

**Air Arabia PJSC  
and its subsidiaries**

Consolidated financial statements  
For the year ended December 31, 2020

**Air Arabia PJSC and its subsidiaries  
Consolidated Financial Statements  
For the year ended December 31, 2020**

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### Board of Directors Report 2020

Despite a very strong January of 2020, supported by strong demand and built on a solid 2019 performance, the sovereign decisions to combat the spread of COVID19 turned that head start upside down.

2020 has been one of the most difficult years, if not the most, on the aviation and tourism industry due to the unprecedented lockdown measures, restrictions, and precautionary measures. This has directly led to the bankruptcy of many airlines worldwide and forced governments to bail out and inject liquidity to save airlines globally.

To circumvent that, the board of directors and the executive management have worked hard and have taken swift, decisive, and sometimes extreme decisions to control and minimize the damage caused by the pandemic. The company has embarked on its long and strong relationship with its suppliers and financiers to renegotiate all expenses and cash outflows to preserve liquidity. The company reduced internal overheads and rearranged the workforce to keep up with turbulent circumstances.

We are proud to say that those efforts have successfully helped reduce expected net losses significantly. It preserved liquidity, which is of essence during such times. It is also important to state that the company have placed the health and safety of our passengers and employees as top priority, during the slow and limited resumption of business.

We have also been coordinating with the local health authorities to have the group employees vaccinated against COVID 19, as part of the UAE government's initiative.

While we have seen the start of the gradual recovery and the return of flights to some of the regional destinations, the board and the executive management continue to monitor the situation closely, and any sovereign decisions made by different countries pertaining to the pandemic while, at the same time maximizing every possible revenue opportunity. We hope that 2021 reflects a year of health, and a year of recovery for the aviation, and tourism sector.

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## **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, 2020, 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, 2020, 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, 2020. 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, 2020 aircraft assets with a carrying value of AED 5,496 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 2020 with the passenger revenue for 2019 and understood the reasons for the variance taking into consideration key performance indicators for both 2020 and 2019;
- For cargo revenue, we have tested the revenue per ton carried for 2019 and developed an expectation for 2020 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, 2020, the total fair value of the Group's cash flow hedge instruments, obtained from counterparties, is a net liability of AED 625 million.



## **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 1,380 million as at December 31, 2020. 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, 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.





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## **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, we report that:

- i) we have obtained all the information and explanations we considered necessary for the purposes of our audit;
- ii) the consolidated financial statements have been prepared and comply, in all material respects, with the applicable provisions of UAE Federal Law No. (2) of 2015;
- iii) the Group has maintained proper books of account;
- iv) the financial information included in the Directors' report, in so far as it relates to these consolidated financial statements, is consistent with the books of account of the Group;
- v) as disclosed in Note 1 to the consolidated financial statements, the Group has purchased new shares during the year ended December 31, 2020;
- 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, 2020 any of the applicable provisions UAE Federal Law No. (2) of 2015 or of the Company's Articles of Association, which would materially affect its activities or the Group's financial position as at December 31, 2020; and
- viii) Note 28 to the consolidated financial statements discloses the social contributions made during the financial year ended December 31, 2020.



**GRANT THORNTON**

**Osama El Bakry**  
**Registration No. 935**  
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**10 FEB 2021**

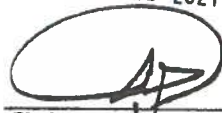


**Air Arabia PJSC and its subsidiaries  
Consolidated Financial Statements**

**Consolidated statement of financial position  
As at December 31, 2020**

	Notes	2020 AED'000	2019 AED'000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property and equipment	5	6,367,172	6,866,167
Right-of-use assets	6	575,262	368,777
Advance for new aircraft	7	360,281	360,281
Investment properties	8	105,970	124,970
Net investment in lease	14	32,008	46,284
Intangible assets	9	1,324,106	1,312,472
Deferred charges	10	33,476	31,561
Investments at fair value through other comprehensive income	11	10,772	11,082
Investments in associates and joint ventures	12	92,657	77,593
		<b>8,901,704</b>	<b>9,199,187</b>
<b>Current assets</b>			
Inventories		25,568	23,496
Trade and other receivables	14	526,786	616,777
Other investments	16.1	50,000	168,374
Bank balances and cash	16	3,148,943	2,806,452
		<b>3,751,297</b>	<b>3,615,099</b>
<b>TOTAL ASSETS</b>		<b>12,653,001</b>	<b>12,814,286</b>
<b>EQUITY AND LIABILITIES</b>			
Share capital	17	4,666,700	4,666,700
Statutory reserve	18	577,475	577,475
General reserve	19	16,473	94,543
Other reserves		(560,549)	(122,753)
(Accumulated losses)/retained earnings		(192,183)	341,933
<b>Total equity</b>		<b>4,507,916</b>	<b>5,557,898</b>
<b>Non-current liabilities</b>			
Provision for staff termination benefits	20	131,384	145,129
Trade and other payables	21	1,766,116	1,061,323
Finance lease liabilities	23	3,072,643	3,164,538
		<b>4,970,143</b>	<b>4,370,990</b>
<b>Current liabilities</b>			
Deferred income		301,400	351,525
Trade and other payables	21	1,661,950	1,653,721
Short term bank borrowings	24	551,948	352,216
Finance lease liabilities	23	659,644	527,936
		<b>3,174,942</b>	<b>2,885,398</b>
<b>Total liabilities</b>		<b>8,145,085</b>	<b>7,256,388</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>12,653,001</b>	<b>12,814,286</b>

These consolidated financial statements were approved and authorised for issue by the Board of Directors on 10 FEB 2021 and signed on their behalf by:



Chairman



Chief Executive Officer



For Director of Finance

The accompanying notes from 1 to 39 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, 2020**

	Notes	2020 AED'000	2019 AED'000
Revenue	26	1,850,966	4,758,499
Direct costs	27	<u>(1,800,242)</u>	<u>(3,509,470)</u>
<b>GROSS PROFIT</b>		<b>50,724</b>	<b>1,249,029</b>
Administrative and general expenses	28	(196,361)	(233,007)
Selling and marketing expenses	29	(34,427)	(83,474)
Finance income		101,989	95,574
Finance costs		(138,070)	(128,906)
Share of (loss)/profit on investments in associates and joint ventures	12	(15,933)	32,415
Other income, net	30	<u>39,895</u>	<u>76,444</u>
<b>(LOSS)/PROFIT FOR THE YEAR</b>		<b><u>(192,183)</u></b>	<b><u>1,008,075</u></b>
<i>(Loss)/profit for the year attributable to:</i>			
Owners of the Company		(192,183)	990,168
Non-controlling interests		-	17,907
		<u>(192,183)</u>	<u>1,008,075</u>
<b>Basic and diluted (losses)/earnings per share (AED)</b>	31	<b><u>(0.04)</u></b>	<b><u>0.21</u></b>

The accompanying notes from 1 to 39 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, 2020**

	Note	2020 AED'000	2019 AED'000
(Loss)/profit for the year		<u>(192,183)</u>	<u>1,008,075</u>
<b>Other comprehensive (loss)/income</b>			
<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	(310)	891
<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>(437,486)</u>	<u>206,099</u>
<b>Total other comprehensive (loss)/income for the year</b>		<u>(437,796)</u>	<u>206,990</u>
<b>TOTAL COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR</b>		<u>(629,979)</u>	<u>1,215,065</u>
<b>Total comprehensive (loss)/income for the year attributable to:</b>			
Owners of the Company		(629,979)	1,197,158
Non-controlling interests		-	17,907
		<u>(629,979)</u>	<u>1,215,065</u>

The accompanying notes from 1 to 39 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, 2020**

	Share capital AED'000	Statutory reserve AED'000	General reserve AED'000	Other reserves		Retained earnings/ (accumulated losses) AED'000	Total attributable to Owners Company AED'000	Non- controlling interests AED'000	Total AED'000
				Cumulative change in FVOCI AED'000	Cash flow hedge reserve AED'000				
As at January 1, 2020	4,666,700	577,475	94,543	5,421	(128,174)	341,933	5,557,898	-	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)	-	(420,003)
Loss for the year	-	-	-	-	-	(192,183)	(192,183)	-	(192,183)
Other comprehensive loss for the year	-	-	-	(310)	(437,486)	-	(437,796)	-	(437,796)
<b>Total comprehensive loss for the year</b>	-	-	-	(310)	(437,486)	(192,183)	(629,979)	-	(629,979)
As at December 31, 2020	<b>4,666,700</b>	<b>577,475</b>	<b>16,473</b>	<b>5,111</b>	<b>(565,660)</b>	<b>(192,183)</b>	<b>4,507,916</b>	<b>-</b>	<b>4,507,916</b>

The accompanying notes from 1 to 39 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, 2020**

	Share capital AED'000	Statutory reserve AED'000	General reserve AED'000	Other reserves			(Accumulated losses)/ retained earnings AED'000	Total attributable to Owners of the Company AED'000	Non- controlling interests AED'000	Total AED'000
				Cumulative change in FVOCI AED'000	Cash flow hedge reserve AED'000					
As at January 1, 2019	4,666,700	482,932	426,155	4,530	(334,273)	(732,713)	4,513,331	72,267	4,585,598	
Adjustment on initial application of IFRS 16	-	-	-	-	-	(2,232)	(2,232)	-	(2,232)	
Adjusted balance as at January 1, 2019	4,666,700	482,932	426,155	4,530	(334,273)	(734,945)	4,511,099	72,267	4,583,366	
Profit for the year	-	-	-	-	-	990,168	990,168	17,907	1,008,075	
Other comprehensive income for the year	-	-	-	891	206,099	-	206,990	-	206,990	
Total comprehensive income for the year	-	-	-	891	206,099	990,168	1,197,158	17,907	1,215,065	
Transfer to reserves	-	94,543	94,543	-	-	(189,086)	-	-	-	
Ownership changes in a subsidiary (Note 25)	-	-	-	-	-	(150,359)	(150,359)	(86,641)	(237,000)	
Deconsolidation of a subsidiary (Note 1)	-	-	-	-	-	-	-	(3,533)	(3,533)	
Absorption of accumulated losses through general reserve (Note 19)	-	-	(426,155)	-	-	426,155	-	-	-	
As at December 31, 2019	4,666,700	577,475	94,543	5,421	(128,174)	341,933	5,557,898	-	5,557,898	

The accompanying notes from 1 to 39 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, 2020**

	Notes	2020 AED'000	2019 AED'000
<b>OPERATING ACTIVITIES</b>			
(Loss)/profit for the year		(192,183)	1,008,075
<i>Adjustments to reconcile (loss)/profit to net cash flows:</i>			
Depreciation and amortization	5,6,9,10	598,495	558,947
Provision for staff terminal benefits	20	25,112	22,299
Allowance for expected credit losses for trade and other receivables	28	14,856	24,054
Ineffective portion of cash flow hedge	22	66,620	-
Write off of intangible assets	9	3,211	-
Loss/(gain) on sale of property and equipment		1,090	(3,662)
Provision for impairment of investment property	8	19,000	-
Share of loss/(profit) on investments in associates and joint ventures	12	15,934	(32,415)
Finance income		(101,989)	(95,574)
Finance costs		138,070	128,906
Operating cash flows before changes in working capital		588,216	1,610,630
<i>Changes in working capital:</i>			
Inventories		(2,072)	(2,867)
Trade and other receivables		89,985	122,246
Trade and other payables		198,154	283,581
Deferred income		(50,125)	86,562
<b>Cash from operations</b>		<b>824,158</b>	<b>2,100,152</b>
Staff terminal benefits paid	20	(38,857)	(6,914)
<b>Net cash flow from operating activities</b>		<b>785,301</b>	<b>2,093,238</b>
<b>INVESTING ACTIVITIES</b>			
Acquisition of non-controlling interest in a subsidiary		-	(237,000)
Payment of investments in a joint venture	12	(35,997)	-
Acquisition of property and equipment	5	(28,919)	(50,093)
Payments in relation to advances for new aircrafts-net	7	-	(360,281)
Increase in deferred charges	10	(7,771)	(11,997)
Dividends received from investments in associates and joint ventures	12	5,000	47,112
Proceeds from sale of property and equipment		-	61,893
Proceeds from disposal/(acquisition) of other investments		118,374	(8)
Receipts/(payments) in relation to aircraft lease deposits		19,861	(3,122)
Acquisition of intangible assets	9	(17,626)	(14,446)
Change in fixed and margin deposits		160,883	(1,221,539)
Finance income received		67,595	37,857
<b>Net cash flow from/(used in) investing activities</b>		<b>281,400</b>	<b>(1,751,624)</b>
<b>FINANCING ACTIVITIES</b>			
Dividends paid to Owners of the Company		(420,003)	-
Payments of principle portion of lease liabilities	23	(231,317)	(614,070)
Net movement on the borrowings		199,732	331,151
Finance costs paid		(111,739)	(117,590)
<b>Net cash flow used in financing activities</b>		<b>(563,327)</b>	<b>(400,509)</b>
<b>Net change in cash and cash equivalents</b>		<b>503,374</b>	<b>(58,895)</b>
Cash and cash equivalents at the beginning of the year		212,524	271,419
<b>Cash and cash equivalents at the end of the year</b>		<b>715,898</b>	<b>212,524</b>
<i>Adjustments for:</i>			
Bank balances and cash	16	3,148,943	2,806,452
Fixed deposits with maturity over 3 months	16	(2,433,045)	(2,593,928)
		<b>715,898</b>	<b>212,524</b>

The accompanying notes from 1 to 39 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, 2020

#### 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, 2020 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
	2020	2019		
<b>Subsidiaries</b>				
Arabian Management Investment FZE	100%	100%	United Arab Emirates	Business consultancy services.
Air Arabia Holidays L.L.C	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%	-	United Arab Emirates	Travel and tours, tourism services.
COZMO Travel LLC	100%	-	Oman	Travel and tours, tourism services.
Al Maqar for Tourism and Travel	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, 2020

#### 1 Legal status and principal activities (continued)

Name	Legal/ beneficial ownership interest		Country of operation and ownership	Principal activities
	2020	2019		
<i>Subsidiaries of COZMO Travel LLC (sub-subsidiaries) (continued)</i>				
Gocozmo Business Support Services L.L.C.	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%	-	United Arab Emirates	International commercial air transportation.
Air Arabia - Egypt Company S.A.E.	40%	40%	Egypt	International commercial air transportation.
<i>Associates</i>				
Air Arabia Maroc, S.A.	40%	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 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.

\* The Group holds 100% (directly and indirectly) of the equity of COZMO Travel LLC, a limited liability Company incorporated in the United Arab Emirates (Note 25).

\*\* Effective July 1, 2019, there has been a change in the Group's control over Tune Protection Commercial Brokerage LLC, a former subsidiary as a result of losing majority of the investee's voting rights. However, the Group retains a significant influence in this investment and accordingly, the Group changed the method of accounting for this investment in Tune Protection Commercial Brokerage LLC from consolidation to equity method measured as per IAS 28 'Investments in Associates and Joint Ventures' and recognised at July 1, 2019 as investment in associates (Note 12).

# Air Arabia PJSC and its subsidiaries

## Consolidated Financial Statements

### Notes to the consolidated financial statements (continued)

#### For the year ended December 31, 2020

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## **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.

### **(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 standards, interpretations, and amendments adopted by the Group**

The following accounting pronouncements which have become effective from January 1, 2020 and have therefore been adopted in these consolidated financial statements.

- Definition of a Business (Amendments to IFRS 3)
- Definition of Material (Amendments to IAS 1 and IAS 8)
- Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)
- Amendments to References to the Conceptual Framework (Various Standards)
- COVID-19 Rent Related Concessions (Amendments to IFRS 16)

These amendments do not have a significant impact on these consolidated financial statements of the Group.

## **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 below and the following pages.

### **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.

# Air Arabia PJSC and its subsidiaries

## Consolidated Financial Statements

### Notes to the consolidated financial statements (continued)

#### For the year ended December 31, 2020

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#### **4 Summary of significant accounting policies (continued)**

##### **Foreign operations**

In the consolidated financial statements, all assets, liabilities and transactions of the Group 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, 2020. 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.

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.

# Air Arabia PJSC and its subsidiaries

## Consolidated Financial Statements

### Notes to the consolidated financial statements (continued)

#### For the year ended December 31, 2020

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#### **4 Summary of significant accounting policies (continued)**

##### **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 the portion of the cash-generating unit retained.

##### **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.

# Air Arabia PJSC and its subsidiaries

## Consolidated Financial Statements

### Notes to the consolidated financial statements (continued)

For the year ended December 31, 2020

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#### 4 Summary of significant accounting policies (continued)

##### Property and equipment (continued)

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, 2020

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#### **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, 2020

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#### **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.

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# Air Arabia PJSC and its subsidiaries

## Consolidated Financial Statements

### Notes to the consolidated financial statements (continued)

#### For the year ended December 31, 2020

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#### **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, 2020

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#### **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, 2020

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#### **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, 2020

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#### **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, 2020

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#### **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 Consolidated Financial Statements

### Notes to the consolidated financial statements (continued) For the year ended December 31, 2020

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#### **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, 2020

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#### **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 Consolidated Financial Statements

### Notes to the consolidated financial statements (continued) For the year ended December 31, 2020

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#### **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, 2020

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#### **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, 2020

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#### **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, 2020**

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**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  
Consolidated Financial Statements**

**Notes to the consolidated financial statements (continued)  
For the year ended December 31, 2020**

<b>5</b>	<b>Property and equipment</b>																				
		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										
	<b>Gross carrying amount</b>																				
	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										
	<b>Accumulated depreciation</b>																				
	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										
	<b>Net carrying amounts at December 31, 2020</b>	<b>89,040</b>	<b>361,825</b>	<b>5,496,098</b>	<b>278,007</b>	<b>62,109</b>	<b>9,350</b>	<b>860</b>	<b>33,498</b>	<b>36,385</b>	<b>6,367,172</b>										

**Air Arabia PJSC and its subsidiaries  
Consolidated Financial Statements**

**Notes to the consolidated financial statements (continued)  
For the year ended December 31, 2020**

**5 Property and equipment (continued)**

2019	Land AED '000	Buildings AED '000	Aircrafts AED '000	Aircraft engines AED '000	Aircraft equipment 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, 2019	89,040	674,638	8,745,533	405,056	78,231	18,919	34,763	91,850	12,952	10,134,466	
Additions	-	764	-	-	24,338	-	5,482	11,034	8,475	50,093	
Disposals	-	-	(156,188)	-	-	-	-	-	-	(156,188)	
Transfers	-	-	-	8,721	-	-	-	-	(8,721)	-	
At December 31, 2019	89,040	675,402	8,589,345	413,777	102,569	18,919	40,245	102,884	12,706	10,028,371	
Accumulated depreciation											
At January 1, 2019	-	242,603	2,271,520	102,802	30,181	7,803	23,755	53,017	-	2,731,681	
Charge for the year	-	35,564	461,360	16,484	5,578	883	2,015	6,596	-	528,480	
Disposals	-	-	(97,957)	-	-	-	-	-	-	(97,957)	
At December 31, 2019	-	278,167	2,634,923	119,286	35,759	8,686	25,770	59,613	-	3,162,204	
Net carrying amounts at December 31, 2019	89,040	397,235	5,954,422	294,491	66,810	10,233	8,993	32,237	12,706	6,866,167	

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

	2020 AED '000	2019 AED '000
Direct costs (Note 27)	511,595	514,465
Administrative and general expenses (Note 28)	15,229	14,015
	<u>526,824</u>	<u>528,480</u>

## Air Arabia PJSC and its subsidiaries Consolidated Financial Statements

### Notes to the consolidated financial statements (continued) For the year ended December 31, 2020

#### 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, 2020, work in progress represents various capital projects, mainly related to business system, applications and building refurbishment, amounting to AED 36.11 million (2019: AED 12.7 million).

All of the Group's non-movable assets are located in the UAE, except for property and equipment with carrying amount of AED 4.6 million (2019: AED 2.1 million), located outside UAE.

At December 31, 2020, aircrafts with carrying amount of AED 5.22 billion (2019: AED 5.7 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 2020 (2019: AED Nil).

#### 6 Right-of-use assets

	Aircrafts AED '000	Hangar AED '000	Total AED '000
<b>2020</b>			
<b>Gross carrying amount</b>			
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
<b>Accumulated depreciation</b>			
At January 1, 2020	22,086	7,978	30,064
Charge for the year (Note 27)	62,202	832	63,034
At December 31, 2020	84,288	8,810	93,098
<b>Net carrying amounts at December 31,</b>	<b>567,422</b>	<b>7,840</b>	<b>575,262</b>
<b>2019</b>			
<b>Gross carrying amount</b>			
Impact of implementation of IFRS 16	-	16,650	16,650
Additions	382,191	-	382,191
At December 31, 2019	382,191	16,650	398,841
<b>Accumulated depreciation</b>			
Impact of implementation of IFRS 16	-	7,076	7,076
Charge for the year	22,086	902	22,988
At December 31, 2019	22,086	7,978	30,064
<b>Net carrying amounts at December 31, 2019</b>	<b>360,105</b>	<b>8,672</b>	<b>368,777</b>

**Air Arabia PJSC and its subsidiaries**  
**Consolidated Financial Statements**

**Notes to the consolidated financial statements (continued)**  
**For the year ended December 31, 2020**

**7 Advance for new aircraft**

Advance for new aircrafts represents pre-delivery payments made to suppliers for an amount of AED 360.3 million (2019: AED 360.3 million) in respect of new aircraft.

**8 Investment properties**

Investment properties represent certain units under construction in a building located in Dubai Marina, United Arab Emirates, amounting to AED 105.9 million as at December 31, 2020 (2019: AED 124.9 million). The Building is approximately 50% complete as at December 31, 2020 (2019: 50% complete).

Management estimates the fair value of investment properties as at December 31, 2020 to be AED 105 million (2019: AED 206 million).

During the year, the Group has recognised an amount of AED 19 million as provision for impairment of the value of building (2019: AED Nil).

**9 Intangible assets**

	2020 AED '000	2019 AED '000
Intangible assets *	1,125,584	1,113,950
Goodwill **	198,522	198,522
At December 31,	<u>1,324,106</u>	<u>1,312,472</u>

During the year ended December 31, 2020, intangible assets and goodwill were subject to impairment tests and management concluded that they are not impaired (2019: AED Nil).

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

	2020 AED '000	2019 AED '000
At January 1,	1,113,950	1,102,412
Additions during the year	17,626	14,446
Write-off	(3,211)	-
Amortisation during the year	(2,781)	(2,908)
At December 31,	<u>1,125,584</u>	<u>1,113,950</u>

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

	2020 AED '000	2019 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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**9 Intangible assets (continued)**

\*\* Goodwill comprises of the following:

	2020 AED '000	2019 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, 2020 and 2019. 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 8.98% to 9.16% (2019: 10.01% to 10.55%).

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**

	Landing permission charges AED'000	Aircraft upgrade Costs AED'000	Processing fee and commission costs AED'000	BFE AED'000	Total AED'000
<b>2020</b>					
<b>Gross carrying amount</b>					
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	<u>51,745</u>	<u>35,073</u>	<u>27,086</u>	<u>19,768</u>	<u>133,672</u>
<b>Accumulated amortisation</b>					
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	<u>51,745</u>	<u>31,599</u>	<u>14,049</u>	<u>2,083</u>	<u>100,196</u>
<b>Net carrying amounts as at December 31, 2020</b>	<u>-</u>	<u>3,474</u>	<u>13,037</u>	<u>16,965</u>	<u>33,476</u>



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**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
2019					
Gross carrying amount					
At January 1, 2019	51,745	35,073	27,086	-	113,904
Additions during the year	-	-	-	11,997	11,997
At December 31, 2019	51,745	35,073	27,086	11,997	125,901
Accumulated amortisation					
At January 1, 2019	51,745	28,573	9,451	-	89,769
Charge for the year	-	1,506	2,372	693	4,571
At December 31, 2019	51,745	30,079	11,823	693	94,340
Net carrying amounts as at December 31, 2019	-	4,994	15,263	11,304	31,561

*BFE: Buyer-Furnished Equipment*

**11 Investments at fair value through other comprehensive income**

	2020 AED '000	2019 AED '000
Quoted in UAE	10,772	11,082
Movements during the year were as follow:		
	2020 AED '000	2019 AED '000
Opening balance	11,082	10,191
Change in fair value	(310)	891
	10,772	11,082

The market rate as at December 31, 2020 and December 31, 2019 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**

	2020 AED'000	2019 AED'000
Investments in associates (Note 12.1)	27,775	32,879
Investments in joint ventures (Note 12.2)	64,882	44,714
	92,657	77,593

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**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:

	2020 AED'000	2019 AED'000
At January 1,	32,879	49,994
Additional investment in Tune Protection Commercial Brokerage LLC	-	3,677
Share of (loss)/profit of Air Arabia Maroc S.A.	(9,196)	11,927
Share of profit/(loss) of Tune Protection Commercial Brokerage LLC	4,092	(607)
Dividend received during the year from Air Arabia Morocco S.A.	-	(32,112)
At December 31,	<u>27,775</u>	<u>32,879</u>

**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:

	2020 AED'000	2019 AED'000
At January 1,	44,714	38,619
Investment Air Arabia Abu Dhabi L.L.C	35,997	-
Share of profit of Alpha Flight Services UAE. LLC	31	13,261
Share of (loss)/profit of Sharjah Aviation Services LLC	(7,171)	7,834
Share of loss of Air Arabia Abu Dhabi L.L.C	(11,365)	-
Share of profit of Alpha Aviation Academy L.L.C	7,676	-
Dividends received from Alpha Flight Services UAE. LLC	-	(12,000)
Dividends received from Sharjah Aviation Services LLC	(5,000)	(3,000)
At December 31,	<u>64,882</u>	<u>44,714</u>

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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%			
Percentage of interest	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000	AED'000
Assets	78,434	69,805	94,653	46,825	138,571	132,103	179,262	-	490,920	178,928
Liabilities	63,387	58,201	79,806	33,941	89,593	68,007	129,006	-	361,792	101,948
Net assets	15,047	11,604	14,847	12,884	48,978	64,096	50,256	-	129,128	76,980
Group's share in net assets as presented in the consolidated statement of financial position	7,674	5,802	7,572	7,832	24,489	36,882	24,625	-	64,360	50,516
Profit/(loss) for the year	3,444	9,463	61	26,003	(14,343)	15,668	(23,194)	-	(34,032)	45,965
Group's share of profit/(loss) for the year	7,676	4,826	31	13,261	(7,171)	7,834	(11,365)	-	(10,829)	25,921
Absorption of accumulated losses from previous years	-	(4,826)	-	-	-	-	-	-	-	(4,826)
Dividends received by the Group	-	-	-	(12,000)	(5,000)	(3,000)	-	-	(5,000)	(15,000)

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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### Notes to the consolidated financial statements (continued) For the year ended December 31, 2020

#### 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:

	2020 AED'000	2019 AED'000
<b>Financial assets at amortised cost</b>		
Trade and other receivables	514,737	589,223
Bank balances and cash	3,148,943	2,806,452
Other investment	50,000	168,374
<b>Financial assets at fair value through other comprehensive income</b>		
Investments at fair value through other comprehensive income	10,772	11,082
	<u>3,724,452</u>	<u>3,575,131</u>
<b>Financial liabilities at amortised cost</b>		
Trade and other payables	2,764,598	2,562,017
Short term borrowings	551,948	352,216
Finance lease liabilities	3,732,287	3,692,474
Cash flow hedge liabilities (derivative)	624,460	128,174
	<u>7,673,293</u>	<u>6,734,881</u>

A description of the Group's financial statements risk, including risk management objectives and policies is given in Note 35 and methods used to measure fair value are described in Note 36.

#### 14 Trade and other receivables

	2020 AED'000	2019 AED'000
<b>Current assets</b>		
<i>Financial assets:</i>		
Trade receivables, gross	230,249	273,410
Allowance for expected credit losses	(17,020)	(19,553)
Trade receivables, net	<u>213,229</u>	<u>253,857</u>
Net investment in lease *	14,275	13,957
Amounts due from related parties (Note 15)	96,744	115,980
Advances and other receivables, net**	190,489	205,429
	<u>514,737</u>	<u>589,223</u>
<i>Non-financial assets:</i>		
Prepaid aircraft lease rentals	5,677	5,724
Prepaid expenses – others	6,372	21,830
	<u>526,786</u>	<u>616,777</u>
<b>Non-current asset</b>		
<i>Financial asset:</i>		
Net investment in lease *	32,008	46,284
	<u>558,794</u>	<u>663,061</u>

\*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.

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**14 Trade and other receivables (continued)**

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

	2020 AED'000	2019 AED'000
Not later than one year	14,275	13,957
Later than one year but not later than five year	32,008	46,284
At December 31,	<u>46,283</u>	<u>60,241</u>

As at December 31, 2020, 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 17 million and AED 12 million, respectively, were found to be impaired (2019: AED 19.6 million and AED Nil).

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

	2020 AED'000	2019 AED'000
As at January 1,	19,553	827
Allowance for expected credit losses of trade receivables (Note 28)	2,856	24,054
Written-off during the year	<u>(5,389)</u>	<u>(5,328)</u>
As at December 31,	<u>17,020</u>	<u>19,553</u>

\*\* During the year, the Group has recorded an amount of AED 12 million as allowance for expected credit loss of advances and other receivables (Note 28).

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

	Total AED'000	Not past due nor impaired AED'000	<i>Past due but not impaired</i>		
			<60 Days AED'000	60-90 Days AED'000	>90 Days AED'000
2020	213,229	85,620	41,645	23,384	62,580
2019	253,857	170,084	25,386	7,616	50,771

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 (2019: 3 customers) who represent more than 26% (2019: 16%) 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:

	2020 AED'000	2019 AED'000
Rental income from aircraft operating lease (Note 26)	161,432	144,635
Expenses recharged by related parties	(22,639)	(54,695)
Revenue from related parties	22,945	44,890
Management fees from joint ventures and associates (Note 30)	15,398	23,906
(Loss)/income from investments	(15,933)	32,415

**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:

	2020 AED'000	2019 AED'000
Short term benefits	20,161	13,246
Long term benefits	592	592
Board of Directors' remuneration	5,875	5,875

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

	2020 AED'000	2019 AED'000
<b>Amounts due from related parties: (Note 14)</b>		
Receivable from associates and joint ventures	89,321	115,980
Other related parties	7,423	-
	<u>96,744</u>	<u>115,980</u>

	2020 AED'000	2019 AED'000
<b>Amounts due to related parties: (Note 21)</b>		
Payable to joint ventures	13,315	3,927
Other related parties	131,163	24,224
	<u>144,478</u>	<u>28,151</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**

	2020 AED'000	2019 AED'000
<i>Bank balances</i>		
Fixed deposits*	2,433,045	2,593,928
Current accounts	362,067	168,117
Call deposits	347,946	38,972
	<u>3,143,058</u>	<u>2,801,017</u>
Cash in hand	5,885	5,435
Bank balances and cash	<u>3,148,943</u>	<u>2,806,452</u>

\*These deposits carry interest rates ranging from 1.4% - 4.15% (2019: 3% - 4.5%) per annum.

**16.1 Other investments at amortised cost**

	2020 AED'000	2019 AED'000
National Bonds	50,000	150,000
Others	-	18,374
	<u>50,000</u>	<u>168,374</u>

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

	2020 AED '000	2019 AED '000
As at January 1,	150,000	150,000
Disposals during the year	(100,000)	-
As at December 31,	<u>50,000</u>	<u>150,000</u>

Other investments earn interest at 4% (2019: 4%) per annum.

**17 Share capital**

	2020 AED'000	2019 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 (AED Nil fils for the year ended December 31, 2018).

**18 Statutory reserve**

In accordance with the Company's Articles of Association and Article 103 of UAE Federal Law No. 2 of 2015, 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 (On the General Assembly dated March 17, 2019, the Board of Directors proposed, and the Shareholders resolved to utilise the general reserve balance of AED 426,155,000 to absorb a portion of the accumulated losses carried forward from the prior years).

**20 Provision for staff terminal benefits**

	2020 AED'000	2019 AED'000
At January 1,	145,129	129,744
Charge for the year	25,112	22,299
Payments made during the year	(38,857)	(6,914)
At December 31,	<u>131,384</u>	<u>145,129</u>

**21 Trade and other payables**

	2020 AED'000	2019 AED'000
<i>Financial liabilities</i>		
Maintenance liabilities	1,379,789	1,320,706
Cash flow hedge liability (Note 22)	624,460	128,174
Accrued expenses	434,301	633,474
Other payables	459,117	510,258
Trade payables	309,877	24,725
Amounts due to related parties (Note 15)	144,478	28,151
Lease deposit payables	37,036	44,703
	<u>3,389,058</u>	<u>2,690,191</u>
<i>Non-financial liability</i>		
Advances from customers	39,008	24,853
	<u>3,428,066</u>	<u>2,715,044</u>
Less:		
<b>Non-current liabilities</b>		
Maintenance liabilities	1,286,790	981,422
Cash flow hedge liability (Note 22)	479,327	79,901
	<u>1,766,116</u>	<u>1,061,323</u>
<b>Current liabilities</b>	<u>1,661,950</u>	<u>1,653,721</u>

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 (2019: AED Nil) (Note 27).

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 liability is categorised into the following:

	2020		2019	
	Term	AED'000	Term	AED'000
<b>Non-current liability</b>				
Commodity swaps, forwards options and others	2022-2024	479,327	2021-2024	79,901
<b>Current liability</b>				
Commodity swaps, collars, forwards options and others	2021	145,143	2020	48,273
<b>Total (Note 21)</b>		<u>624,460</u>		<u>128,174</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 8 - 15 years for aircrafts and hangar:

	2020	2019
	AED'000	AED'000
As at January 1,	3,692,474	3,721,329
Adjustment as at January 1, 2019 (upon adoption of IFRS 16)	-	85,692
Additions to lease liabilities for the year	256,881	499,523
Payments made during the year	(231,317)	(614,070)
Adjustment for lease modifications	14,249	-
	<u>3,732,287</u>	<u>3,692,474</u>

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

	2020	2019
	AED'000	AED'000
Non-current portion of finance lease liabilities	3,072,643	3,164,538
Current portion of finance lease liabilities	659,644	527,936
	<u>3,732,287</u>	<u>3,692,474</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:

	2020 AED'000	2019 AED'000
Not later than one year	659,644	527,936
Later than one year but not later than five year	2,139,141	2,043,318
Later than five years	933,502	1,121,220
At December 31,	<u>3,732,287</u>	<u>3,692,474</u>

The finance charges are calculated based on average interest rate of 2.99% (2019: 2.98%).

#### 24 Short term bank borrowings

	2020 AED'000	2019 AED'000
Short term bank borrowings	<u>551,948</u>	<u>352,216</u>

The Group has availed short term borrowing facilities from banks. These facilities carried interest at 0.5% - 1.4% + 1-month LIBOR and 3-month EIBOR per annum (2019: 0.50% + 1-month LIBOR per annum).

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

#### 25 Ownership changes in a subsidiary

On July 1, 2019, the Group acquired indirectly an additional 49% in Cozmo Travel LLC, a subsidiary, increasing its ownership interest to 100% through the acquisition of 100% of Arabian Management Investment (FZE), a branch of a foreign company incorporated in United Arab Emirates which used to hold the remaining 49% ownership interest in Cozmo Travel LLC. A cash consideration of AED 237 million was paid to the shareholders of Arabian Management Investment (FZE).

	2019 AED'000
Cash consideration paid to non-controlling interests	237,000
Carrying amount of the additional interest in Cozmo Travel LLC	<u>(86,641)</u>
Difference recognised in retained earnings	<u>150,359</u>

#### 26 Revenue

	2020 AED'000	2019 AED'000
Passenger revenue	1,351,990	3,997,430
Aircraft lease rentals - net (Note 15)	161,432	144,635
Other airline related services	126,564	273,028
Service revenue	94,023	173,292
Cargo revenue	75,984	113,248
Revenue from hotel operations	39,798	61,115
Baggage revenue	22,263	54,651
Sales commission and expenses	<u>(21,088)</u>	<u>(58,900)</u>
	<u>1,850,966</u>	<u>4,758,499</u>

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**27 Direct costs**

	2020 AED'000	2019 AED'000
Depreciation of property and equipment (Note 5)	511,595	514,465
Fuel costs (Note 22)	449,257	1,312,194
Staff costs	382,273	600,157
Aircraft maintenance expenses*	125,530	387,343
Landing and overflying charges	101,127	296,026
Passenger, ground and technical handling charges	93,754	283,537
Depreciation of right-of-use assets (Note 6)	63,034	22,988
Other operating costs	61,750	79,967
Insurance	11,922	10,573
Service costs	-	2,220
	<u>1,800,242</u>	<u>3,509,470</u>

\*Aircraft maintenance expenses include net losses on forward currency transactions of AED Nil (2019: AED 61 million) relating to depreciation of Euro against the USD. The Group takes out forward contracts, principally to hedge against the payment of engine maintenance costs. These forward currency contracts get settled on a daily basis and hence, the open positions relating to these forward currency contracts is not significant at the reporting date.

**28 Administrative and general expenses**

	2020 AED'000	2019 AED'000
Staff costs	75,688	105,654
Provision for impairment of investment property (Note 8)	19,000	-
Depreciation of property and equipment (Note 5)	15,229	14,015
Legal and professional fees	13,040	20,798
Allowance for expected credit losses of advances and other receivables (Note 14)	12,000	-
Rent	8,806	10,796
Communication costs	5,443	6,114
Allowance for expected credit losses of trade receivables (Note 14)	2,856	24,054
Travel and accommodation costs	2,786	8,286
Other administrative and general expenses *	41,513	43,290
	<u>196,361</u>	<u>233,007</u>

\*Other administrative and general expenses include contributions paid by the Group for corporate social responsibility.

**29 Selling and marketing expenses**

	2020 AED'000	2019 AED'000
Staff costs	23,771	34,742
Advertisement expenses	9,865	47,635
Reservation management expenses	791	1,097
	<u>34,427</u>	<u>83,474</u>

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**30 Other income, net**

	2020 AED'000	2019 AED'000
<i>This mainly comprises:</i>		
Management fees from joint ventures and associates (Note 15)	15,398	23,906
Foreign currency exchange gains	7,306	19,722
Dividend income from others	1,271	2,311
Other income	15,920	14,319

**31 Basic and diluted (losses)/earnings per share**

	2020 AED'000	2019 AED'000
(Loss)/profit attributable to the Owners of the Company	(192,183)	990,168
Weighted average number of shares (in '000)	4,666,700	4,666,700
Basic and diluted (losses)/earnings per share (AED)	(0.04)	0.21

**32 Operating lease commitments**

**32.1 The Group is a lessor:**

As at December 31, 2020, the Group has leased out 15 aircrafts (2019: 13) 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:

	2020 AED'000	2019 AED'000
Within one year	180,702	126,150
Between 2 and 5 years	414,130	291,876
Above 5 years	9,039	-
	603,871	418,026

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

	2020 AED'000	2019 AED'000
Net book value	1,239,015	1,170,113
Accumulated depreciation	1,037,982	791,032
Depreciation charge for the year	121,501	104,647

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#### **33 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 and hedge contracts amounting to more than AED 500 million as at December 31, 2020 (December 31, 2019: AED 90 million), which at December 31, 2020 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.

#### **34 Capital commitments**

	2020	2019
	AED'000	AED'000
<i>Authorised and contracted:</i>		
Aircraft fleet (Note 7)	<u>23,815,664</u>	<u>23,815,664</u>

#### **35 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.

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**35 Financial instruments and risk management objectives and policies (continued)**

**Market risk (continued)**

**i. Interest rate risk (continued)**

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

	2020 AED'000	2019 AED'000
<b>Fixed rate</b>		
<i>Financial assets</i>		
Fixed deposits	2,433,045	2,593,928
Investments	50,000	168,374
Call deposits	347,946	38,972
	<u>2,830,991</u>	<u>2,801,274</u>
<b>Variable rate</b>		
<i>Financial liabilities</i>		
Finance lease liabilities	(3,732,287)	(3,692,474)
Short-term bank borrowings	(551,948)	(352,216)
	<u>(4,284,235)</u>	<u>(4,044,690)</u>

**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  $\pm 1\%$  (2019:  $\pm 1\%$ ). 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 for the year		Effect on Equity	
	AED'000 +1%	AED'000 -1%	AED'000 +1%	AED'000 -1%
2020	(42,842)	42,842	(42,842)	42,842
2019	(40,447)	40,447	(40,447)	40,447

**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 3% has been observed during 2020 (2019: 10%). 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 0.3 million (2019: AED 1 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.

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### Notes to the consolidated financial statements (continued) For the year ended December 31, 2020

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#### **35 Financial instruments and risk management objectives and policies (continued)**

##### **Credit risk (continued)**

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:

	2020 AED'000	2019 AED'000
Bank balances and deposits	3,143,058	2,801,017
Trade and other receivables	514,737	589,223
Other investments	50,000	168,374
Investments measured at fair value through OCI	10,772	11,082
	<u>3,718,567</u>	<u>3,569,696</u>

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.

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### Notes to the consolidated financial statements (continued) For the year ended December 31, 2020

#### 35 Financial instruments and risk management objectives and policies (continued)

##### Liquidity risk (continued)

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
<b>2020</b>				
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
<b>Total</b>	<b>7,712,302</b>	<b>2,878,864</b>	<b>4,875,375</b>	<b>7,754,239</b>
	Carrying amount AED'000	Contractual cash flows		
		Within 1 year AED'000	More than 1 year AED'000	Total AED'000
<b>2019</b>				
Finance lease liabilities	3,692,474	527,936	3,164,538	3,692,474
Trade and other payables	2,562,017	1,580,595	981,422	2,562,017
Cash flow hedge liability	128,174	48,273	79,901	128,174
Short-term bank borrowings	352,216	352,216	-	352,216
<b>Total</b>	<b>6,734,881</b>	<b>1,981,084</b>	<b>1,061,323</b>	<b>6,734,881</b>

#### 36 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.



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**36 Fair value measurement (continued)**

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, 2020 and December 31, 2019.

	Level 1 AED'000	Level 2 AED'000	Level 3 AED'000
<b>At December 31, 2020</b>			
<b>Financial asset</b>			
Investments at fair value through other comprehensive income	10,772	-	-
<b>Financial liability</b>			
Cash flow hedge liability		624,460	
	<u>10,772</u>	<u>624,460</u>	<u>-</u>
	Level 1 AED'000	Level 2 AED'000	Level 3 AED'000
<b>At December 31, 2019</b>			
<b>Financial asset</b>			
Investments at fair value through other comprehensive income	11,082	-	-
<b>Financial liability</b>			
Cash flow hedge liability	-	128,174	-
	<u>11,082</u>	<u>128,174</u>	<u>-</u>

**37 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.

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**Notes to the consolidated financial statements (continued)**  
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**37 Segment Reporting (continued)**

The following table presents revenue and profit information for the Group's operating segments for the year ended December 31, 2020 and December 31, 2019, respectively:

December 31, 2020	Airline AED'000	Other segments AED'000	Eliminations AED'000	Total AED'000
<b>Revenue</b>				
External sales	1,717,145	133,821	-	1,850,966
Inter-segment sales	-	9,939	(9,939)	-
<b>Total revenue</b>	<b>1,717,145</b>	<b>143,160</b>	<b>(9,939)</b>	<b>1,850,966</b>
<b>Result</b>				
Segment result	(209,139)	32,890		(176,249)
Share of loss of investments in associates and joint ventures				(15,934)
<b>Loss for the year</b>				<b>(192,183)</b>
<b>Other information</b>				
Additions to property and equipment and deferred charges	13,778	22,912	-	36,690
<b>Depreciation and amortisation</b>	<b>586,221</b>	<b>12,274</b>	-	<b>598,495</b>
December 31, 2019	Airline AED'000	Other segments AED'000	Eliminations AED'000	Total AED'000
<b>Revenue</b>				
External sales	4,524,092	234,407	-	4,758,499
Inter-segment sales	-	14,013	(14,013)	-
<b>Total revenue</b>	<b>4,524,092</b>	<b>248,420</b>	<b>(14,013)</b>	<b>4,758,499</b>
<b>Result</b>				
Segment result	937,581	38,079	-	975,660
Share of profit of investments in associates and joint ventures				32,415
<b>Profit for the year</b>				<b>1,008,075</b>
<b>Other information</b>				
Additions to property and equipment and deferred charges	43,858	18,232	-	62,090
<b>Depreciation and amortisation</b>	<b>547,162</b>	<b>11,787</b>	-	<b>558,949</b>

Inter-segment sales are charged at prevailing market prices.

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### Notes to the consolidated financial statements (continued) For the year ended December 31, 2020

#### 37 Segment Reporting (continued)

The following table presents assets and liabilities information for the Group's operating segments as at December 31, 2020 and December 31, 2019, respectively:

	Airline AED'000	Other segments AED'000	Eliminations AED'000	Total AED'000
<b>December 31, 2020</b>				
<b>Assets</b>				
Segment assets	9,734,169	523,398	(534,199)	9,723,368
Unallocated assets				2,929,633
Total assets				12,653,001
<b>Liabilities</b>				
Segment liabilities	7,605,055	540,030	-	8,145,085
	Airline AED'000	Other segments AED'000	Eliminations AED'000	Total AED'000
<b>December 31, 2019</b>				
<b>Assets</b>				
Segment assets	9,957,307	403,703	(570,752)	9,790,258
Unallocated assets				3,024,028
Total assets				12,814,286
<b>Liabilities</b>				
Segment liabilities	7,556,313	270,827	(570,752)	7,256,388

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.

#### 38 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, 2020 and December 31, 2019. Capital includes share capital, statutory reserve, general reserve, other reserves and (accumulated losses)/retained earnings, and measure at AED'000 4,507,916 as at December 31, 2020 (2019: AED'000 5,557,898).

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### Notes to the consolidated financial statements (continued) For the year ended December 31, 2020

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#### **39 Impact of COVID-19 and going concern assumption**

The coronavirus ("COVID-19") has spread across various geographies globally, causing disruption to business and economic activities. COVID-19 has brought about uncertainties in the global economic environment. On March 11, 2020, the World Health Organisation ("WHO") officially declared COVID-19 a global pandemic. Based on GCAA directive suspension of all inbound and outbound flights to UAE except cargo flights and evacuation flights, effective from March 24, 2020 was done, as a preventive measure to contain the spread of COVID-19. Further, the oil prices have witnessed unprecedented volatility. The economic fallout of COVID-19 crisis is expected to be significant and is rapidly evolving at the present time.

#### ***Business continuity planning***

The Group is closely monitoring the situation and has activated its business continuity plan and other risk management practices to manage the business disruption resulted from COVID-19 outbreak in order to boost the liquidity and sustain the business.

The Group will adapt its operating procedures to ensure its passengers and its people are properly protected in this new environment and in line with any new requirements in the industry.

#### ***COVID-19 impact on measurement of ECL***

The uncertainties caused by COVID-19, and the volatility in oil prices have required the Group to update the inputs and assumptions used for the determination of expected credit losses ("ECLs") as at December 31, 2020. IFRS 9 framework requires the estimation of Expected Credit Loss (ECL) based on current and forecast economic conditions. ECLs were estimated based on a range of forecast economic conditions as at that date and considering that the situation is fast evolving, the Group has considered the impact of higher volatility in the forward-looking macro-economic factors, when determining the severity and likelihood of economic scenarios for ECL determination. This volatility has been reflected through adjustment in the methods of scenario construction and the underlying weightages assigned to these scenarios. The situation is fast evolving and accordingly any downside scenarios will be reassessed if adverse conditions continue.

The Group has given specific consideration to the relevant impact of COVID-19 on the qualitative and quantitative factors when determining the significant increase in credit risk and assessing the indicators of impairment for the exposures as at reporting date. Taking into consideration that, majority of Group's receivables are from sales agents which are secured mainly by bank guarantees and deposits.

#### ***Liquidity risk and management actions***

The Group has adopted a proactive approach in order to ensure its liquidity to be able to sustain the business and to meet the fixed costs during this period.

From March 26, 2020 the aircrafts have been completely grounded and with limited operation in second quarter of 2020 for repatriation flight and cargo-only flights. In the third quarter, there was gradual resumption of operations with limited scheduled flight. During the fourth quarter, the Group has continued with gradual resumptions of operations to and from some destinations subject to regulatory conditions and as and when travel restrictions in various countries have been lifted. The Group has taken measures to minimise liquidity risks, through a combination of salary cuts, a mechanism for staff based on any unpaid leave and staff redundancy. The Group have also deferred non-essential costs and capital expenditure and have received waivers/discounts on some of existing airport charges along with other obligations.

As at the reporting date, the Group has a sound liquidity position with AED 3,149 million available funds. Air Arabia had requested deferral of Principal and Interest on all existing aircraft loans spread across various banks. The Group has successfully concluded the exercise of aircraft loan deferment, undertaken over the past three quarters, with its lenders. Further, UAE Central Bank announced a Targeted Economic Support Scheme ("TESS") facility on March 15, 2020 and under the directives, any organization that is directly affected by COVID 19 situation and is non- government entity qualifies for deferment and interest waiver.

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**Notes to the consolidated financial statements (continued)**  
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**39 Impact of COVID-19 and going concern assumption (continued)**

***Liquidity risk and management actions (continued)***

The Group has evaluated its liquidity and funding position and, accordingly, approached their local banks to cover under this scheme, and provide the Group with maximum deferment and interest holiday.

During the second quarter, out of the total borrowing of the Group, part of bank loan amounting to AED 73 million has been qualified for TESS facility and accordingly interest accrued on this facility shall be settled upon maturity of the loan.

***Going concern***

The Group has performed an assessment on its ability to continue as a going concern considering current economic conditions and all available information about future risks and uncertainties. However, there exit a risk of another wave of pandemic and plausible prolongation of its consequential impact on the Group's operation, the Group has prepared the projections for its future performance, capital and liquidity. The impact of COVID-19 may continue to evolve, but currently, the projections show that the Group has the required resources to continue in operations as a going concern. As a result, those consolidated financial statements have been prepared on a going concern basis.