434,297	23,455,383

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34 Financial instruments and risk management objectives and policies

The Group is exposed to various risks in relation to financial instruments. The main types of risks are market risk, credit risk and liquidity risk.

The Group's risk management is coordinated at Group level, in close cooperation with the Board of Directors, and focuses on actively securing the Group's short to medium-term cash flows by minimising the exposure to financial markets.

The Group does not actively engage in the trading of financial assets for speculative purposes nor does it write options. The most significant financial risks to which the Group is exposed are described below:

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in market prices whether those changes are caused by factors specific to the individual security or its issuer or factors affecting all securities traded in the market.

The Group is exposed to market risk through its use of financial instruments and specifically to interest rate risk and price risks, which result from both its operating and investing activities.

i. Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates

The Group adopts a policy of ongoing review of its exposure to changes in interest rate on its borrowings, taking into account market expectations, the maturity profile and cash flows of the underlying debt, and the extent to which debt may potentially be either prepaid prior to its maturity or refinanced at reduced cost.

The Group is exposed to changes in market interest rates through fixed deposits, investments, call deposits, finance lease liabilities and bank borrowings.

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

	2021 AED'000	2020 AED'000
Fixed rate		
<i>Financial assets</i>		
Fixed deposits	2,729,241	2,433,045
Call deposits	287,251	347,946
Investments	-	50,000
	<u>3,016,492</u>	<u>2,830,991</u>
Variable rate		
<i>Financial liabilities</i>		
Finance lease liabilities	(3,236,607)	(3,732,287)
Short-term bank borrowings	(37,634)	(551,948)
	<u>(3,274,241)</u>	<u>(4,284,235)</u>

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34 Financial instruments and risk management objectives and policies (continued)

Market risk (continued)

i. Interest rate risk (continued)

Cash flow sensitivity analysis for variable rate instruments

The following table illustrates the sensitivity of the Group's profit and closing equity to a reasonably possible change in interest rates of $\pm 1\%$ (2020: $\pm 1\%$). These changes are considered to be reasonably possible based on observation of current market conditions. Positive figures represent an increase in profit or equity. The analysis below excludes interest capitalized and assumes that all other variables remain constant.

	Effect on Profit/loss for the year		Effect on Equity	
	AED'000 +1%	AED'000 -1%	AED'000 +1%	AED'000 -1%
2021	(32,742)	32,742	(32,742)	32,742
2020	42,842	(42,842)	(42,842)	42,842

ii. Equity price risk

The Group is exposed to equity price risk in respect of its listed equity securities (see Note 11). For the listed equity securities, an average volatility of 44% has been observed during 2021 (2020: 3%). This volatility figure is considered to be a suitable basis for estimating how profit or loss and equity would have been affected by changes in market risk that were reasonably possible at the reporting date. If the quoted stock price for these securities increased or decreased by that amount, consolidated statements of other comprehensive income and equity would have changed by AED 8.3 million (2020: AED 0.3 million). The listed securities are classified as investments at fair value through other comprehensive income.

Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

The Group is exposed to this risk for various financial instruments, for example trade receivables from customers, placing deposits, etc. The Group's maximum exposure to credit risk is limited to the carrying amount of financial assets recognised at the reporting date, as summarised below:

	2021 AED'000	2020 AED'000
Bank balances and deposits	3,871,239	3,143,058
Trade and other receivables	576,356	485,692
Cash flow hedge asset	273,072	-
Other investments	-	50,000
Investments measured at fair value through OCI	15,556	10,772
	<u>4,736,223</u>	<u>3,689,522</u>

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Consolidated Financial Statements

Notes to the consolidated financial statements (continued)

For the year ended December 31, 2021

34 Financial instruments and risk management objectives and policies (continued)

Credit risk (continued)

The following policies and procedure are in place to mitigate the Group's exposure to credit risk:

Trade and other receivables

The Group seeks to limit its credit risk with respect to trade receivables by continuously monitoring the terms of payments for the outstanding amounts. Trade and other receivables consist of a large number of customers, spread across diverse industries and geographical areas.

Bank balances and deposits

The Group seeks to limit its credit risk with respect to banks by only dealing with reputable banks.

Jet fuel risk

The Group is exposed to volatility in the price of jet fuel and closely monitors the actual cost against the forecast cost. To manage the price risk, the Group considers the use of commodity futures, options and swaps to achieve a level of control over higher jet fuel costs so that profitability is not adversely affected.

Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding through an adequate amount of committed credit facilities. Liquidity requirements are monitored on a regular basis and management ensures that sufficient funds are available to meet any future commitments.

The Group's risk to liquidity is a result of the funds available to cover future commitments. The Group manages liquidity risk through an on-going review of future commitments and credit facilities. Cash flow forecasts are prepared and adequate utilisation of borrowing facilities are monitored, including the need for additional borrowings, as required. The Group has 30 to 90 days credit period from its vendors.

Summarised below in the table is the maturity profile of financial liabilities and net settled derivative financial liabilities based on the remaining period at the end of reporting period to the contractual maturity date. The amounts disclosed are the contractual undiscounted cash flows.

	Carrying amount AED'000	Contractual cash flows		
		Within 1 year AED'000	More than 1 year AED'000	Total AED'000
2021				
Finance lease liabilities	3,236,607	652,433	2,584,174	3,236,607
Trade and other payables	3,287,820	1,937,781	1,350,039	3,287,820
Short-term bank borrowings	37,634	37,634	-	37,634
Total	6,562,061	2,660,380	3,901,681	6,562,061
	Carrying amount AED'000	Contractual cash flows		
		Within 1 year AED'000	More than 1 year AED'000	Total AED'000
2020				
Finance lease liabilities	3,732,287	664,966	3,109,258	3,774,224
Trade and other payables	2,803,607	1,516,817	1,286,790	2,803,607
Cash flow hedge liability	624,460	145,133	479,327	624,460
Short-term bank borrowings	551,948	551,948	-	551,948
Total	7,712,302	2,878,864	4,875,375	7,754,239

Air Arabia PJSC and its subsidiaries

Consolidated Financial Statements

Notes to the consolidated financial statements (continued)

For the year ended December 31, 2021

35 Fair value measurement

Assets and liabilities measured at fair value in the consolidated statement of financial position are grouped into three levels of fair value hierarchy. This grouping is determined based on the lowest level of significant inputs used in fair value measurement, as follows:

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

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

The Group recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

The following table shows the Levels within the hierarchy of financial assets and liabilities measured at fair value on a recurring basis at December 31, 2021 and December 31, 2020.

	Level 1 AED'000	Level 2 AED'000	Level 3 AED'000
At December 31, 2021			
Financial asset			
Investments at fair value through other comprehensive income	15,556	-	-
Cash flow hedge asset	-	273,072	-
	Level 1 AED'000	Level 2 AED'000	Level 3 AED'000
At December 31, 2020			
Financial asset			
Investments at fair value through other comprehensive income	10,772	-	-
Financial liability			
Cash flow hedge liability	-	624,460	-

36 Segment Reporting

For management purposes, the Group is organised into two major reportable segments as follows:

- **Airline**

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

- **Other segments**

Includes travel and tourist agencies, hotels, hotel apartment rentals, airline companies, representative office and documents transfer services.

Air Arabia PJSC and its subsidiaries
Consolidated Financial Statements

Notes to the consolidated financial statements (continued)
For the year ended December 31, 2021

36 Segment Reporting (continued)

The following table presents revenue and profit information for the Group's operating segments for the year ended December 31, 2021 and December 31, 2020, respectively:

December 31, 2021	Airline AED'000	Other segments AED'000	Eliminations AED'000	Total AED'000
Revenue				
External sales	2,980,124	193,998	-	3,174,122
Inter-segment sales	-	18,472	(18,472)	-
Total revenue	2,980,124	212,470	(18,472)	3,174,122
Result				
Segment result	623,594	6,634	-	630,228
Share of profit of investments in associates and joint ventures				89,699
Profit for the year				719,927
Other information				
Additions to property and equipment and deferred charges	11,377	23,934	-	35,311
Depreciation and amortisation	603,940	21,092	-	625,032
December 31, 2020	Airline AED'000	Other segments AED'000	Eliminations AED'000	Total AED'000
Revenue				
External sales	1,717,145	133,821	-	1,850,966
Inter-segment sales	-	9,939	(9,939)	-
Total revenue	1,717,145	143,160	(9,939)	1,850,966
Result				
Segment result	(209,139)	32,890		(176,249)
Share of loss of investments in associates and joint ventures				(15,934)
Loss for the year				(192,183)
Other information				
Additions to property and equipment and deferred charges	13,778	22,912	-	36,690
Depreciation and amortisation	586,221	12,274	-	598,495

Inter-segment sales are charged at prevailing market prices.

Air Arabia PJSC and its subsidiaries

Consolidated Financial Statements

Notes to the consolidated financial statements (continued)

For the year ended December 31, 2021

36 Segment Reporting (continued)

The following table presents assets and liabilities information for the Group's operating segments as at December 31, 2021 and December 31, 2020, respectively:

	Airline AED'000	Other segments AED'000	Eliminations AED'000	Total AED'000
December 31, 2021				
Assets				
Segment assets	10,063,700	703,059	(671,621)	10,095,138
Unallocated assets				3,211,189
Total assets				13,306,327
Liabilities				
Segment liabilities	7,144,385	758,596	(671,619)	7,231,362
	Airline AED'000	Other segments AED'000	Eliminations AED'000	Total AED'000
December 31, 2020				
Assets				
Segment assets	9,734,169	523,398	(534,199)	9,723,368
Unallocated assets				2,929,633
Total assets				12,653,001
Liabilities				
Segment liabilities	7,605,055	540,030	-	8,145,085

The accounting policies of the reportable segments are the same as the Group's accounting policies described in Note 4. Segment result represents the profit earned by each segment without considering share of profit/(loss) on equity accounted investments. Segment assets do not include fixed deposits, investments, investment properties and investment in subsidiaries, joint ventures and associate. Goodwill and intangible assets have been allocated to the Airline segment.

37 Capital management policies and procedures

The primary objective of the Group's capital management is to ensure that it maintains healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustment to it, in light of changes in business and economic conditions or to respond to any financial covenants. To maintain or adjust the capital structure, the Group may adjust the dividends payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or process during the years ended December 31, 2021 and December 31, 2020. Capital includes share capital, statutory reserve, general reserve, other reserves and retained earnings, and is measured at AED'000 6,074,966 as at December 31, 2021 (2020: AED'000 4,507,916).

Air Arabia PJSC and its subsidiaries
Consolidated Financial Statements

Notes to the consolidated financial statements (continued)
For the year ended December 31, 2021

38 Subsequent events

On January 31, 2022, the UAE Ministry of Finance announced the introduction of a 9% Federal Corporate Tax rate effective for fiscal years commencing on or after June 1, 2023. There is no impact of this announcement on the consolidated financial statements of the Group for the year ended December 31, 2021. Management will assess the implications of this Federal Corporate Tax in due course.

There have been no other events subsequent to the consolidated statement of financial position date that would significantly affect the amounts reported in the consolidated financial statements as at and for the year ended December 31, 2021.

Air Arabia Governance report for the 2021

1. Practices of corporate governance

Air Arabia has been one of the leading companies in applying the principles of corporate governance among the public companies. Air Arabia strongly believes in the importance of the practical application of governance practices and the strong adherence to the related laws & regulations and the operations within the general framework of the principles of corporate governance which preserves the rights and interests of the company, its investors, its management and the investment environment surrounding it.

Therefore, Air Arabia, and all its subsidiaries and group companies are committed to all laws and regulations imposed upon them as a global aviation and as a public joint stock company. This covers the Commercial Companies Law number 2 of 2015 and law number 26 of 2020 pertaining to commercial companies. The company is also committed to the strict application of Ministerial Decree No. (518) for the year 2009 followed by the resolution number 7 for the year 2016, and resolution number 3 of 2020 issued by the Minister of Economy and Chairman of the Securities and Commodities Authority regarding corporate governance and corporate discipline, and any decisions that may be issued or amended in future. This cultivates confidence of those major investment bodies around the globe to occupy a position within the owners of Air Arabia.

To reflect the above, Air Arabia had issued the corporate governance manual, which besides many other details, covers the following:

1. Shareholder Communication Statement
2. Code of Ethic and Conduct
3. Share Dealing Policy
4. Whistle Blowing Policy
5. Corporate Social & Environmental Responsibility
6. Dividends Policy

The full manual is posted on the company's intranet and is available for all employees to refer to at any point of time.

2. Board members trades in Air Arabia shares:

The Board of Directors of Air Arabia and senior management are well briefed, informed and aware of the importance of the rules and procedures that govern the dealings of board members and senior managers of the company who, by virtue of their responsibilities, possess information that is not yet available to the public. In order to raise the level of transparency and disclosure and to allow equal opportunity to all shareholders when dealings in the company's shares, equal even to insiders from within the company, the company issued a statement internally which is included within the corporate governance manual, which sets the conditions and restrictions of insider trading, and the importance to disclose any inside trading in this report.

The company aspires through these actions being taken to protect the rights of all parties concerned, as well as maintaining the company's reputation and enhancing the confidence of shareholders and investors of the company.

There were no trades made by board members in 2021.

3. Board of Directors:

a. Composition of the board:

Air Arabia board of directors consists of 7 board members. The current board was appointed by the AGM of 2020 for three years:

1. Sheikh Abdullah Bin Mohammed Al Thani	Chairman of the Board
2. Adel Abdullah Ali	Executive member
3. Sheikh Mohammed Bin Abdullah Al Thani	Independent member
4. Sheikh Khalid Bin Issam Al Qassimi	Independent member
5. Waleed Ibrahim Al Sayegh	Independent member
6. Matar Al Blooshi	Independent member
7. Samer Katerji	Independent member

Summary biographies of the members:**1. Sheikh Abdullah Bin Mohammad Al Thani- Air Arabia Chairman since 2003**

His Excellency Sheikh Abdullah Bin Mohammed Al Thani holds several prominent positions in UAE. He served as member of the Executive Council of Sharjah and as Chairman of Sharjah Civil Aviation Department. He has a well-known track record in contributions towards developing air transport sector in UAE, as well as significant contributions and support to Economic & Tourism development in Sharjah.

2. Adel Abdullah Ali (Chief Executive Officer & Air Arabia Board Member since 2003)

Mr. Adel Ali received award for the best CEO of low-cost carrier in the world for the years 2007, 2008, 2009, 2010 & 2011 in recognition of his efforts in founding the first low-cost carrier in the Middle East and North Africa. He is also selected as the best businessman for the year 2011, and the best Airline CEO during 2016. Ali has more than 30 years in aviation world & strategic planning, his deep knowledge in tourism and commercial operations are well reflected in Air Arabia's performance since 2003.

Before Air Arabia, Mr. Ali served in various aviation positions; he served as vice president of the commercial & customer services in Gulf Air where he played a key role in restructuring the company. He also served for more than 20 years in different management positions with British Airways last of which was General Manager of the Middle east and Africa.

3. Sheikh Mohammed Bin Abdullah Al Thani- Air Arabia Board Member since March 2011, Former Chairman – Department of Statistics.

H.E. Sheikh Mohammed Al Thani is one of the young leaders in Sharjah, and a businessman, with positive footprints in many business fields especially travel and tourism. H.E. assumed the role Director of His Highness Sharjah Ruler's Office in the American University of Sharjah. Late 2011, he was appointed Director General of Sharjah Statistics Center, and then Chairman of that department till 2019.

Besides that, he also serves as Chairman of Gamma Aviation, AM Holding Company, Al Nawras Catering Company, Santos International Company, Ascent Advertising Company and Universal Tourism Company; he is also the Deputy Chairman Sharjah Golf & Shooting Club.

4. Sheikh Khalid Bin Isam Al Qassimi- Air Arabia Board Member since 2014, Chairman Department of Civil Aviation of Sharjah.



H.E. Sheikh Khalid Bin Isam Al Qassimi is the Chairman of the Department of Civil Aviation in Sharjah, he also is a member of the Executive Council of Sharjah Government, which is Chaired by H.H. Crown Prince of Sharjah.

Through his career, Sheikh Khalid has served in various posts in both Sharjah Airport Authority, and Department of Civil Aviation. In 2012 he was appointed as Director General of Sharjah Civil aviation, and in early 2014 Shk Khalid was nominated as Chairman of Sharjah Civil Aviation.

Besides the above stated responsibilities, Mr. Al Qassimi is a board member of the General Civil Aviation Authority, part of the Federal Government of the United Arab Emirates.

Sheikh Khalid holds a bachelor's degree in commerce, and a master's degree in international business.

**5. H.E. Waleed Ibrahim Al Sayegh – Air Arabia Board Member since 2017
Director General Sharjah Central Finance Department**



With an extensive experience in the fields of Investments and Finance, H.E. Mr. Waleed Al Sayegh is the Director General of Sharjah's Central Finance Department, and a member of UAE's Federal Finance policies committee.

He is also the Chief Executive Officer of Sharjah Asset Management, Sharjah's sovereign investments vehicle, Chairman of Sharjah Holding, and Board member of Tilal Real-estate.

Mr. Al Sayegh's expertise extends in areas of governmental accounting, budgets, management and administration, strategic management, and crisis management. Within the span of 25 years, HE has worked for several private and public entities in the United Arab Emirates.

6. Matar Al Blooshi (Air Arabia Board Member since 2019)



Mr. Matar Al Blooshi, a national of the United Arab Emirates, with over 22 years' experience in financial and fund management industry. He started his career in January 1992 with the Central Bank of the United Arab Emirates as a Dealer in the treasury department. In July 1995 he joined Abu Dhabi Investment Company as a Portfolio Manager, in June 1998 he joined First Gulf Bank as Head of Treasury & Investment Division and then he moved to National Bank of Abu Dhabi in March 2001 as a Head of Foreign Exchange and Commodities Department. In February 2005 Mr. Al Blooshi became the Head of Domestic Capital Market Group and the General Manager of Abu Dhabi Financial Services (Subsidiary of National Bank of Abu Dhabi) and he was given the title of Senior Manager / Asset Management Group in October 2006.

Currently Mr. Al Blooshi is the Chief Investment Officer at Das Holding LLC, a Member of the Board of Directors of First Energy Bank in Bahrain, Al Salam Bank Bahrain, Etisalat Misr and Chairman of Maalem Holdings in Bahrain.

Mr. Al Blooshi is a hard-working group leader, with excellent interpersonal analytical and problem solving skills and building numerous contacts within the investment arena.

Mr. Al Blooshi holds a B.A in Banking & Financial Management from University of Arkansas, USA (1991).

7. Samer Katerji (Air Arabia Board Member since 2020)



Samer A. Katerji – Founding Partner & Managing Director of Trussbridge

Mr. Katerji is an experienced Investment Professional with a demonstrated history of working in the financial services and investments industry for almost 25 years. Throughout his career, Mr. Katerji has led the formulation and structuring of complex corporate finance transactions across a multitude of industries and regional markets. He is skilled in Mergers & Acquisitions (M&A), Strategic Financial Advisory, Capital Optimization and Restructuring as well as structuring of Capital Markets financing instruments, both in equity and debt products. Mr. Katerji also has experience in the transportation and logistics sector and was previously involved in the IPO of Air Arabia PJSC, IPO of Royal Jordanian, IPO of Aramex, and the IPO of DP World.

Mr. Katerji is currently the CEO & Managing Director for Trussbridge, an investment advisory firm located in the DIFC, & regulated by the DFSA. Within this role Mr. Katerji has led and developed a strong execution team to conclude some very high profile transactions in the region, whilst also winning some prestigious awards, within the financial services industry. Prior to this role, Mr. Katerji led the Financial Institutions and Financial Sponsors advisory practice for Citigroup Global Markets in the Middle East and played a key role in the development of the franchise in the region. Mr. Katerji also held key positions at SHUAA Capital in Dubai, PrimeCorp Finance and Middle East Capital Group, in Beirut. Mr. Katerji holds a Masters Degree in Business Administration, Bachelor Degree in Business Administration and Bachelor Degree in Science – Biology from the American University of Beirut. Mr. Katerji is a member of GCC Board of Directors Institute and Arab Bankers Association of North America (ABANA).

Membership in other Public Companies in UAE:

1. **Shk Abdullah Bin Mohammed Al Thani:** Besides chairing Air Arabia board of directors, H.E. is the Deputy Chairman of Al Buhairah Insurance Company.
2. **Mr. Waleed Al Sayegh** is board member of Invest Bank
3. **Mr. Matar Al Blooshi** is a board member of Al Salam Bank (Bahrain)

b. Female representation in the board:

The current board was elected during 2020's AGM. Even though none of the board members are females, females are present in the senior management team.

c. Reasons for not having females on board:

Air Arabia takes all kind of inclusion and equal opportunity very seriously and refutes any kind of possible discrimination. Everyone is given a fair chance, and admission is purely on merit.

Air Arabia opened the nominations to the board membership last in 2020, and all nominees were males.

d. Board Remuneration:

1. 2020: No Remuneration was distributed.
2. 2020: No Attendance Allowance was given.
3. 2021: The recommendation is AED 8.25M .
4. 2021: No other payments, allowances, payments made to board members.

e. Board meetings and attendees:

A table detailing the dates and attendees of the board meetings is presented under appendix 1.

f. Resolutions passed by circulation:

None.

g. Boards Duties & Responsibilities delegated to the management:

Referring to the duties and responsibilities of the board of directors, the Board oversees the company strategically, reviews the strategies and implementation with the executive management, while the Executive management is authorized to run the day-to-day activities of the company, and report to the board the expansion plans, challenges and future objectives.

The board did not delegate a specific task to the management; however, the executive management is given the freedom and responsibility to run the day to day operations and revert to the board for major decision or investments.

h. Transactions with related parties:

No transactions with related parties, other than those disclosed in the audited financial statements.

i. Senior Staff Pay details:

Group CEO: AED 5.4M during 2021 plus accommodation and transportation.

Senior Management team: which is formed of 6 members, and their total remuneration is AED 7.9M which includes, Salaries, Allowances, and children's education.

The corporate structure is presented in appendix 4.

4.External Accounts Auditor: Grant Thornton (GT)

a) Introduction about the Auditors to the Shareholders:

Grant Thornton has been appointed as the Auditors of the Company for the year 2021. It is one of the leading and independent international organizations providing audit, tax and consulting services. Grant Thornton International has been providing professional services for more than a hundred years in more than 130 countries and operating more than 700 offices worldwide. Grant Thornton International has more than 50,000 employees working at the member firms around the world.

Grant Thornton UAE is a member firm of Grant Thornton International Limited, which was established in 1966. Grant Thornton has been able to gain good reputation in providing excellent services to companies locally, regionally and globally. Grant Thornton UAE has more than 250 employees including 20 partners.

Grant Thornton UAE provides services including auditing, tax, consulting, internal audit, fact finding and IT consulting services through its offices in UAE.

- b) Statement of fees and costs for the audit or services provided by the external auditor is shown in the following table:

Name of the audit firm and the audit partner	Grant Thornton Auditing and Accounting Dr. Osama El-Bakry (since 2019)
Number of years spent as an external auditor in the Company	Since 2019
Total audit fees for the year 2021	AED 465,000
Fees and costs of other private services other than audit of the financial statements for the year 2021 (AED), if any, and in the absence of any other fees, to be stated clearly	n/a
Details and nature of the other services provided (if any) and in the absence of other services, to be stated clearly	PKF was requested to assess the Goodwill value

5. Audit Committee:

This committee was formed in accordance with the rules and regulations governing corporate governance. The board has also assigned the responsibility of Risk Management to the audit committee. The committee is formed of three members:

Mr. Waleed Al Sayegh	Chairman
Mr. Matar Al Blooshi	Member
Mr. Samer Katerji	Member

The committee submits its reports and recommendations to the Board of Directors.

The general duties of the committee are as follows:

- Adopt a policy for appointing and contracting with the external auditor.
- Reviewing and auditing the financial statements.
- Articulate the control and audit measures.
- Articulate fiscal and audit policies.
- Issue general audit reports
- Follow whistle blowing policies.
- Oversee insider trading.
- Consider assignments from the board of directors.

The corporate governance manual dictates the detailed duties and responsibilities of the committee.

b. Table with meeting dates and attendees:

Furthermore, appendix 2 contains the committee's meetings and attendance during the year.

6. Nominations and Remuneration committee:

This committee was formed in accordance with the rules and regulations governing corporate governance and is composed of three members:

Shk Mohammed Al Thani	Chairman
Sheikh Khalid Al Qassimi	Member
Mr. Waleed Al Sayegh	Member

The committee report to the board of directors its views and recommendations, and is responsible for the following tasks:

- A) Set the board's nominations policy, one that supports a mixed gender board.
- B) Manage the process of board nomination, in line with the rules and regulations governing it including SCA's Chairman's resolution number 7/2016.
- C) Ensure that independent directors continue to be independent for the duration of their terms of office.
- D) Articulate a policy governing board members remuneration, staff bonuses, benefits, incentives and salaries; this is to be reviewed on an annual basis.
- E) Review the board structure, and raise recommendations.
- F) Identify the company's needs of senior executive management, and other members of the management team and defining the criteria of selection.
- G) To annually review the human resources policies, and adopt the human resource policies and training, and ensure proper implementation.

The corporate governance manual contains details of the functions, duties and responsibilities of the committee. Appendix No. 3 contains a schedule of meetings with dates and attendance during the year.

8. Internal trading Supervision Committee:

The corporate governance manual covers the rules and regulations of insiders trading. It stipulates the windows allowed for their trade, and that any trade should not be based on information that is not yet available to the public. It also states the necessity to identify the traders' insider status to the broker to take the necessary approvals from the authorities.

The role of supervising insider trading is assigned to the audit committee.

9. The internal control system

The board confirms its full responsibility over the functionality and robustness of the internal control system.

Head of Internal Audit is Mr. Mohammed Al Basha.

Qualifications: He holds a bachelor's in accounting (1989) and Professional Certification in Audit from USA.

Date of appointment: 2013

The internal control system is an integrated system that imposes procedures, conditions and administrative laws, and monitors their practical implementation throughout the company's operations. This system is not a hindrance and an obstacle to the effectiveness of the work and speed of delivery and performance, but on the contrary, it ensures the company's development of effective performance and the effectiveness of risk management and internal control system.

The system measures the compliance with policies and procedures, protection of property, economic and effective use of resources. The Board has acknowledged its responsibility for internal control system in the company and the periodic review effectiveness.

Air Arabia has set up an "Internal Control Department" which is headed by Mr. Mohammed Al Basha, who is a chartered accountant and a certified internal auditor, with over 25 years of experience in the field of internal and external audit.

Mr. Al Basha joined Air Arabia at the start of 2013, carrying lengthy and valuable experience having served at international financial institutions.

Objectives of Internal Control department:

The overall Objective of the Internal Audit is to evaluate and improve the effectiveness of control, governance process and risk management within AIR ARABIA.

Internal Audit assists all members of the Management of the Company and the Board of Directors in the effective execution of their responsibilities. To this end, the department provides independent examinations, consultancy, investigations, evaluations, recommendations and comments on areas and activities reviewed. Furthermore, it works in partnership with management and adds value to the organization through advices, guidance and recommendations. The scope of activity extends to group / associate companies also.

Key Accountabilities:

Develop company-wide audit programs to assure protection of corporate assets and be responsible for ensuring the integrity of information; compliances with company policies, procedures and regulations; evaluation of organizational performance; optimization of opportunity / risk; best utilization of resources and formulation of internal control system.

Major duties include:

1. Develop and maintain Company-wide audit policies and practices.
2. Develop Company-wide internal audit plans and programs and Participate in and monitor execution of internal audits programs / assignments.
3. Ensure consistent application of corporate financial and accounting policies and practices.
4. Reviewing the reliability and integrity of the financial, operating and other management information systems and means used to identify measure, classify and report such information.
5. Reviewing the means of safeguarding assets and as appropriate verifying the existence of such assets.
6. Appraising the economy and efficiency with which company's resources are employed and identifying opportunities for improving operating performance.
7. Observe and review the proceedings/functions of various committees as required by Audit Committee so as to express an independent view.
8. Co-ordinate with External/statutory auditors.
9. Review and approve all significant changes in financial and accounting systems, practices and procedures to ensure that internal control.
10. Carry out investigations and audits as suggested by the Senior Management or by the CEO / Board of Directors, to determine the facts and causes of suspected irregularities.

11. Ensure that improvement to existing policies, practices and procedures are developed in order to improve the controls and to safeguard the assets of company.
12. Report to the Board, about the adequacy and effectiveness of the company's system of internal administrative, accounting and financial controls and the quality of operating performance when compared with established standards.
13. Follow-up the status of audit reports and recommendations and submit follow-up Report to the Board and the Audit Committee.
14. Design and schedule the Department's annual audit plans and implement them after Board approval.
15. Make presentation on audit activities and studies on company and subsidiary organizations as required by Audit Committee, Board of Directors / Management.
16. Prepare the Department's annual plans and capital and operating budgets and, once approved, control expenditure and staffing against these plans and budgets.
17. Exercise effective management of the Department's staff in terms of selecting, training, motivating, evaluating and disciplining in appropriate liaison with HR function.
18. To ensure that the resources of the departments are effectively utilized.
19. Fully responsible for co-source / outsource of audit assignments.

10.Details of violations committed.

There were no violations.

11. Air Arabia's commitment and contribution towards the society and environment:

Without any doubt, the company is part of the society, and cannot be disintegrated from it; and that is why Air Arabia does not only provide value for money convenient travel but also works hard to upgrade the lives of the people in need in the societies it operates within. The company achieves this by sharing the responsibility of these communities locally and regionally, and this plays an integral part of the company's success.

Air Arabia was among the first to introduce a sustainable CSR initiative by launching 'Charity Cloud' project in collaboration with Sharjah Charity International. The program aims in raising funds through certain initiatives such as on-board donations. The fund is raised, collected annually and re-invested in educational and medical care establishments in countries in need across Air Arabia network.

In a bid to improve existing services and assist those in need, Charity Cloud undertook multiple projects over the years. Several clinics were refurbished, and a continuous supply of necessities provided. Paying special attention to educating the leaders of tomorrow, Charity Cloud set up several educational centers and schools.

Apart from the health and educational projects across the region, Air Arabia has also worked on other social initiatives such as facilitation of the children's cancer clinic in Egypt.

The airline takes extreme care to people of determination, and assistance is always provided at airports and during travel. Accordingly, the company has set aside special services to cater to their needs and considered them in all infrastructure plans.

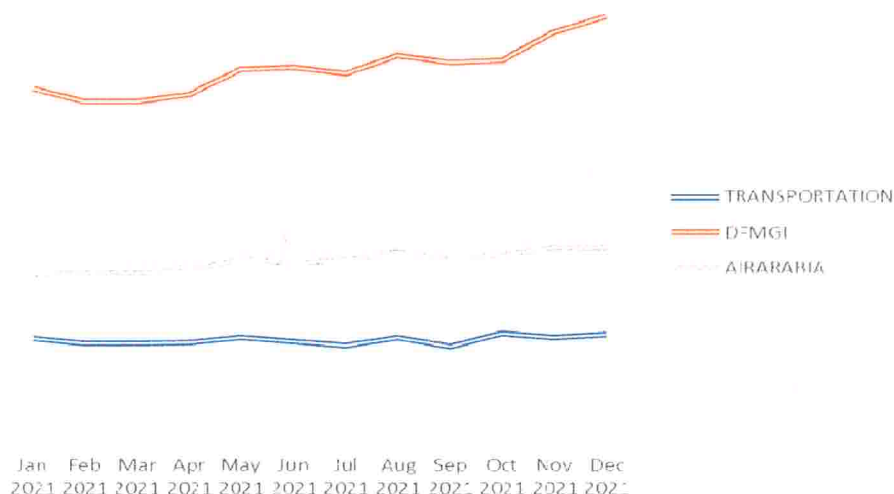
Finally, as an effort towards contributing to and preserving the environment, Air Arabia adopts a policy of acquiring only brand-new aircraft to the fleet to avoid unwanted emissions and reduce it to the minimum. The company also follows a policy of minimizing printed paper and heavily depend on recycled to preserve forests.

12. General Information:

a) Air Arabia Share price details by month end:

Month	Lowest Price	Highest Price	Closing Price	Month
Jan 2021 يناير	1.250	1.420	1.25	Jan 2021 يناير
Feb 2021 فبراير	1.200	1.290	1.26	Feb 2021 فبراير
Mar 2021 مارس	1.220	1.300	1.26	Mar 2021 مارس
Apr 2021 أبريل	1.240	1.340	1.28	Apr 2021 أبريل
May 2021 مايو	1.280	1.410	1.37	May 2021 مايو
Jun 2021 يونيو	1.320	1.400	1.33	Jun 2021 يونيو
Jul 2021 يوليو	1.320	1.380	1.36	Jul 2021 يوليو
Aug 2021 أغسطس	1.320	1.450	1.42	Aug 2021 أغسطس
Sep 2021 سبتمبر	1.330	1.430	1.36	Sep 2021 سبتمبر
Oct 2021 أكتوبر	1.310	1.410	1.4	Oct 2021 أكتوبر
Nov 2021 نوفمبر	1.360	1.750	1.45	Nov 2021 نوفمبر
Dec 2021 ديسمبر	1.400	1.510	1.45	Dec 2021 ديسمبر

b) Air Arabia Share price performance vs. market and sector during the year:



c) Air Arabia Ownership breakdown by year end:

Description الوصف	Citizenship الفئة	Quantity الكمية	Percentage النسبة المملوكة
BANK مصرف	ARAB	26,000	0.00%
BANK مصرف	GCC	5,800,500	0.12%
BANK مصرف	OTHERS	50,000	0.00%
BANK مصرف	UAE	132,594,371	2.84%
Company شركة	ARAB	1,485,416	0.03%
Company شركة	GCC	125,367,610	2.69%
Company شركة	OTHERS	560,777,524	12.02%
Company شركة	UAE	2,798,609,116	59.97%
Government حكومة	UAE	19,309,309	0.41%
Individual فرد	ARAB	74,008,903	1.59%
Individual فرد	GCC	110,289,818	2.36%
Individual فرد	OTHERS	56,472,846	1.21%
Individual فرد	UAE	771,638,745	16.53%
(SOLE PROPERTY) مؤسسة فردية	GCC	900,000	0.02%
(SOLE PROPERTY) مؤسسة فردية	OTHERS	304,600	0.01%
(SOLE PROPERTY) مؤسسة فردية	UAE	9,065,242	0.19%

d) Air Arabia shareholders owning 5% or above:

Investor's Name اسم المستثمر	QTY الكمية	% النسبة
Sharjah Asset Management LLC الشارقة لاداره الاصول ذ م م	865,904,256	18.55%
AL MAHA HOLDING COMPANY (FZE) المها القابضة	429,613,509	9.21%
East and West International Group مجموعه الشرق و الغرب العالميه ذ م م	280,266,779	7.9%
Bond Investments LLC بوند للاستثمارش.ذ.م.م	274,375,982	8.2%

e) **Shareholders Distribution by ownership:**

Tranche by number of shares owned	Number of Shareholders	Total shares owned to the tranche	Percentage to the Capital
Less than 50,000	11,535	148,658,106	3.186
50,000 to 500,000	1,707	234,633,573	5.028
500K to 5M	436	585,137,532	12.539
More than 5M	83	3,698,270,789	79.248
Total	13,761	4,666,700,000	% 100

f) **Step taken towards “Investors Relations”**

Air Arabia has long established a division for investor relations. Mr. Abdelrahman Bin Taliah currently heads it, along with the Group CEO, Group CFO and group Head of Marketing and Public Relations who together play a very vital role in the division’s activities.

Since its establishment as a publicly listed company, Air Arabia has placed great attention on the investor relations department. The department’s responsibility is split into 2 major areas: first is looking after and servicing retail and small investors through answering their queries, assisting in receiving their past dividends, explaining the investment process and updating their details with the market. The department has set a dedicated email for their service (investorrelations@airarabia.com) and hotline: 065088977, besides having all necessary details available on the IR page:

<http://www.airarabia.com/en/corporate-investor-relations>

On the other hand, the department also looks after high end, sophisticated investors such as fund manager, analysts, and financial institutions.

Moreover, Air Arabia holds a database of analysts, fund manager, investors and interested segment that is invited on a quarterly basis to a conference call where the Group CEO and Group CFO address them with the quarter update, followed by question-and-answer session.

g) **Extra Ordinary resolutions:**

None.

h) Board Secretary:

- Mr. Abdelrahman Bin Taliah
- Appointed in 2007
- Qualifications:
 - Masters Degree in Strategic Management and Leadership
 - Masters Degree in Project Management
 - Bachelors in Finance and Management
 - Certified Board Member by Hawkama
 - Certified Board Secretary by Hawkama
 - Graduate of UAE Federal Government Leadership Program
 - Graduate of Shk Mohammed Bin Rashid Leadership Program
- As a board secretary Mr. Bin Taliah is responsible to coordinate between the Board and the executive management, setting up the board meetings and distributing the necessary invitations and agenda packs, and keeping custody of the minutes and resolutions passed. Furthermore, Mr. Bin Taliah's duties as board secretary are separate from his other daily duties as he overlooks International Affairs, Government Relations, Investor Relations, and some of the group subsidiaries.

i) Major events in 2021:

2021 witnessed a general recovery of COVID19 impacts. The following list highlights Air Arabia's major events during the year:

Q1

- Air Arabia Egypt resumed flights from Alexandria to Doha
- Air Arabia resumed flights to Doha
- Air Arabia chose Amadeus technology for its ground services
- Air Arabia resumed flights to Colombo
- Air Arabia reported Q4 2020 net profit of AED 20 million
- Air Arabia resumed flights to Luxor
- Air Arabia Egypt announced direct flights from Cairo to Muscat
- Air Arabia Maroc launched 12 new routes in the summer schedule
- Air Arabia Maroc launched new route connecting Toulouse with Oujda in Morocco
- Air Arabia participated in the Arab Aviation Summit

Q2

- Air Arabia resumed flights to Trabzon
- Air Arabia Abdu Dhabi launched new route to Tashkent
- Air Arabia resumed seasonal flights to Batumi
- Air Arabia resumed flights to Sarajevo

- Approval of the financial year 2020 at the AGM
- The delivery of one new Airbus A321-200neo LR to Air Arabia
- Air Arabia's Air Rewards and Etihad Guest partnered to offer exclusive benefits.
- Air Arabia Egypt launched new route from Cairo to Bahrain
- Air Arabia resumed flights to Moscow
- Air Arabia resumed flights to Bishkek
- Air Arabia resumed flights to Almaty
- Air Arabia Egypt introduced new route from Sharm El Sheikh to Jeddah
- Air Arabia resumed flights to Prague
- Air Arabia launched new route from Sharjah to Sharm El Sheikh
- Air Arabia resumed flights to Vienna
- Air Arabia reported AED 34 million in Q1 2021
- Air Arabia Egypt launched new route from Sharm El Sheikh to 3 cities in Italy
- Air Arabia Abu Dhabi launched new route to Sarajevo, Tbilisi, Trabzon, Yerevan
- Air Arabia Egypt launched new route from Cairo to Al Jouf
- Air Arabia Egypt launched 3 new domestic routes; Cairo to Sharm El Sheikh, Alexandria to Hurghada, Cairo to Hurghada.
- Air Arabia resumed flights to Baku
- Air Arabia resumed flights to two airports in Istanbul
- Air Arabia launched new route to Tirana
- Air Arabia launched new route to Phuket
- Air Arabia Maroc resumed flights to Europe (Geneve, Eindhoven, Murcia)
- Air Arabia launched new route from Sharm El Sheikh to Armenia

Q3

- Air Arabia Abu Dhabi launched new route to Baku
- Air Arabia and ANIF signed agreement to launch Armenia's national airline
- Air Arabia reported AED 44 million for Q2 - 2021
- Air Arabia announced "FlyArna" Armenia's national airline
- Lakson Group and Air Arabia signed agreement to launch Pakistan's new airline
- Air Arabia resumed flights to KSA
- Air Arabia Egypt launched new route from Cairo to Aswan

Q4

- Air Arabia launched new route to Entebbe
- Air Arabia Maroc launched new route from Oujda to Brussels
- Air Arabia celebrated 18th anniversary with the launch of a new uniform

- Air Arabia reported net profit of AED 209 million in Q3 2021.
- Air Arabia showcased a special livery commemorating the UAE's 50th anniversary at the DAS
- Air Arabia Abu Dhabi launched new routes to three cities in India
- Air Arabia Abu Dhabi launched a new route to New Delhi
- Air Arabia Maroc launched new route to two airports in Istanbul
- Air Arabia Maroc launched new route from Fez to Istanbul
- Air Arabia Egypt launched new route from Cairo to Khartoum
- Air Arabia announced the participation in Arab Aviation Summit as a strategic partner.

j) **UAE Nationals Percentage:**

Air Arabia welcomes UAE nationals to explore all available vacancies and encourages them to join the aviation sectors which embraces within it several very exciting fields. Within Air Arabia, UAE nationals are concentrated in various department. Some are located at Head Office managerial posts, the operations division also host a number of UAE national pilots, and the Engineering and Maintenance team also comprises of very talented, hard working UAE nationals.

Even though 50% of Air Arabia's workforce consists of Cabin Crew, Technicians, and call center agents, these areas do not fall under the radar of interest of UAE nationals today.

Year	Total Staff Number	Number of Cabin Crew, Technicians, and Call Center	UAE Nationals	Percentage of UAE nationals less CC, Tech, and Call Center
2019	2100	1100	22	2.2%
2020	1353	678	20	2.95%
2021	1498	795	19	2.39%

k) Innovations During the year:

2021 witnessed the continuation of the company's efforts to contain and absorb the repercussions of COVID 19 pandemic. The management team focused on the business continuity followed by the gradual and cautious resumption of commercial operation, which is clearly reflected on the year ends result.



**Abdullah Bin
Mohammed Al Thani
Chairman of the
Board**



**Waleed Al Sayegh
Chairman
Audit Committee**



**Mohammed Bin
Abdullah Al Thani
Chairman
Remuneration
Committee**



**Mohammed Al Basha
Head of Internal
Audit**

• Appendix 1

Meetings Dates & Attendees of Air Arabia Board of Directors during the year “Y”, “N”

Board Meeting number	Date	Shk. Abdullah	Adel Ali	Shk. Mohammed	Shk Khalid	Waleed	Matar	Samer
1	14.1.2021	Y	Y	Y	Y	Y	Y	Y
2	10.2.2021	Y	Y	Y	Y	Y	Y	Y
3	9.5.2021	Y	Y	Y	Y	Y	Y	Y
4	12.7.2021	Y	Y	Y	Y	Y	Y	Y
5	9.8.2021	Y	Y	Y	Y	Y	Y	Y
6	10.11.2021	Y	Y	Y	Y	Y	Y	Y
7	29.12.2021	Y	Y	Y	Y	Y	Y	Y

• Appendix 2

Meetings Dates & Attendees of the Audit Committee and attendance: “Y”, “N”

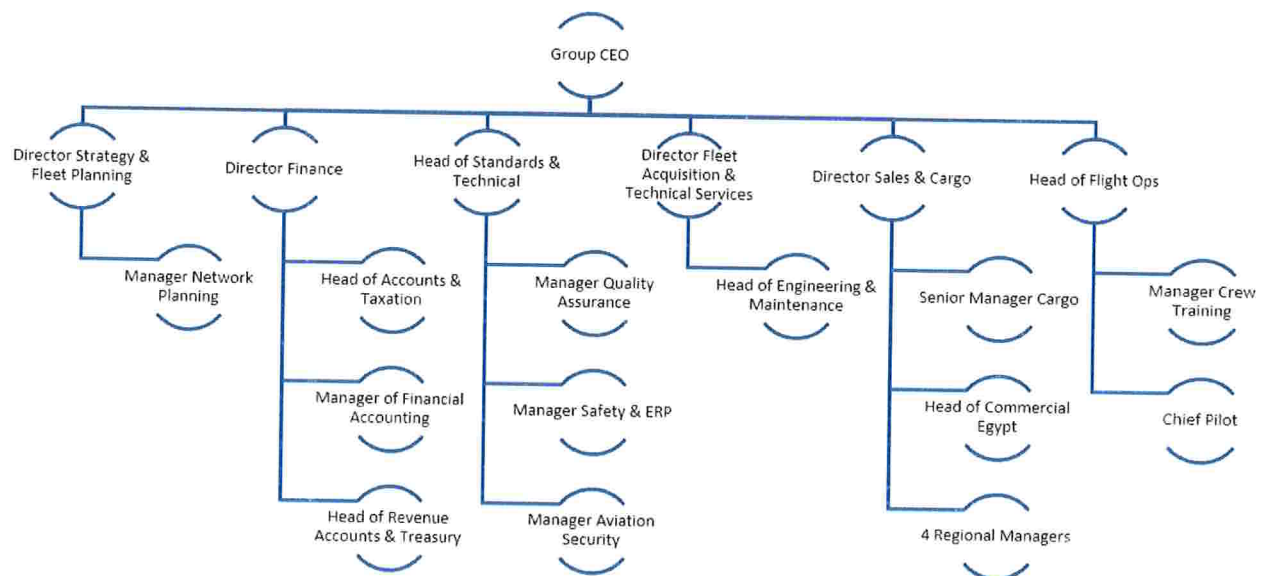
Audit Committee Meeting	Date	Waleed	Matar	Samer
1	10.2.2021	Y	Y	Y
2	9.5.2021	Y	Y	Y
3	9.8.2021	Y	Y	Y
4	10.11.2021	Y	Y	Y

• Appendix 3

Meetings Dates & Attendees of the Committee on Nominations and Remuneration: “Y”, “N”

Remuneration Committee Meeting	Date	Shk Mohammed	Shk Khalid	Waleed
1	10.2.2021	Y	Y	Y

• Appendix 4





Environmental, Social and Governance (ESG) Report

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1. Foundation

1.1. Introduction

Environmental, social and governance (ESG) matters are fundamental part of human life. They have also become a more conscious and explicit part of business life. This report provides an initial snapshot of where Air Arabia stands on ESG performance.

Air Arabia is the first publicly listed airline in the Middle East and North Africa region providing the carrier an independent path to growth and profitability; as part of its Investor Relations, Air Arabia is keen to provide insights about the performance not only through annual reports but through the ESG reports that will help investors form their investment decisions and helps Air Arabia gain exposure to a wider range of regional and international investors.

The ESG reports identify strengths and opportunities for improvement at Air Arabia. What is most important is that they will assist the Board and Management in establishing rational priorities going forward and provide benchmarks for measuring improvement.

1.2. Message from Air Arabia Group

Air Arabia (PJSC), listed on the Dubai Financial Market, is the Middle East and North Africa's leading low-cost carrier (LCC) operator. Air Arabia commenced operations in October 2003 and currently operates a total fleet of 58 new Airbus A320 and A321 aircraft, serving some 170 routes from five hubs in the UAE (Abu Dhabi, Sharjah, RAK), Morocco and Egypt. Air Arabia is an award-winning airline that focuses on offering comfort, reliability, and value-for-money air travel. Air Arabia today consists of a group of airlines and companies offering travel and tourism services across the globe.

OUR VISION: "To be one of the world's leading budget airlines" in terms of:

- Profit Margin • Innovation • Reputation • Operational Excellence

OUR MISSION: "To revolutionize air travel in the region through an innovative business approach offering superb value for money and a safe, reliable operation" to achieve this,

- We will be known for our low fares • Grow our business profitably • Build motivated multi-functional teams • Demonstrate the highest operational standards • Manage our costs ruthlessly

Air Arabia is not only committed to providing affordable air travel but is also dedicated to uplifting the lives of those who are less fortunate. Taking responsibility and lead on social needs of local and international communities has been part of our success.

To that end the carrier has implemented an award winning corporate social responsibility (CSR) program for sustainable development with an emphasis on providing better education and healthcare for underprivileged communities.

1.3. *Our Approach to ESG*

Air Arabia is developing a holistic approach to sustainability across the five hubs which lead to underline why understanding, anticipating, and effectively managing environmental, social and governance (ESG) matters is critical to delivering on our mission to serve our clients, customers, and communities.

Air Arabia strive to provide clear, transparent information about how we manage and address the range of ESG issues we encounter in our business.

Since ESG issues touch nearly every aspect of our business, day-to-day management of the individual elements is distributed throughout our operations and functions. As part of our effort to take a more integrated approach to ESG management, we have recently taken steps to enhance our leadership and coordination of ESG efforts and reconsider the way these issues are overseen by our Board of Directors. We provide a wide range of updates to our shareholders at AGM to reconsider the way these issues are overseen as well as providing timely disclosures to relevant investors and lenders, promptly makes its financials available to all stakeholders, and is expanding its ESG reporting

Air Arabia is maintaining strong engineering team looking after MRO needs of the aircrafts, which has become a key part of the airline's remarkable success story. This facility and its staff, equipment, stores, materials, and workshops are all 100% dedicated to the Airbus A320 family. Air Arabia integrate sustainable solutions to reduce the carbon footprint with four focus areas: reducing energy usage in facilities (offices); reducing business travel impact, managing e-waste, water conservation, pollution certificate etc.

Air Arabia's approach is in full compliance with the SCA and DFM requirements of issuing reports in accordance with the GRI Standards and in alignment with DFM ESG disclosure guidance. ESG matters are important consideration in how we do business, including our corporate governance systems that runs at every level in the organization, risk management and methodology to serve customers and support for local communities. Our main driver is the sustainability and efficiency embedded in the culture and management of the airline. Equally important, we believe that the core items that are critical of our ESG approach are practiced across the organization through efficient operations and environment friendly practices. For Air Arabia, this means we are leveraging our business and policy expertise, and presence to help drive an inclusive recovery, expand, and accelerate sustainability.

2. Environmental

Air Arabia is proactive on multiple fronts to minimize our facilities' environmental footprint and reduce natural resource consumption. This includes meeting and exceeding the requirements of air quality, water and waste standards, recycling and managing our energy usage.

Air Arabia use technological advancements to improve operations, products, services, and solutions for the benefit of the society. For many years we have been working on reducing the emissions by using less fuel as a response to the energy conservation act. Air Arabia is taking steps to mitigate the emission of fuel, including progressively transitioning its fleet with an average age of 4 to 5 years to the newest and most fuel-efficient aircraft on the market today and disposing of older, less fuel-efficient aircraft.

Air Arabia recognizes the considerable impact of its air transportation business on the environment and is working to reduce that environmental impact and protect the environment through a range of measures in all aspects of its business activities. Air Arabia collaborates with different organizations to advance sustainable development as well as raising awareness about sustainability among employees by engaging in activities that has positive socio-economic impacts and promotes the vision of the company.

Air Arabia is effectively using limited resources through promoting the 3Rs (Reduce, Reuse, Recycle) on board by providing inflight bag across the entire fleet and applying the same in the offices. We continue to conduct activities such as reducing printed manuals, recycling beverage cans from aircraft cabins and offices. We strive to minimize our direct impacts on the environment while concurrently enhancing our services and solutions to help customers to improve their environmental and carbon performance toward meeting their sustainability objectives.

2.1. Emissions and Climate Change

While the aviation industry is not the highest contributor to global emissions, it does make a significant contribution to the global response to climate change as well as emissions from flights that stay in the atmosphere and warm it for several centuries. Because aircraft emissions are released high in the atmosphere, they have a potent climate impact, triggering chemical reactions and atmospheric effects that heat the planet.

Climate change is a pressing global challenge, Air Arabia recognizes that responding to climate change is a particularly important issue for the sustainability of society. That is why we have incorporated climate change goals in our operations by adopting a policy of adding only brand-new aircraft that includes both Airbus 320 and Airbus 321 neo LR to our fleet with four years average

fleet age to avoid unwanted emissions. While ambition is important, we know that what matters most is that we have a clear roadmap — with both a long-term vision and intermediate milestones — for how we will achieve it.

Efficiencies gained through operational improvements can make a big difference. At every step of a plane's operations there are opportunities to reduce fuel burn and consequently, emissions. Adopting a fleet strategy that consists of new aircraft is considered a key component of emission reduction, if not the most important element. Newer fleets are more fuel efficient and new aircraft also reduce maintenance costs which eventually contributes to less emissions and higher efficiency. We also save fuel through more efficient procedures and weight reduction measures. These can range from ensuring the plane's engines are clean to developing and using new arrivals procedures. For example, we taxi to the runway using just one engine instead of two.

Airports, airlines and air navigation service providers are also working together on so-called 'green departures' where aircraft can take off and climb at a steady rate to reach the most efficient phase of flight – the cruise – faster.

Despite their size, aircraft still burn less fuel when they have less weight on board, so airlines are finding ways to reduce the weight of a vast array of items carried – everything from food service trolleys to seats and carpets, to loading just the right amount of water for each flight, rather than filling the tanks each time. This results in significant savings, and we are considered one of the leading airlines worldwide adopting such measures.

OPERATIONAL EFFICIENCY OPPORTUNITIES



Carefully tailored techniques, which take advantage of sophisticated navigation technologies, are also being developed to determine the most appropriate flightpaths into airports, specifically those with difficult runway approaches – either in mountainous areas or to avoid flying over communities. These approach techniques can save millions of fuel tonnes and CO₂, as well as reducing the impact of aircraft noise around airports.

2.2. Waste Management and Recycling

Solid waste management and disposal is one of the most significant issues in the environmental management of the airline industry. The economically sound and environmentally acceptable disposal of municipal solid waste is a major concern in many industrialized countries.

In 2015 Air Arabia has signed an MOU with Bee'ah – the leading environmental management company in Sharjah. The MoU will have Air Arabia and Bee'ah collaborate and share knowledge and expertise in several key areas relating to both commercial activities and corporate social responsibility (CSR) projects.

As part of its dedication to the environment, Air Arabia works with Bee'ah to enhance its green credentials, augmenting its programme of recycling and waste disposal. It is anticipated that the MoU will encourage sustainable environmental practices to help engender a more prosperous and greener Sharjah.

Bee'ah supplied the recyclables collection containers such as Desk-side blue recycling bins to be placed at Air Arabia Head offices to develop and promote green offices and to encourage people to become more environmentally friendly and to promote recycling: paper, newspapers, cardboard, bottles, cans, plastic, and all other garbage. Additionally, all industrial waste generated by Air Arabia's maintenance hangar is collected and recycled in Bee'ah's world class waste management facility.

As part of the MOU, Bee'ah has endorsed a Recycle awareness campaign to promote the Reduce, Reuse and Recycle making sure to receive all recyclables and handle materials according to the environmental regulation and standards.

Moreover, installing the reverse vending machine (RVM) in Air Arabia's head office; which is a device that takes empty and used bottles or cans, then returns money or other forms of incentivization to the recycler, depending on the quantity of receptacles recycled.

2.3. Indoor Quality

It is a real challenge to provide a quality indoor environment at a reasonable energy cost. Current efforts to improve building energy efficiency, including goals of sustainability and net-zero energy use, are bringing more focus on how to simultaneously achieve energy efficiency and good indoor air quality (IAQ). While energy efficiency and IAQ are sometimes viewed as incompatible, there are many strategies than support both ends.

Air Arabia focuses on the quality of indoor air as it is initial to health and wellbeing through incorporating the environmental guidelines and operating platforms in the design of the aircraft in

the early stages. Our fleet is equipped with high-protection HEPA filters that efficiently remove 99.99% of viruses and bacteria in the air. Air Arabia combines all new developments with standards and energy efficiencies that meet best in class practices and consider filtration, relative humidity, fresh air, and temperature control to ensure consistently high levels of air quality.

3. Social

3.1. Ethics and Human Rights

Ethics and integrity are considerable components of entrepreneurial practice at Air Arabia. It is a matter of fact for the Group to adhere to current laws and voluntary commitments, and to consciously respect ethical principles. An important consideration is that business conduct characterized by integrity is a key prerequisite for the Company's long-term success.

Air Arabia has focused on many corporate social responsibility projects and initiatives around the world as part of its dedication towards the community and the environment. The main objective of these projects and initiatives is to improve the quality of life for children, provide healthcare for elderly and raise funds to support communities.

"Charity Cloud" was implemented in 2007, as part of Air Arabia's CSR program, in collaboration with the Sharjah Charity International, to support economic development of underprivileged communities around the world. "Charity Cloud" is built on donations from passengers on-board and employees. The money raised from this charity is re-invested in educational and medical care establishments in different countries around the globe. Air Arabia also has a sport sponsoring program and a partnership with "Sharjah Humanitarian City" to help underprivileged communities.

Additionally, Air Arabia partnered with the Sharjah Humanitarian City (SHC) to help people of determination who are flying with the airline and to assist them at airports.

3.2. Team Building

Air Arabia depends on the dedication of our talented team members, who are committed to provide best-in-class service and reliability for our customers. Our culture is defined by our core values, which impact how we interact with each other, our users, our communities, and other stakeholders every day.

For an organization that is home to 90 different nationalities working together, Air Arabia is keen to provide a workplace that is inspiring, motivating, and above all, respectful. Across all our buildings, we incorporate high ceilings, natural light, and good ventilation to support the comfort and health of our users and employees.

Another aspect of team building is the continuous learning and motivation of the employees by understanding what motivates employees, identifying opportunities to improve processes and systems. Continual education and training are seen as a large part of Air Arabia's employees' development and growth through our dedicated Learning and Development (L&D) department as well as our training schools. We offer a variety of opportunities for team members to continue to develop their skills and remain up to date with industry trends.

3.3. Community Engagement

At Air Arabia, our purpose is to advocate people on life's journey – a mission that revolutionize air travel in the region through an innovative business approach offering superb value for money and a safe, reliable operation

Community engagement is important and can lead to great outcomes, Air Arabia believes in responsibility towards team members and users, who, in turn, share their aspirations, concerns and values.

We achieve community engagement through various initiatives across multiple countries. Such initiatives are driven by staff and include employees from different departments and positions within the organization. An example to such community initiatives is when Air Arabia collaborated with Sharjah Social Empowerment; a foundation that helps renovate the homes of those who are in need. A team of 14 Air Arabia employees helped renovate the house of a widow and her 3 children in Sharjah. The employees joined hands with social workers and on-site professionals to take the project forward and complete the task. Another initiative involved a trip to Bangalore in India and included employees who visit 2 orphanages and a home for the elderly. Air Arabia staff visited the sites during which clothes, dates and basic necessities, from food to soap, were distributed. Another initiative took place in Egypt where to young Egyptian children, Mahmoud and Jana, who are patients at the 57357 Children's Cancer Hospital in Egypt, have realized their dreams of taking to the skies, thanks to an initiative by Air Arabia staff. Air Arabia staff are involved in tens of initiatives every year and so far, covered over 15 countries since the start.

4. Governance

Air Arabia has been one of the leading companies in applying the principles of corporate governance among the public companies. Air Arabia strongly believes in the importance of the practical application of governance practices and the strong adherence to the related laws & regulations and the operations within the general framework of the principles of corporate governance which preserves the rights and interests of the company, its investors, its management, and the investment environment surrounding it.

Therefore, Air Arabia, and all its subsidiaries and group companies are committed to all laws and regulations imposed upon them as a global aviation and as a public joint stock company. This covers the Commercial Companies Law number 2 of 2015 and law number 26 of 2020 pertaining to commercial companies. The company is also committed to the strict application of Ministerial Decree No. (518) for the year 2009 followed by the resolution number 7 for the year 2016, and resolution number 3 of 2020 issued by the Minister of Economy and Chairman of the Securities and Commodities Authority regarding corporate governance and corporate discipline, and any decisions that may be issued or amended in future. This cultivates confidence of those major investment bodies around the globe to occupy a position within the owners of Air Arabia.

4.1. Board of Directors

Air Arabia board of directors consists of 7 board members. The current board was appointed by the AGM of 2020 for three years:

1. Sheikh Abdullah Bin Mohammed Al Thani - Chairman of the Board
2. Adel Abdullah Al Ali - Executive member
3. Sheikh Mohammed Bin Abdullah Al Thani - Independent member
4. Sheikh Khalid Bin Issam Al Qassimi - Independent member
5. Waleed Ibrahim Al Sayegh - Independent member
6. Matar Al Blooshi - Independent member
7. Samer Katerji - Independent member

4.2. Board Code of Ethics

Air Arabia is fully committed to the highest standards of ethical conduct in running its business and in the personal behavior of its employees, members of the Senior Management Group and members of the board of directors and has issued this Code to provide guidance for you, as an employee to uphold these standards.

This Code covers all individuals working for Air Arabia at all levels and grades including directors, senior managers, members of the Senior Management Group, employees (including permanent, temporary, and part-time employees), trainees, home workers, agency staff and contractors (collectively referred to as employees in this Code).

Air Arabia's code of ethics includes the following:

- a) Conflicts of interest
- b) Protection of confidential information and other assets
- c) Disclosure and compliance with Listing Rules
- d) Compliance with laws, rules, and regulatory regimes
- e) Reporting
- f) Money laundering and terrorist financing
- g) Competition and fair dealing
- h) Interaction with media shareholders
- i) Personal Conduct

4.3. *Corporate Governance Policies*

Air Arabia is dedicated to keeping its shareholders fully informed of developments and important information affecting the Company. Air Arabia endeavors to ensure that all shareholders have access to information about the Company's business and that they have the opportunity to meet and hold positive discussions with the board of directors during the Company's General Assembly.

At present, Air Arabia uses the following channels to provide its shareholders with information about the Company:

1. In the agenda, explanatory notes and the directors and auditors' financial statements reports accompanying the notice of the Company's Annual General Assembly.
2. At the Annual General Assembly where the shareholders can direct questions to the Chief Executive Officer, to the Chairman of the board of directors and to the external auditors about anything concerning the Company's business.
3. In disclosures made to the Dubai Financial Market and the Emirates Securities and Commodities Authority.
4. At the "Investor Relations" section on Air Arabia's website –www.airarabia.com which contains the following information:
 - Quarterly financial statements
 - Studies and reviews on Air Arabia
 - Updated information about the board of directors
 - Press releases
 - The governance report and information about corporate governance in general
 - Information regarding the last Annual General Assembly.
 - In at least 3 to 4 road shows and conferences locally and internationally to advise the public on its latest updates

- In the Annual report in both hard copy and soft copy which is available online for the public
- At the end of every quarter via a conference call with Air Arabia investors which is attended by the Chief Executive Officer and Director of Finance.

-END-