FLYNAS COMPANY
(A Single Person Joint Stock Company)

FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2021
AND INDEPENDENT AUDITOR'S REPORT

FLYNAS COMPANY
(A Single Person Joint Stock Company)
FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2021

Independent auditor's report to the shareholder of Flynas Company

Report on the audit of the financial statements

Our opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Flynas Company (the "Company") as at December 31, 2021, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards, that are endorsed in the Kingdom of Saudi Arabia, and other standards and pronouncements issued by the Saudi Organization for Chartered and Professional Accountants (SOCPA).

What we have audited

The Company's financial statements comprise:

- the statement of financial position as at December 31, 2021;
- the statement of profit or loss and other comprehensive income for the year then ended;
- the statement of changes in shareholder's equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include significant accounting policies and other explanatory information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing, that are endorsed in the Kingdom of Saudi Arabia. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial statements* section of our report.

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

Independence

We are independent of the Company in accordance with the code of professional conduct and ethics, endorsed in the Kingdom of Saudi Arabia, that are relevant to our audit of the financial statements and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards, that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by SOCPA, and the applicable requirements of the Regulations for Companies and the Company's Articles of Association, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Those charged with governance, i.e the Board of Directors are responsible for overseeing the Company's financial reporting process

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Independent auditor's report to the shareholder of Flynas Company (continued)

Auditor's responsibilities for the audit of the financial statements

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

As part of an audit in accordance with International Standards on Auditing, that are endorsed in the Kingdom of Saudi Arabia, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

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

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

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

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

PricewaterhouseCoopers

Waleed A Alhidiri
License Number 559

14 June 2022

برايس وترهاوس كوبرز
محاسبون قانونيون
ترخيص رقم ٢٥
س.ت ١٠١٠٣٧١٦٢٢
PRICEWATERHOUSECOOPERS
CERTIFIED PUBLIC ACCOUNTS
LICENSE NO.25
C.R.1010371622

FLYNAS COMPANY
(A Single Person Joint Stock Company)
Statement of financial position
As at December 31, 2021
(All amounts are in Saudi Riyals unless otherwise stated)

	Note	As at December 31, 2021	As at December 31, 2020
Assets			
Non-current assets			
Intangible asset	6	**2,000,000,000**	2,000,000,000
Equipment and fixtures	4	**1,014,520,939**	690,506,967
Right-of-use assets	5	**2,962,477,339**	1,758,367,834
Deposits for aircraft	9	**45,157,987**	43,594,229
Investment in associates	7	**18,000**	18,000
Total non-current assets		**6,022,174,265**	4,492,487,030
Current assets			
Stores and spares	8	**4,433,553**	6,408,607
Deposits for aircraft	9	**56,442,617**	82,840,362
Trade receivables	10	**104,543,451**	126,139,719
Prepayments and other current assets	11	**74,921,229**	98,573,313
Cash and cash equivalents	12	**297,563,295**	435,407,400
Total current assets		**537,904,145**	749,369,401
Total assets		**6,560,078,410**	5,241,856,431
Equity and liabilities			
Equity			
Share capital	13	**1,534,250,000**	1,534,250,000
Statutory reserve	14	**150,000**	150,000
Accumulated losses		**(815,670,592)**	(857,274,171)
Net equity		**718,729,408**	677,125,829
Liabilities			
Non-current liabilities			
Trade and other payables	15	**316,486,644**	268,932,681
Lease liabilities	16	**2,765,588,748**	1,490,942,626
Loans	18	**-**	219,201,478
Employees' end of service benefits liability	19	**198,584,220**	181,141,302
Total non-current liabilities		**3,280,659,612**	2,160,218,087
Current liabilities			
Trade and other payables	15	**1,736,345,657**	1,698,876,330
Lease liabilities	16	**333,001,069**	377,285,229
Loans – current portion	18	**297,888,967**	75,000,000
Contract liabilities	17	**193,453,697**	253,350,956
Total current liabilities		**2,560,689,390**	2,404,512,515
Total liabilities		**5,841,349,002**	4,564,730,602
Total equity and liabilities		**6,560,078,410**	5,241,856,431

The accompanying notes 1 to 37 form an integral part of these financial statements.

FLYNAS COMPANY
(A Single Person Joint Stock Company)
Statement of profit or loss and other comprehensive income
For the year ended December 31, 2021
(All amounts are in Saudi Riyals unless otherwise stated)

		Year ended December 31,	
	Note	**2021**	**2020**
Revenue	21	**2,673,376,199**	1,733,523,675
Cost of revenue	22	**(2,394,416,429)**	(2,083,102,767)
Gross profit / (loss)		**278,959,770**	(349,579,092)
Selling and marketing expenses	23	**(103,168,096)**	(84,365,317)
General and administrative expenses	24	**(110,112,688)**	(102,451,705)
Provision for expected credit losses	10.2	**(42,774,206)**	(58,216,865)
Gain on sale of equipment and fixtures	4.2.1	**130,712,156**	99,520,004
Net foreign exchange loss		**(780,733)**	(1,803,430)
Other income / (expense)	27	**36,800,824**	(33,151,013)
Operating profit / (loss)		**189,637,027**	(530,047,418)
Finance income	25	**87,079**	1,569,348
Finance cost	26	**(138,074,097)**	(100,581,418)
Profit / (loss) before zakat		**51,650,009**	(629,059,488)
Zakat expense	20	**(872,016)**	-
Profit / (loss) for the year		**50,777,993**	(629,059,488)
Other comprehensive (loss) income			
Items that will not to be reclassified to statement of income in subsequent periods:			
Remeasurement (loss) gain on employees' end of service benefits liabilities	19.4	**(9,174,414)**	3,167,299
Total comprehensive income (loss) for the year		**41,603,579**	(625,892,189)

The accompanying notes 1 to 37 form an integral part of these financial statements.

FLYNAS COMPANY
(A Single Person Joint Stock Company)
Statement of changes in equity
For the year ended December 31, 2021
(All amounts are in Saudi Riyals unless otherwise stated)

	Share capital	Statutory reserve	Accumulated losses	Total
At January 1, 2020	1,534,250,000	150,000	(231,381,982)	1,303,018,018
Loss for the year	-	-	(629,059,488)	(629,059,488)
Comprehensive income for the year	-	-	3,167,299	3,167,299
Total comprehensive loss for the year	-	-	(625,892,189)	(625,892,189)
At December 31, 2020	1,534,250,000	150,000	(857,274,171)	677,125,829
At January 1, 2021	**1,534,250,000**	**150,000**	**(857,274,171)**	**677,125,829**
Profit for the year	-	-	**50,777,993**	**50,777,993**
Comprehensive loss for the year	-	-	**(9,174,414)**	**(9,174,414)**
Total comprehensive income for the year	-	-	**41,603,579**	**41,603,579**
At December 31, 2021	**1,534,250,000**	**150,000**	**(815,670,592)**	**718,729,408**

The accompanying notes 1 to 37 form an integral part of these financial statements.

FLYNAS COMPANY
(A Single Person Joint Stock Company)
Statement of cash flows
For the year ended December 31, 2021
(All amounts are in Saudi Riyals unless otherwise stated)

		Year ended December 31,	
	Note	**2021**	**2020**
Cash flows from operating activities			
Profit / (loss) for the year before zakat		**51,650,009**	(629,059,488)
Adjustments for:			
Depreciation on equipment and fixtures	4	**41,558,457**	87,280,126
Depreciation on right-of-use assets	5	**382,794,821**	362,333,849
Provision for employees' end of service benefits liability	19.4	**26,052,552**	29,473,324
Finance income	25	**(87,079)**	(1,569,348)
Finance cost	26	**138,074,097**	93,787,517
Gain on disposal of equipment and fixtures		**(130,712,156)**	(99,520,004)
Provision for expected credit losses	10.2	**42,774,206**	58,216,865
		552,104,907	(99,057,159)
Changes in operating assets and liabilities			
Stores and spares		**1,975,054**	387,370
Deposits for aircraft		**23,499,422**	20,309,298
Trade receivables		**(21,177,938)**	18,643,357
Prepayments and other current assets		**27,159,150**	31,872,111
Trade and other payables		**80,480,691**	548,319,410
Contract liabilities		**(59,897,259)**	(21,455,290)
Employees' benefits paid	19.4	**(17,784,048)**	(17,767,619)
Finance income received		**87,079**	1,569,348
Net cash flows generated from operating activities		**586,447,058**	482,820,826
Cash flows used in investing activities			
Acquisition of equipment and fixtures	4	**(365,572,429)**	(315,972,986)
Proceeds from the sale of equipment and fixtures		**130,712,156**	112,189,217
Net cash flows used in investing activities		**(234,860,273)**	(203,783,769)
Cash flows used in financing activities			
Payment of lease liabilities	16	**(360,049,430)**	(469,215,966)
Proceeds from loan	18	**-**	300,000,000
Finance cost paid		**(129,381,460)**	(55,110,533)
Net cash flows used in financing activities		**(489,430,890)**	(224,326,499)
Net (decrease) increase in cash and cash equivalents		**(137,844,105)**	54,710,558
Cash and cash equivalents at the beginning of the year		**435,407,400**	380,696,842
Cash and cash equivalents at the end of the year	12	**297,563,295**	435,407,400

The accompanying notes 1 to 37 form an integral part of these financial statements.

1 Corporate information

Flynas Company – A Single Person Joint Stock Company (the "Company") was incorporated in the Kingdom of Saudi Arabia ("KSA") under Commercial Registration No. 1010294138 dated 21 Ramadan 1431H (corresponding to 31 August 2010). The registered office is located 8018 Ar Rabi, Riyadh 13316-4040, KSA.

Pursuant to the Ministry of Commerce and Investment Resolution No. Q/161 dated 02 Jumada AlThani 1438H (corresponding to 1 March 2017), the Company has been converted from a Limited Liability Company to a A Single Person Joint Stock Company whereby, National Air Services – NAS Holding Company (the "Parent Company") owns 100% of the share capital of the Company.

The Company's licensed activities include purchase, sale and rent of aircraft and air transportation services for passengers and goods in addition to operating and managing of aircraft.

The Company performs its air transportation services, under the air operating certificate originally issued to the Parent Company by General Authority of Civil Aviation ("GACA") of KSA. During 2015, this air operating certificate was transferred by the Parent Company to the Company.

2 Significant accounting policies

2.1 Basis of preparation

2.1.1 Statement of compliance

These financial statements have been prepared in accordance with the International Financial Reporting Standards ("IFRS") that are endorsed in KSA and other standards and pronouncements endorsed by the Saudi Organization for Chartered and Professional Accountants ("SOCPA") (thereafter referred to as IFRS as endorsed in KSA) and in compliance with the provisions of Regulations for Companies and the Company's by-laws.

As at December 31, 2021 the Company's current liabilities exceeded its current assets by SAR 2,023 million (2020: SAR 1,655 million). These events or conditions may cast significant doubt on the Company's ability to continue as a going concern. However, based on the following factors, management strongly believes that the Company will continue for the foreseeable future and accordingly, the accompanying financial statements have been prepared on a going concern basis:

- The Company's performance significantly improved from last year as the net profit for the year was SAR 50.8 million whereas last year there was a loss of SAR 629 million.

-The Company management has prepared a four-year business plan which includes a significant positive impact on the margins and profitability of the Company primarily due to increase in fleet size and introduction of new routes.

- The adjusted net current asset position as of December 31, 2021 was SAR 420 million and is considered to have positive effect on the overall liquidity position of the Company (Also note 30.2). Such adjusted net current asset position was computed after excluding the effects of the following:

  a- contract liabilities of SAR 193 million - these mainly represent customer bookings, which are not expected to be repaid in normal course of business, but will be recorded as revenue when customers receive the services; and

  b- Adjustment for a Murabaha facility agreement signed with the participating banks subsequent to year end amounting to SAR 2,250 million. Also see note 36.

- Subsequent to the year end, the shareholders' of the Parent Company have also signed a resolution to support the Group and the Company to continue as a going concern.

2 Significant accounting policies (continued)

2.1 Basis of preparation (continued)

2.1.2 Historical cost convention

The financial statements of the Company have been prepared on a historical cost basis, except for end of service benefits that have been measured at the present value of the related obligation using the Projected Unit Credit Method ("PUCM").

2.1.3 Basis of measurement

The financial statements are presented in Saudi Riyal ("SAR"), which is Company's functional and presentation currency. All values are rounded to the nearest Saudi Riyal, unless otherwise stated.

2.2 Summary of significant accounting policies

2.2.1 Classification of assets and liabilities to current and non-current

The Company presents assets and liabilities in the statement of financial position based on current / non-current classification. An asset is current when it is:

- Expected to be realized or intended to be sold or consumed in the normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be realized within twelve months after the reporting period, or
- Cash or cash equivalents 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.

The Company classifies all other liabilities as non-current.

2.2.2 Equipment and fixtures

Equipment and fixtures are stated at cost, net of accumulated depreciation and/or accumulated impairment losses, if any. Cost includes expenditure that is directly attributable to the acquisition of the assets, cost of replacing parts of the equipment and fixtures and borrowing costs for long-term construction projects if the recognition criteria are met. All repair and maintenance costs are recognised in the statement of income as incurred.

Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets. Depreciation is started when the asset is available for its intended use. Leasehold improvements are depreciated at the shorter of its useful life or the lease term. The useful life of the assets are mentioned in note 4.1.

If significant parts of an item of equipment and fixtures have different useful lives, then they are accounted for as separate items (major components) of equipment and fixtures and depreciated accordingly.

2 Significant accounting policies (continued)

2.2 Summary of significant accounting policies (continued)

2.2.2 Equipment and fixtures (continued)

An item of equipment and fixtures is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of income when the asset is derecognized.

The residual values, useful lives, and methods of depreciation of equipment and fixtures are reviewed at each reporting period end and adjusted prospectively, if appropriate.

Capital work in progress (CWIP) is not depreciated and are stated at cost less accumulated impairment losses, if any. These assets are transferred to equipment and fixtures as and when assets are available for intended use.

The Company receives credits from manufacturers in connection with the maintenance of aircraft held under operating leases. These credits are set off against the cost of major overhaul expenditure capitalized.

2.2.3 Intangible asset

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and impairment losses, if any. Internally generated intangibles, excluding capitalised development costs, are not capitalised and the related expenditure is reflected in the statement of income in the period in which the expenditure is incurred. The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Intangible assets' residual values, useful lives and impairment indicators are reviewed at each financial year end and adjusted prospectively, if considered necessary. Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the statement of income when the asset is derecognised.

2.2.4 Financial instruments

Recognition and initial measurement

Accounts receivable issued are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the Company becomes party to the contractual provisions of the instrument.

A financial asset (unless it is an accounts receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue. Accounts receivables without a significant financing component are initially measured at the transaction price.

2 Significant accounting policies (continued)

2.2 Summary of significant accounting policies (continued)

2.2.4 Financial instruments (continued)

2.2.4.1 Financial assets

Classification of financial assets

On initial recognition, a debt financial asset is classified as measured at: amortised cost, fair value through other comprehensive income (FVOCI) or fair value through profit or loss (FVTPL).

A debt financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as FVTPL:

(a) the asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
(b) 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.

Subsequent measurement

Financial assets held at amortised cost are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in the statement of income. Any gain or loss on derecognition is also recognised in the statement of income.

Reclassifications

Financial assets are not reclassified subsequent to their initial recognition, except in the period in which the Company changes its business model for managing financial assets.

Derecognition

A financial asset is derecognised when:

The rights to receive cash flows from the asset have expired, or

The Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement, and either:

(a) the Company has transferred substantially all the risks and rewards of the asset, or
(b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset but has transferred control of the asset.

Expected credit loss assessment for financial assets

The Company assesses on a forward-looking basis the Expected Credit Losses ("ECL") associated with its debt instruments as part of its financial assets, carried at amortised cost.

For trade receivables measured at amortised cost, the Company applies IFRS 9 simplified approach for measuring ECL from initial recognition. To measure ECL, receivables have been grouped based on shared credit risk characteristics and the days past due. Expected loss rates were derived from historical information of the Company and are adjusted to reflect the expected future outcome which also incorporates forward looking information for macroeconomic factors. The Company has identified GDP of KSA (the country in which it renders the services) to be the most relevant factor, and accordingly adjusts the historical loss rates based on expected changes in these factors.

2 Significant accounting policies (continued)

2.2 Summary of significant accounting policies (continued)

2.2.4 Financial instruments (continued)

2.2.4.1 Financial assets (continued)

Expected credit loss assessment for financial assets (continued)

The financial assets, other than trade receivables, of the Company are categorized as follows:

1- Performing: these represent the financial assets where customers have a low risk of default and a strong capacity to meet contractual cash flows. Up to 30 days past due balances do not result in significant increase in credit risk and are considered as performing.

   The Company measures the loss allowance for performing financial assets at an amount equal to 12-month expected credit losses. Where the expected lifetime of an asset is less than 12 months, expected losses are measured at its expected lifetime. 12-month expected credit losses are the portion of expected credit losses that results from default events on the financial assets that are possible within 12 months after the reporting date.

2- Underperforming: these represent the financial assets where there is a significant increase in credit risk and that is presumed if the customer is more than 30 days past due in making a contractual payment.

   The Company measures the loss allowance for underperforming financial assets at an amount equal to lifetime expected credit losses.

3- Non-performing: these represent defaulted financial assets. A default on a financial asset is considered when the customer fails to make a contractual payment/installment within 90 days after they fall due.

   The Company measures the loss allowance for non-performing financial assets at an amount equal to lifetime expected credit losses.

Write-off

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Company determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

2.2.4.2 Financial liabilities

Classification of financial liabilities

The Company classifies its financial liabilities, other than financial guarantees and loan commitments, as measured at amortized cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition.

Subsequent measurements

Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognized in the statement of profit or loss. Other financial liabilities are subsequently measured at amortized cost using the EIR method. Interest expense and foreign exchange gains and losses are recognized in the statement of profit or loss. Any gain or loss on derecognition is also recognized in the statement of profit or loss.

2 Significant accounting policies (continued)

2.2 Summary of significant accounting policies (continued)

2.2.4 Financial instruments (continued)

2.2.4.2 Financial liabilities (continued)

Derecognition

A financial liability is derecognized 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 recognized in the statement of profit or loss.

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

2.2.4.3 Offsetting of financial instruments

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

2.2.5 Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Company has access at that date. The fair value of a liability reflects its non-performance risk.

When measuring the fair value of an asset or a liability, the Company uses observable market data as far as possible. Fair values are categorised into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
Level 2: inputs other than quoted prices included in 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).

Fair value related disclosures for financial instruments and non-financial assets that are measured at fair value or where fair values are disclosed in note 29 to these financial statements.

2.2.6 Stores and spares

Items of stores and spares are valued at invoice price and related expenses incurred up to the statement of financial position date. The Company reviews the carrying amount of stores and spares on a regular basis and provision is made for obsolescence if there is any change in usage pattern and physical form of related stores and spares.

2.2.7 Cash and cash equivalents

Cash and cash equivalents are items which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value. Cash and cash equivalents comprise cash in hand, bank balances and time deposits with original maturities of three months or less.

2 Significant accounting policies (continued)

2.2 Summary of significant accounting policies (continued)

2.2.8 Employees' benefits

Short-term employee benefits

Short-term employee benefits are expensed as the related service is provided. A liability is recognised for the amount expected to be paid if the Company has a present legal or constructive obligation to pay the amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Employee benefits are payable to all employees employed under the terms and conditions of the Labor Laws applicable on the Company on termination of their employment contracts.

Employees' end of service benefits

Employees' end of service benefits ("EOSB") are provided for in accordance with the requirements of the Saudi Arabian Labor Law. These employees' end of service benefits represent a defined benefit plan. A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The net EOSB liability recognised in the statement of financial position in respect of defined benefit post-employment plans is the present value of the projected defined benefit obligation ("DBO") at the statement of financial position date. The DBO is calculated using the projected unit credit method. Re-measurement gains or losses, if any, are recognised and reported under the statement of changes in equity with corresponding debit or credit to Other Comprehensive Income ("OCI") that comprises of remeasurements of DBO.

2.2.9 Impairment of non-financial assets

The Company, at each reporting period, reviews the carrying amounts of its non-financial assets to determine whether there is any indication that those assets have suffered any 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. Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate (where applicable) 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 statement of income.

When an impairment loss subsequently reverses, the carrying amount of the asset (or a 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 periods. A reversal of an impairment loss is recognised immediately in the statement of income.

2 Significant accounting policies (continued)

2.2 Summary of significant accounting policies (continued)

2.2.10 Revenue recognition

Revenue is measured based on the consideration specified in a contract with a customer and excludes amounts collected on behalf of third parties. The Company recognises revenue when it transfers control over a product or service to a customer.

The Company assess the services promised in a contract with a customer and identifies as a performance obligation either a:

(a) service that is distinct, or
(b) series of distinct services that are substantially the same and that have the same pattern of transfer to the customer (i.e., each distinct service is satisfied over the time and the same method is used to measure progress).

Variable consideration

If the consideration promised in a contract includes a variable amount, the Company estimates the amount of consideration to which the Company is entitled in exchange for transferring the promised goods or services to a customer. The Company estimates the transaction price on contracts with variable consideration using the expected value or most likely amount method. The method is applied consistently throughout the contract and to similar types of contracts.

Significant financing component

The Company adjusts the promised amount of consideration for the time value of money if the contract contains a significant financing component.

Specific recognition criteria

Specific recognition criteria described below must also be met before revenue is recognised.

Base fare unutilized tickets

Revenue from air operator services is recognized when the performance obligation is satisfied i.e., when transportation is provided. Unused and unexpired tickets, after deduction of contractual charges, are shown as a liability under contract liabilities are recognised as revenue when these tickets are not expected to be exercised by the customer.

Ancillary services and change fee

Ancillary services and change fee are recorded when the existing performance obligation is satisfied i.e., when transportation is provided.

Travel vouchers

On issuance of promotional travel vouchers, the Company establishes a provision representing management's best estimate of benefits that will be provided to customers in the future. The provision is then reversed upon actual utilization of such vouchers.

Loyalty program

Revenue with respect to tickets issued with loyalty points is allocated between 'Base Fare' and 'Loyalty points' based on their respective standalone selling prices. Revenue recognized on operation of flight is restricted to value of adjusted standalone price of Base Fare. Revenue with respect to loyalty points is deferred and recognized upon actual utilization of points.

2 Significant accounting policies (continued)

2.2 Summary of significant accounting policies (continued)

2.2.10 Revenue recognition (continued)

Principal vs agent
The Company acts as a principal if it controls promised service before it transfers the service to a customer. In this case the Company recognises the revenue with the gross amount and charges the commission to the expense account. While acting as agent, the Company recognizes the net amount as revenue after commission paid to the principal.

Management fee for the aircraft
Revenue as management fee for the services provided to the customers is recognised over time as the benefits are received and consumed simultaneously by the customer upon the satisfaction of the performance obligation.

2.2.11 Contract liability

Contract liability mainly represents unutilised ticket rights of the customers and it will be recognised as revenue in the statement of income for periods subsequent to the reporting date when earned, or either are not expected to be exercised by the customer.

2.2.12 Leases

The Company recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset (redelivery cost), less any lease incentives received.

The right-of-use is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use are determined on the same basis as those of equipment and fixtures. In addition, the right-of-use asset is periodically reduced by impairment losses, if any and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the company’s incremental borrowing rate.

<u>Short-term leases and leases of low-value assets:</u>
The Company has elected not to recognize right-of-use assets and lease liabilities for short-term leases that have lease term of 12 months or less and leases of low-value assets. The company recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

<u>Sale and lease back transactions:</u>
The Company regularly uses sale and leaseback transactions to finance the acquisition of aircraft. Each transaction is assessed as to whether it meets the criteria within IFRS 15 ‘Revenue from contracts with customers’ for a sale to have occurred. If a sale has occurred, then the associated asset is de-recognised, and a ROU asset and lease liability is recognised. The ROU asset recognised is based on proportion of the previous carrying amount of the asset that relates to the right of use retained by the seller-lessee. Any gains or losses are restricted to the amount that relates to the rights that have been transferred to the counter party to the transaction. Where a sale has not occurred, the asset is retained on the balance sheet within property, plant and equipment, and an asset financed liability recognised equal to the financing proceeds. Where new financing arrangements do not meet these recognition criteria due to the fact they are ‘in substance purchases’ and not leases, the related liability is recognised as an asset financed liability and the assets as an owned asset within Property, plant and equipment.

2 Significant accounting policies (continued)

2.2 Summary of significant accounting policies (continued)

2.2.13 Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are discounted using a current rate that reflects, when appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost in the statement of income. The present value of the expected cost of return condition of aircraft and engines held under operating leases is recognised over the lease term considering the existing fleet plan and long-term maintenance schedules.

Contingent assets are not recognized in the financial statements, but are disclosed when an inflow of economic benefits is probable.

An assessment is made at each reporting date to recognize contingent liabilities which are probable obligations arising from past events whose existence is confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly under the control of the Company, to assess whether provision is required.

2.2.14 Zakat

National Air Services - NAS Holding (the Parent Company) files Zakat returns on a consolidated basis. Accordingly, the Company's zakat charge is initially estimated in accordance with the Zakat, Tax and Customs Authority ("ZATCA") regulations at the Parent Company level (on a consolidated basis) and then allocated to the Company by the Parent company. Provision for zakat for the Company, if any, is charged to the statement of income and other comprehensive income. Additional amounts payable, if any, at the finalization of final assessments at the Parent Company level are accounted for when such amounts are determined.

The Company withholds taxes on certain transactions with non-resident parties in KSA as required under Saudi Arabian Income Tax Law.

2.2.15 Statutory reserve

In accordance with the Saudi Arabian Regulations for Companies, the Company must transfer at least 10% of the net income in each year to the statutory reserve after absorption of accumulated losses, until it has built a reserve equal to 30% of the share capital. This reserve is not available for distribution to the shareholder of the Company.

2.2.16 Foreign currencies

Transaction and balances

Transactions in foreign currencies are initially recorded by the Company at functional currency spot rate at the date the transaction first qualifies for recognition.

Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange prevailing at the financial statements date. All differences are recognised in the statement of income.

2.2.17 Operating profit /loss

Operating profit / loss is the result generated from the continuing principal revenue producing activities of the Company as well as other income and expenses related to operating activities. Operating profit /loss excludes finance costs, finance income and other non-operating expenses.

2 Significant accounting policies (continued)

2.2 Summary of significant accounting policies (continued)

2.2.18 Maintenance and repairs

Maintenance and repair costs for leased aircraft is charged to Maintenance and other aircraft costs as incurred, with the exception of maintenance and repair costs related to return conditions on aircraft under lease, which are accrued over the term of the lease, and major maintenance expenditures on leased aircraft, which are capitalized.

2.2.19 Selling, distribution, general and administration expenses

Selling, distribution, general and administration expenses include direct and indirect costs not specifically part of cost of revenues. Allocations between cost of providing services and selling, distribution, general and administration expenses, when required, are made on a consistent basis.

2.2.20 Interest income or expense

For all financial instruments measured at amortised cost, interest income or expense is recorded using effective interest rate ("EIR") method. EIR is the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability. Interest income is included as finance income in the statement of income.

3 Significant accounting judgments, estimates and assumptions

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

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

3.1 Judgments

In the process of applying the Company's accounting policies, management has made the following judgments, which have the most significant effect on the amounts recognised in the financial statements.

3.1.1 Determining the lease terms of the contracts

The Company determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised. The Company has several lease contracts that include extension and termination options. The Company applies judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination.

3.1.2 Going concern

The Company's management has made an assessment of the Company's ability to continue as a going concern and is satisfied that the Company has the resources to continue its business for the foreseeable future. Except as stated in note 2.1.1 of these financial statements, the management is not aware of any material uncertainties that may cast significant doubt on the Company's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on a going concern basis.

3 Significant accounting judgments, estimates and assumptions (continued)

3.2 Assumption and estimation uncertainties

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

(i) Impairment of non-financial assets

IFRS requires management to undertake an annual test for impairment of indefinite lived assets and, for finite lived assets, to test for impairment if events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Impairment testing is an area involving management judgment, requiring inter alia an assessment as to whether the carrying value of assets can be supported by the net present value of future cash flows derived from such assets using cash flow projections which have been discounted at an appropriate rate. In calculating the net present value of the future cash flows, certain assumptions are required to be made in respect of highly uncertain matters including management's expectations of:

(a) growth in earnings before interest, zakat, depreciation and amortization (EBITDA), calculated as adjusted operating profit before depreciation and amortization;
(b) timing and quantum of future capital expenditure;
(c) long term growth rates; and
(d) selection of discount rates to reflect the risks involved.

Reasonable change in the key assumptions will not significantly affect the Company's impairment evaluation and hence results.

Other key estimates relating to indefinite lived assets (AoC Intangible) have been disclosed in point number (vi).

(ii) Employees' end of service benefits liability

The present value of the employees' end of service benefits liability is determined using actuarial valuations. An actuarial valuation involves making various assumptions which may differ from actual developments in the future. These include the determination of the discount rate, future salary increases and mortality rates. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, a DBO is highly sensitive to changes in these assumptions. All assumptions are reviewed annually.

<u>Discount rate</u>

The parameter most subject to change is the discount rate. In determining the appropriate discount rate, management considers the rate of return on high-quality fixed income investments currently available and the expected period to maturity of the employees' end of service benefits liability.

<u>Salary increases</u>

Estimates of future salary increase, takes into account inflation, seniority, promotion, and past history.

(All amounts are in Saudi Riyals unless otherwise stated)

3 Significant accounting judgments, estimates and assumptions (continued)

3.2 Assumption and estimation uncertainties (continued)

(iii) Allowance for expected credit losses

Accounts and other receivables are stated at their amortized cost as reduced by appropriate allowances for estimated irrecoverable amounts. Estimated irrecoverable amounts are based on the ageing of the receivable balances and historical experience adjusted appropriately for the macroeconomic factors and future expectations. Individual receivables are written off when management deems them not to be collectible.

(iv) Leases - Estimating the incremental borrowing rate

The application of IFRS 16 Leases requires assumptions and estimates in order to determine the value of the right-of-use assets and the lease liabilities which mainly relate to the implicit and incremental rates of borrowing, as applicable. Judgement must also be applied as to whether renewal options are reasonably certain of being exercised.

(v) Maintenance provisions

The recording of maintenance provisions related to return conditions on aircraft leases requires management to make estimates of the future costs associated with the maintenance events required under the lease return conditions at the time of lease expiry. These estimates take into account current costs of these maintenance events, estimates of inflation surrounding these costs as well as assumptions surrounding utilization of the related aircraft. The effect of any changes in estimates, including changes in discount rates, inflation assumptions, cost estimates or lease expiries, is recognized as an adjustment to the right-of-use asset and related lease liabilities.

(vi) Intangible assets related to AOC (Landing rights)

Useful life of AOC

AoC has a remaining legal useful life of three years but is renewable every 5 years with insignificant cost. The Company intends to renew the AoC continuously and evidence supports its ability to do so, based on its past experience.

An analysis of life cycle studies and market and competitive trends provides evidence that AoC will generate net cash inflows for an indefinite period. Therefore, AoC is carried at cost without amortisation, but is tested for impairment on an annual basis. See also note 6.

4 Equipment and fixtures

	Note	2021	2020
Equipment and fixtures	4.2	**262,430,203**	228,175,785
Capital work in progress (CWIP)	4.3	**752,090,736**	462,331,182
		1,014,520,939	690,506,967

4 Equipment and fixtures (continued)

4.1 Useful life

The estimated useful lives of the assets for the calculation of depreciation are as follows:

	Number of years
Aircraft	25 years
Aircraft equipment	3 to 5 years
Modification on leased aircraft and leasehold improvements	3 - 5 years or period of lease, whichever is shorter
Furniture and fixtures	3 - 4 years or period of lease, whichever is shorter

(All amounts are in Saudi Riyals unless otherwise stated)

4 Equipment and fixtures (continued)

4.2 Equipment and fixtures

	Note	Aircraft and aircraft equipment	Modification on leased aircraft and leasehold improvements	Furniture and fixtures	Total
Net book value as at January 1, 2020		146,652,586	14,495,511	3,891,791	165,039,888
Cost					
As at January 1, 2020		426,269,983	48,975,843	14,749,060	489,994,886
Additions		1,159,395,360	-	1,504,417	1,160,899,777
Disposals	4.2.1	(1,124,864,674)	-	-	(1,124,864,674)
Transfers from CWIP	4.3	100,436,986	13,883,905	60,029	114,380,920
At December 31, 2020		561,237,655	62,859,748	16,313,506	640,410,909
Accumulated depreciation					
As at January 1, 2020		279,617,397	34,480,332	10,857,269	324,954,998
Charge for the year		77,725,857	7,198,700	2,355,569	87,280,126
At December 31, 2020		357,343,254	41,679,032	13,212,838	412,235,124
Net book value as at December 31, 2020		203,894,401	21,180,716	3,100,668	228,175,785
Cost					
As at January 1, 2021		**561,237,655**	**62,859,748**	**16,313,506**	**640,410,909**
Additions		**1,791,404,881**	**-**	**1,330,874**	**1,792,735,755**
Disposals	4.2.1	**(1,793,004,488)**	**-**	**(164,650)**	**(1,793,169,138)**
Transfers from CWIP	4.3	**62,130,815**	**13,950,793**	**-**	**76,081,608**
At December 31, 2021		**621,768,863**	**76,810,541**	**17,479,730**	**716,059,134**
Accumulated depreciation					
As at January 1, 2021		**357,343,254**	**41,679,032**	**13,212,838**	**412,235,124**
Charge for the year		**33,414,782**	**6,008,758**	**2,134,917**	**41,558,457**
Disposals		**-**	**-**	**(164,650)**	**(164,650)**
At December 31, 2021		**390,758,036**	**47,687,790**	**15,183,105**	**453,628,931**
Net book value as at December 31,2021		**231,010,827**	**29,122,751**	**2,296,625**	**262,430,203**

(All amounts are in Saudi Riyals unless otherwise stated)

4 Equipment and fixtures (continued)

4.2 Equipment and fixtures (continued)

Depreciation expense breakup	**2021**	**2020**
Cost of revenue (note 22)	**39,423,540**	84,924,557
General and administrative expenses (note 24)	**2,134,917**	2,355,569
	41,558,457	87,280,126

4.2.1 Disposal

During the year, the Company has entered into sale and lease back transaction for its ten (2020: six) aircraft which resulted in a cumulative gain of SAR 129.7 million (2020: SAR 99.5 million) that was recognised in the statement of income and other comprehensive income.

4.3 Capital work in progress

Capital work in progress as at December 31, 2021 and 2020 consists of advances paid in respect of pre-delivery purchase of aircrafts amounting to SAR 703.2 million (2020: SAR 449.1 million) and a spare engine amounting to SAR 46.3 million (2020: SAR 7.6 million).

4.3.1 Movement in CWIP

	2021	**2020**
January 1,	**462,331,182**	297,035,622
Additions	**365,841,162**	279,676,480
Transfers to equipment and fixtures	**(76,081,608)**	(114,380,920)
December 31,	**752,090,736**	462,331,182

5 Right-of-use assets

The cost of right-of-use assets is depreciated over a straight-line method over the estimated useful life of the assets based on the period of the lease contracts.

	2021	**2020**
January 1,	**1,758,367,834**	1,007,525,095
Additions	**1,620,193,165**	1,129,484,549
Termination	**(33,288,839)**	(16,307,961)
Depreciation	**(382,794,821)**	(362,333,849)
December 31,	**2,962,477,339**	1,758,367,834

(All amounts are in Saudi Riyals unless otherwise stated)

5 Right-of-use assets (continued)

5.1 The right-of-use assets are segregated as below:

	Aircraft	Leasehold buildings	Vehicles	Engines	Total
As at January 1, 2020	860,798,939	110,194,838	9,350,945	27,180,373	1,007,525,095
Additions	1,124,459,120	5,025,429	-	-	1,129,484,549
Termination	-	-	(3,034,540)	(13,273,421)	(16,307,961)
Depreciation	(298,675,822)	(43,434,670)	(6,316,405)	(13,906,952)	(362,333,849)
At December 31 2020	1,686,582,237	71,785,597	-	-	1,758,367,834

	Aircraft	Leasehold buildings	Vehicles	Engines	Total
As at January 1, 2021	**1,686,582,237**	**71,785,597**	-	-	**1,758,367,834**
Additions	**1,589,193,772**	**30,999,393**	-	-	**1,620,193,165**
Termination	-	**(33,288,839)**	-	-	**(33,288,839)**
Depreciation	**(358,295,456)**	**(24,499,365)**	-	-	**(382,794,821)**
At December 31 2021	**2,917,480,553**	**44,996,786**	-	-	**2,962,477,339**

The Company conducted an impairment review in respect of right-of-use assets. Terminal growth rate and discount rate of 2% and 14.5% have been applied to the cash flows. A reasonably possible change in any of the key assumptions would not lead to an impairment charge.

6 Intangible assets

During 2015, pursuant to approval from the Parent Company's Board of Directors and its shareholders, the Parent Company transferred the Air Operator Certificate ("AOC") issued to it by GACA to the Company at its fair value of SAR 2,000 million, through non-cash consideration.

AOC is a certificate issued by GACA of KSA authorizing the Company to perform commercial air operations including airport access and landing rights (including access to slots) and Hajj and Umrah Operations. Management has assessed the useful life of AOC and concluded that it has indefinite useful life. (Also see judgement note on useful life of AoC).

Based on the annual impairment assessment, the management concluded that there is no impairment required as the fair value of AOC is more than the carrying value. The management appointed an external expert for impairment assessment. The details about valuation method are provided in note 6.1 below:

6.1 Valuation method

The Company has consistently applied fair value less cost of disposal approach to assess the impairment of AOC. The fair value was based on income approach i.e., "Green field method". This method is based on the assumption that a business commences its trade at the measurement date with only the asset in question and accordingly generates cash flows over its economic life.

The fair value measurement is categorised as a level 3 input in fair value hierarchy i.e., inputs to model are not based on observable market date.

6 Intangible assets (continued)

6.1 Valuation method (continued)

Key assumptions used to determine the fair value is as follows:

Cashflow projections
For valuation purposes, 17 years cash flow projections were used and for the later period terminal value was based on earning multiple i.e., Gordon n Growth Model.

Discount rate
Discount rate is based on build up approach that is based on past experience and external sources, comprising of the following:

- The real yield on long term US Bonds (given the lack of default free government bonds in the region)
- Average long term KSA inflation premium based on long term inflation expectations
- The equity risk premium
- Country risk premium
- Average beta of aviation sector in the Emerging Markets
- Average gearing of aviation sector in the Emerging Markets
- Size and specific risk premium

While performing the valuation, the discount rate was estimated in the range of 14.5% to 15.5%.

Compound Annual Growth rate (CAGR) used to extrapolate cash flows beyond forecast period

This CAGR has been determined based on long term inflation forecast of Kingdom of Saudi Arabia and the terminal growth rate used was at 2%.

Sensitivity analysis as at 31 December 2021

Given below is the impact of sensitivity analysis on the fair value of AoC due to standalone changes in key assumptions used in the valuation of AOC, considering all other assumptions are being constant:

	Chance in percentage by %	**Impact on the fair value of AOC by SAR million**
Increase in discount rate	**1%**	**159**
Decrease in passenger yield	**5%**	**290**
Decrease in load factor	**5%**	**315**

None of the above changes in discount rate, passenger yield and load factor will reduce the fair value of AoC to such an extent as to result in impairment charges.

7 Investment in associates

Despite nominal investment of the Company in the below mentioned companies, they are considered to be associates as per the requirements of IAS - 28 "Investments in Associates and Joint Ventures" because the Company has significant influence over their financial and operating policies by virtue of common ownership and representation of the common directors on the board of the Parent Company. These investments are in equity shares of unlisted entities. Owing to the immateriality of these associates, share of results from the operations of these associates have not been considered in preparation of these financial statements. The carrying value of these investments approximates to their fair values. The principal place of business of these entities is in KSA.

Unquoted limited liability companies registered in KSA	**Ownership %**	**2021**	**2020**
Flynas Hajj & Umrah Company Limited	2%	**6,000**	6,000
NAS Private Aviation Company Limited	2%	**6,000**	6,000
NAS Aircraft Technical Services Company Limited	2%	**6,000**	6,000
		18,000	18,000

(All amounts are in Saudi Riyals unless otherwise stated)

8 Stores and spares

	Note	2021	2020
Stores and spares		**12,817,553**	15,179,977
Less: Provision for obsolescence	8.1	**(8,384,000)**	(8,771,370)
		4,433,553	6,408,607

8.1 Movement in provision for obsolescence

	2021	2020
January 1,	**8,771,370**	8,384,000
Provision during the year	**-**	387,370
Utilised during the year	**(387,370)**	-
December 31,	**8,384,000**	8,771,370

9 Deposits for aircraft

	2021	2020
Non-current portion	**45,157,987**	43,594,229
Current portion	**56,442,617**	82,840,362
	101,600,604	126,434,591

Deposits for aircraft represent the deposits paid to leasing companies as security to cover the lease rentals and maintenance obligations as per lease agreements.

10 Trade receivables

	Note	2021	2020
Third-party customers	10.1	**146,762,769**	141,785,382
Related parties	31.3	**120,246,667**	104,046,116
		267,009,436	245,831,498
Allowance for expected credit losses	10.2	**(162,465,985)**	(119,691,779)
		104,543,451	126,139,719

Trade receivables are non-interest bearing and are generally on terms of 15 to 90 days.

10.1 This includes a receivable from GACA amounting to SAR 32.32 million (2020: SAR 58.78 million). This pertains to the agreement between GACA and the Company effective 1 November 2016, whereby GACA will reimburse certain operational expenses incurred by the Company for operating flights from Abha airport to certain agreed destinations within the Kingdom of Saudi Arabia.

10.2 Set out below is the movement in the allowance for expected credit losses of trade receivables:

	2021	2020
January 1,	**119,691,779**	61,474,914
Provision for expected credit losses	**42,774,206**	58,216,865
December 31,	**162,465,985**	119,691,779

(All amounts are in Saudi Riyals unless otherwise stated)

11 Prepayments and other current assets

	Note	2021	2020
Progress payments for aircraft maintenance expenditure		**15,563,914**	51,617,989
Deposits to vendors	11.1	**49,124,530**	24,051,325
Advances to suppliers		**4,189,013**	9,094,615
Prepayments		**3,500,605**	4,836,266
Contract assets		**-**	2,405,682
Other receivables		**2,543,167**	6,567,436
		74,921,229	98,573,313

11.1 The balance represents security deposits paid to vendors mainly for fuel, civil aviation authorities and handling agents.

12 Cash and cash equivalents

	2021	2020
Cash in hand	**991,311**	955,351
Cash at banks	**296,571,984**	109,452,049
	297,563,295	110,407,400
Time deposit (maturity of less than three months at the time of placement)	**-**	325,000,000
	297,563,295	435,407,400

13 Share capital

As at December 31, 2021 and 2020, the authorized, issued and fully paid share capital of the Company consists of 153,425,000 shares of SAR 10 each.

14 Statutory reserve

In accordance with the Regulations for Companies in the Kingdom of Saudi Arabia and the Company's By-laws, the Company is required to transfer 10% of the net income for the year, after absorption of any accumulated losses, to a statutory reserve until it equals to 30% of its share capital. The reserve is currently not available for distribution to the shareholder of the Company. No transfer has been made during the current year due to accumulated losses of the Company.

15 Trade and other payables

	Note	2021	2020
Trade payables		**1,242,483,737**	1,294,837,994
Accrued expenses		**399,549,302**	309,901,481
Passenger taxes payable		**152,173,976**	132,402,803
Taxes payable		**39,847,756**	39,635,166
Due to related parties	31.3	**7,257,610**	802,714
Other		**211,519,920**	190,228,853
		2,052,832,301	1,967,809,011
Non-current portion	15.1	**(316,486,644)**	(268,932,681)
Current portion		**1,736,345,657**	1,698,876,330

(All amounts are in Saudi Riyals unless otherwise stated)

15 Trade and other payables (continued)

15.1 During 2019, the Company submitted a repayment plan to GACA and requested to reschedule amounts payable to GACA over five years period with commitment to settle any new invoices as and when it becomes due. GACA has accepted the repayment plan of the Company which was approved by the Ministry of Finance during 2021.

Starting 2019 such non-current liabilities arising from arrangements have been remeasured at their present value in the financial statements.

16 Lease liabilities

	2021	**2020**
At the beginning of the year	**1,868,227,855**	1,121,562,463
Additions	**1,601,412,140**	1,158,229,443
Termination	**(34,203,517)**	(18,154,611)
Finance cost (note 26)	**126,851,958**	75,806,526
Payments	**(463,698,619)**	(469,215,966)
	3,098,589,817	1,868,227,855

16.1 Lease liabilities are segregated as below:

	2021	**2020**
Current portion	**333,001,069**	377,285,229
Non-current portion	**2,765,588,748**	1,490,942,626
	3,098,589,817	1,868,227,855

Lease liabilities include SAR 315.6 million (2020: SAR 216.9 million) in relation to the re-delivery and fixed maintenance cost.

Expense relating to short-term leases during the year 2021 amounted to SAR 23,202,769 (2020: SAR 77,109,015) (note 22).

17 Contract liabilities

	Note	**2021**	**2020**
Unutilized tickets	17.1	**164,353,299**	226,998,327
Customer loyalty points	17.2	**16,622,781**	16,491,603
Advances from customers	17.3	**12,477,617**	9,861,026
		193,453,697	253,350,956
Revenue recognized during the year that was included in the contract liability balance at the beginning of the year		**163,321,823**	234,035,310

17.1 Revenue deferred during the year was SAR 2,432,912,573 (2020: SAR 1,488,391,740) and revenue recognised during the year amounted to SAR 2,495,557,601 (2020: SAR 1,518,726,009).

Unutilized tickets include Credit shells (travel voucher) which have an expiry of one year from date of issuance. Breakage may occur if customers do not redeem their unutilized credit shells prior to expiry and would be recognised in revenue. As at 31 December 2021, the Company has recorded in the full liability for unexpired credit shells because in the backdrop of Covid-19 and the significant level of flights cancellation there are no sufficient historical data available to reliably estimate the amount of expired credit shells that will not be used prior to expiry. Applying a breakage at 20% on the credit shells would result in a SAR 8 million reduction to such liability.

(All amounts are in Saudi Riyals unless otherwise stated)

17 Contract liabilities (continued)

17.2 Customer loyalty points redeemed during the year was SAR 537,755 (2020: SAR 129,458) and points earned and sold during the year was SAR 406,577 (2020: SAR 761,509). Customer loyalty points have two years expiration. The management of the Company believes that any breakage estimate related to such points is not material.

17.3 All other remaining performance obligations, if any, are expected to be recognised within one year.

18 Loans

During 2020, the Company obtained a commission free loan of SAR 300 million from Saudi Industrial Development Fund (SIDF), repayable in 4 semi-annual installments of SAR 75 million each starting due from 15 September 2021 spreading over to until 18 February 2023.

During 2021, the Company had a verbal agreement with SIDF to reschedule the payments due by one year and as such no payment was carried out for the installment due in 2021. Since no written acknowledgment was received from SIDF as at 31 December 2021, the entire outstanding loan amount has been reclassified as a current liability.

19 Employees' end of service benefits

19.1 Actuarial valuation

The most recent actuarial valuation was performed as of December 31, 2021 by an independent actuary.

19.2 Principal actuarial assumptions

	2021	**2020**
Salary increase rate	**5.00%**	5.0%
Discount rate	**3%**	3.5%

The actuarial valuation was conducted using Projected Unit Credit method.

19.3 Employees' end of service benefits expense

	2021	**2020**
Current service cost	**19,570,283**	23,456,744
Interest cost on benefit liabilities	**6,482,269**	6,016,580
Total benefit expense	**26,052,552**	29,473,324

19.4 Movement of present value of employees' end of service benefits liability

	Note	**2021**	**2020**
January 1,		**181,141,302**	172,602,896
Charge for the year	19.3	**26,052,552**	29,473,324
Benefits paid		**(17,784,048)**	(17,767,619)
Remeasurement gain (loss) on employees' end of service benefits liabilities		**9,174,414**	(3,167,299)
December 31,		**198,584,220**	181,141,302

19 Employees’ end of service benefits (continued)

19.5 Employees' end of service benefits liability sensitivity analysis

A quantitative sensitivity analysis for significant assumption on the employees' end of service benefits liability as at December 31, 2021 and December 31, 2020 is shown below:

Assumptions	**Salary increase rate**		**Discount rate**	
Sensitivity level	**1%**	**1%**	**0.5%**	**0.5%**
	Increase	**Decrease**	**Increase**	**Decrease**
December 31, 2021	**205,375**	**186,472**	**189,656**	**197,278**
December 31, 2020	183,988	167,552	171,338	179,762

The sensitivity analysis above has been determined based on a method that extrapolates the impact on the employees' end of service benefits liability as a result of reasonable changes in key assumptions occurring as at December 31, 2021 and December 31, 2020. The sensitivity analysis is based on a change in a significant assumption, keeping all other assumptions constant. The sensitivity analysis may not be representative of an actual change in DBO as it is unlikely that changes in assumptions would occur in isolation of one another.

The weighted average duration of the end of service benefits plan obligation as at December 31, 2021 is 4.61 years (2020: 4.62 years). The expected maturity analysis is as follows (in thousands):

	Less than one year	**1–2 years**	**3-5 years**	**Over 5 years**	**Total**
December 31, 2021	**28,059**	**30,363**	**56,357**	**157,562**	**272,341**

20 Zakat

Charge for the year and status of assessments

Filing as part of the Parent Company:
From the year 2013, zakat returns are filed on a consolidated basis by the Parent Company. Accordingly, the Company’s zakat charge for the year is initially calculated at the Parent Company level (on a consolidated basis) and then allocated to the Company by the Parent Company, if any. During the year, no amount (2020: Nil) was allocated to the Company by the Parent Company in relation to the zakat charge of the Company for the current year because the management believes that such impact is not material for the year ended December 31, 2021.

Individual filing:
ZATCA raised initial assessments for the year ended and up to December 31, 2011. The assessment for 2012 has not yet been raised by ZATCA.

21 Revenue

	Note	**2021**	**2020**
Scheduled	21.1	**2,505,123,025**	1,520,398,193
Unscheduled		**2,938,114**	16,923,525
General aviation		**165,315,060**	196,201,957
		2,673,376,199	1,733,523,675

- Scheduled: relates to the main operation of passenger commercial flights that includes such as base fare, airport, fuel, admin surcharge and other ancillary revenue such as excess baggage, inflight meals, seat selection charges etc.

(All amounts are in Saudi Riyals unless otherwise stated)

21 Revenue (continued)

- Unscheduled: the Company operates special flights for Hajj and Umrah passengers under service level agreement with Flynas Hajj and Umrah and other parties.

- General aviation: related to operations of charter flights under contract with parties, the contracts are based on trips or flying hours basis.

21.1 Geographical revenue analysis for scheduled passenger revenue

	2021	**2020**
International	**1,057,187,864**	552,404,279
Domestic	**1,403,441,613**	952,058,663
Other	**44,493,548**	15,935,251
	2,505,123,025	1,520,398,193

21.2 Performance obligations

The Company provides certain promises that are considered as a performance obligation. Key obligations in a customer contract are**:**

<u>Provision of transportation service</u>

Base Fare is charged to the customer for air transportation services provided by the Company to its passengers. Company mainly sells its tickets through its website and through Agents ('Passenger Sale Agent', 'PSA'). Currently, the Company recognizes base fare revenue when the performance obligation is satisfied i.e. flight has actually flown.

<u>Provision of ancillary services such as catering meals, excess baggage and other fee</u>

Ancillary Services Revenue consists of miscellaneous services provided by the Company to its customers (e.g. seat selection fee, baggage fee, infant fee, processing fee, meal fee, cancellation fee and change fee).

These services are provided along with the normal transportation service as an integrated service. The performance obligation is satisfied when the flight has flown.

The above obligations were considered to be integrated and hence delivery of services was considered a single performance obligation as:
- The customer could not benefit from the individual service on its own or together with other resources readily available;
- Although the promise to transfer the services was separately identifiable in the contract;

(a) The Company only provided such services in integration;
(b) The services significantly impacted and thus altered other promised services;
(c) The customer could not purchase only some of the services while omitting others.

(All amounts are in Saudi Riyals unless otherwise stated)

22 Cost of revenue

	Note	2021	2020
Fuel costs		**502,340,255**	308,455,176
Landing, handling, and en-route charges		**566,822,745**	379,847,065
Salaries and related costs		**457,662,555**	376,972,506
Maintenance and other aircraft costs		**309,272,079**	350,417,995
Depreciation on right-of-use assets	5	**382,794,821**	362,333,849
Depreciation on equipment and fixtures	4	**39,423,540**	84,924,557
Rental expense	16	**23,202,769**	77,109,015
Commission and reservation systems expenses		**39,912,681**	39,808,576
Others	22.1	**72,984,984**	103,234,028
		2,394,416,429	2,083,102,767

22.1 Others primarily include insurance charges, utilities, and tax related charges.

23 Selling and marketing expenses

	2021	2020
Salaries and related expenses	**49,649,287**	41,117,306
Business development and promotion expenses	**13,579,235**	15,075,065
Collection charges	**26,353,874**	14,441,946
Customer service-related expenses	**6,326,247**	7,083,923
Professional fees	**1,957,416**	2,258,125
Others	**5,302,037**	4,388,952
	103,168,096	84,365,317

24 General and administrative expenses

	Note	2021	2020
Salaries and related expenses		**67,371,167**	47,027,719
Professional fees		**30,839,192**	39,627,610
Penalties		**1,218,941**	5,876,540
Depreciation on equipment and fixtures	4	**2,134,917**	2,355,569
Others		**8,548,471**	7,564,267
		110,112,688	102,451,705

25 Finance income

	2021	2020
Interest income on deposits with banks	**87,079**	1,569,348
	87,079	1,569,348

(All amounts are in Saudi Riyals unless otherwise stated)

26 Finance cost

	Note	2021	2020
Interest on lease liabilities	16	**126,851,958**	75,806,526
Bank guarantee and commitment fee		**2,529,502**	9,025,704
Imputed interest on deposits		**1,334,565**	100,303
Interest on SIDF loan	18	**3,687,489**	995,379
Imputed interest on Long-term payables	15.1	**3,670,583**	14,390,132
Others		**-**	263,374
		138,074,097	100,581,418

27 Other income / (expense)

	2021	2020
VAT charges	**36,800,824**	(39,944,914)
Gain from loan	**-**	6,793,901
	36,800,824	(33,151,013)

VAT charges was presented under General and administrative expenses in the prior year 2020 and is now disaggregated separately on the face of the statement of income and comprehensive income as other income (expense) in the current year.

28 Contingencies and Commitments

28.1 Commitments

The Company has entered into contracts with the aircraft manufacturer for the purchase of certain aircraft. The remaining value of this contract is SAR 11,986 million (2020: SAR 13,834 million) excluding pre-delivery payments carried out as at the balance sheet date.

As at December 31, 2021, the Company has deposited SAR 692 million (2020: SAR 436 million) with the manufacturer as part of initial deposits and advances.

28.2 Contingencies

As at December 31, 2021, the Company has outstanding letters of credits and bank guarantees amounting to SAR 29.8 million (2020: SAR 29.8 million).

29 Financial instruments

Fair value measurement of financial instruments
Financial instruments comprise of financial assets and financial liabilities. All the financial assets and financial liabilities are carried at amortised cost.

Financial assets comprise of the following:

Financial statements line item	Note	IFRS 9 classification
Trade receivables and other receivables (Refer 29.1)	29.1	Amortised cost
Cash and cash equivalents (Refer 29.1)	29.1	Amortised cost
Deposits for aircraft	29.2	Amortised cost

Financial liabilities comprise of the following:

Financial statements line item		IFRS 9 classification
Trade and other payables	29.1	Amortised cost
Lease liabilities	-	Amortised cost
Loans	29.3	Amortised cost

(All amounts are in Saudi Riyals unless otherwise stated)

29 Financial instruments (continued)

29.1 The management assessed that fair value of its financial instruments approximate their carrying amounts, largely due to the short-term maturities of these instruments, hence they are classified under level 3.

29.2 The fair value of the Company's long term security deposits for leases is SAR 45.15 million (2020: SAR 43.59 million) and are determined by applying the discounted cash flows method using discount rate that reflects the rate of return as at the end of the reporting period.

29.3 The fair value of the loan from SIDF is SAR 297.9 million (2020: SAR 294.2 million) and has been determined by applying the discounted cash flows method using discount rate that reflects the current rate of interest as at the end of the reporting period.

30 Risk management of financial instruments

Risk management framework

The Company's principal financial liabilities comprise of loan from SIDF, lease liabilities and trade and other payables while principal financial assets include trade and other receivable, deposits and cash and cash equivalents.

The Company is exposed to market risk, credit risk and liquidity risk. The Company's management oversees these risks. The Board of Directors reviews and agrees policies for managing each of these risks, which are summarised below:

The Company has exposure to the following risks arising from its financial instruments:

- Credit risk
- Liquidity risk
- Market rate risk

30.1 Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. Credit risk is managed by the management as follows:

	Note	2021	2020
Cash at bank	12	**296,571,984**	434,452,049
Trade receivables	10	**104,543,451**	126,139,719
Deposits for vendors	11	**49,124,530**	24,051,325
Deposit for aircraft	9	**101,600,604**	126,434,591
Contract assets	11	**-**	2,405,682
Other receivable	11	**2,543,167**	6,567,436
		554,383,736	720,050,802

The carrying amount of the above financial assets represent the maximum credit exposure.

(All amounts are in Saudi Riyals unless otherwise stated)

30 Risk management of financial instruments (continued)

30.1 Credit risk (continued)

Cash at bank

Credit risk on bank balances is limited as cash balances are held with banks having sound credit ratings as below:

Banks	Rating Short term	Rating Long term	Rating Agency	2021	2020
Saudi British Bank – Bank balance	P-1	A-1	Moody's	**224,206,941**	40,026,667
Saudi British Bank – Time deposit	P-1	A-1	Moody's	**-**	325,000,000
Alinma Bank – Bank balance	BBB	BBB	Fitch	**1,011,482**	1,139,559
National Commercial Bank	P-1	A-1	Moody's	**40,744,954**	15,051,202
Others				**30,608,607**	53,234,621
				296,571,984	434,452,049

Trade receivable

The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer. However, management also considers the factors that may influence the credit risk of its customer base, including the default risk associated with the industry and country in which customers operate. Receivable of the Company is primarily concentrated in balances due from GACA (12% of gross trade receivable) and related parties (45% of Gross trade receivable) which has been disclosed in note 10.

The Company limits its exposure to credit risk from trade receivables by establishing a maximum payment period of one and three months for individual and corporate customers respectively.

In monitoring customer credit risk, customers are segmented according to their credit characteristics, including whether they are an individual or a legal entity, whether they are a wholesale, retail or end-user customer, their geographic location, industry, trading history with the Company and existence of previous financial difficulties.

The Company manages credit risk with respect to receivables from customers by monitoring in accordance with defined policies and procedures. The Company seeks to limit its credit risk with respect to customers by setting credit limits for individual customers and by monitoring outstanding receivables on an ongoing basis. The receivable balances are monitored with the result that the Company's exposure to expected credit loss is not significant.

The Company applies the IFRS 9 simplified approach for measuring expected credit losses on trade receivables which uses a lifetime expected loss allowance for all financial assets measured at amortised cost and contract assets.

The expected loss rates are based on the payment profiles of trade receivables over a period of 36 months before each reported period and corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The Company has identified GDP of KSA (the country in which it renders the services) to be the most relevant factors, and accordingly adjusts the historical loss rates based on expected changes in these factors.

(All amounts are in Saudi Riyals unless otherwise stated)

30 Risk management of financial instruments (continued)

30.1 Credit risk (continued)

Inputs into measurement of ECL

On that basis, the loss allowance as at December 31, 2021 and December 31, 2020 were determined as follows for trade and other receivables:

	December 31, 2021			**December 31, 2020**		
	Gross carrying amount	Expected credit loss rate	Loss allowance	Gross carrying amount	Expected credit loss rate	Loss allowance
Not due	**43,785,414**	**15%**	**6,712,223**	46,305,676	5.1%	2,346,858
Days past due						
1-90 days	**16,400,948**	**39%**	**6,363,781**	19,529,952	14.7%	2,874,204
91-180 days	**9,265,433**	**64%**	**5,945,060**	11,883,574	26.5%	3,143,798
180-270 days	**13,589,907**	**70%**	**9,489,265**	15,352,340	38.3%	5,874,121
270-360 days	**8,725,677**	**82%**	**7,148,075**	24,953,678	70.8%	17,672,668
360-720 days	**53,489,983**	**86%**	**46,001,385**	63,766,236	45.6%	29,050,527
+720 days	**121,752,074**	**90% - 100%**	**80,806,196**	64,040,042	85.8%-100%	58,729,603
	267,009,436		**162,465,985**	245,831,498		119,691,779

Impairment losses on trade receivables, if any, are presented as provision for expected credit losses within operating profit / loss. Subsequent recoveries of amounts previously written off, if any, are credited against the same line item.

Excessive risk concentration

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographical region, or have economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Company's performance to developments affecting a particular industry.

In order to avoid excessive concentrations of risk, the Company's policies and procedures include specific guidelines to focus on the maintenance of a diversified portfolio. Identified concentrations of credit risks are controlled and managed accordingly.

Deposit for aircrafts

Deposit for aircraft is within lessor that have sound external credit ratings. The management believes that the ECL impact on such deposits is not material because the outstanding lease liabilities position held with such lessors are significantly higher than the respective deposits for such aircraft and there is no historical precedence of default on such deposits.

Deposits for vendor

Historically no default in relation to these deposits and the management believes that the impact of applying ECL on outstanding balance of deposit and other receivable is not material.

(All amounts are in Saudi Riyals unless otherwise stated)

30 Risk management of financial instruments (continued)

30.2 Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when they are due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation (Also refer note 2 about the management analysis of liquidity risk and financial support from the shareholder).

The table below summarises the undiscounted maturities of the Company's financial liabilities based on contractual payment dates.

	Up to 1 year	1 to 4 years	More than 4 years	Total
As at December 31, 2021				
Trade and other payables	**1,741,006,656**	**323,546,371**	**-**	**2,064,553,027**
Lease liabilities	**425,493,553**	**1,439,405,967**	**2,012,211,274**	**3,877,110,794**
Loans	**300,000,000**	**-**	**-**	**300,000,000**
	2,466,500,209	**1,762,952,338**	**2,012,211,274**	**6,241,663,821**

	Up to 1 year	1 to 4 years	More than 4 years	Total
As at December 31, 2020				
Trade and other payables	1,707,707,808	301,898,122	-	2,009,605,930
Lease liabilities	377,285,229	988,718,318	1,046,847,206	2,412,850,753
Loans	75,000,000	225,000,000	-	300,000,000
	2,159,993,037	1,515,616,440	1,046,847,206	4,722,456,683

Net debt reconciliation:

	Cash and cash equivalents	Loans	Lease liabilities	Total
Net debt at January 1, 2020	380,696,842	-	1,121,562,463	1,502,259,305
Non-cash transactions	-	(5,798,522)	1,215,881,358	1,210,082,836
Net cash flows	54,710,558	300,000,000	(469,215,966)	(114,505,408)
Net debt at December 31, 2020	435,407,400	294,201,478	1,868,227,855	2,597,836,733
Net debt at January 1, 2021	**435,407,400**	**294,201,478**	**1,868,227,855**	**2,597,836,733**
Non-cash transactions	**-**	**3,687,489**	**1,566,811,766**	**1,570,499,255**
Net cash flows	**(137,844,105)**	**-**	**(336,095,002)**	**(473,939,107)**
Net debt at December 31, 2021	**297,563,295**	**297,888,967**	**3,098,944,619**	**3,694,396,881**

(All amounts are in Saudi Riyals unless otherwise stated)

30 Risk management of financial instruments (continued)

30.3 Market rate risk

Market risk is the risk that changes in market prices - such as foreign exchange rates, interest rates and equity prices - will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters. While optimizing the return. Market risk is the risk that the fair value or the future cash flows of a financial instrument may fluctuate as a result of changes in market profit rates or the market prices of securities due to change in credit rating of the issuer or the instrument, change in market sentiments, speculative activities, supply and demand of securities and liquidity in the market.
Market risk comprises of currency risk, interest rate risk and price risk.

Currency risk

Currency risk is the risk that the value of financial instruments will fluctuate due to changes in foreign exchange rates. The Company is subject to fluctuations in foreign exchange rates in the normal course of its business. The Company uses foreign currencies, mainly US Dollar and Euro. The Company is not exposed to significant currency risk as the Saudi Riyal is pegged to the US Dollar and transactions denominated in other currencies are not considered to represent significant currency risk.

Interest rate risk

Interest rate risk is the exposures to various risks associated with the effect of fluctuations in the prevailing interest rates on the Company's financial position and cash flows. The Company does not have interest-bearing liabilities, such as bank borrowings, which are subject to re-pricing. Further, management monitors the changes in interest rates and believes that the interest rate risks to the Company are not significant.

Price risk

The Company is exposed to fuel price risk. The Company's fuel price risk management strategy aims to provide the airline with protection against sudden and significant increases in oil prices while ensuring that the airline is not competitively disadvantaged in a serious way in the event of substantial fall in the price of fuel.

The following table demonstrates the sensitivity of statement of income to a reasonably possible change in fuel prices, with all other variables held constant.

	Effect on total comprehensive income for the year ended	
	2021	**2020**
Increase / (decrease) in fuel prices		
+5%	**(25,117,013)**	(15,422,759)
-5%	**25,117,013**	15,422,759

30.4 Business and operational risk

The Company's operations, cash flows and financial condition could be negatively affected due to the following:

- if employees are quarantined as the result of exposure to Novel Coronavirus (COVID 19), this could result in disruption of operations and impact on economic activity
- similarly, travel restrictions or operational issues resulting from the rapid spread of COVID 19 in parts of the world in which the Company has significant operations may have a material adverse effect on the Company's' business and results of operations.

(All amounts are in Saudi Riyals unless otherwise stated)

30 Risk management of financial instruments (continued)

30.5 Capital Management

The primary objective of the Company's capital management is to ensure that it maintains a proper capital ratio in order to support its business and maximise shareholder's value. The Company is currently financed by equity and working capital.

The Company manages its capital structure and makes adjustment to it, considering changes in business and economic conditions or to respond to any financial covenants, if any. To maintain or adjust the capital structure, the Company may return capital to shareholder or issue new shares. No changes were made in the objectives, policies or process during the year ended December 31, 2021 and 2020. Total capital is calculated as "equity" as shown in the statement of financial position plus net debt. During 2021, the company strategy, which was unchanged from 2020, was to maintain a gearing ratio within 65% to 80%. The gearing ratios at 31 December 2021 and 2020 were as follows:

	2021	**2020**
Trade and other payables	**2,052,832,301**	1,967,809,011
Contract liabilities	**193,453,697**	253,350,956
Loan	**297,888,967**	294,201,478
Less: cash and bank balances	**(297,563,295)**	(435,407,400)
Net debt	**2,246,611,670**	2,079,954,045
Shareholder's equity	**718,729,408**	677,125,829
Total capital	**2,965,341,078**	2,757,079,874
Gearing ratio	**76%**	75%

31 Related parties

Related parties represent the shareholder and key management personnel of the Company, and entities controlled or significantly influenced by such parties.

31.1 Transactions and balances with Key Management Personnel

For the purposes of the disclosure requirements of IAS 24 Related Party Disclosures, the term 'key management personnel' include those persons having the authority and responsibility for planning, directing, and controlling the activities of the Company, directly or indirectly, including any director of the Company.

	2021	**2020**
Transactions		
Short-term employee benefits	**30,947,395**	24,522,787
Retirement benefits	**2,250,039**	2,416,510
	33,197,434	26,939,297

Compensation of the Company's key management personnel includes salaries, non-cash benefits and contributions to a post-employment defined benefit plan. The amounts disclosed in the table are the amounts recognized as an expense during the reporting period related to key management personnel.

During the normal course of its operations, the Company had the following significant transactions with related parties during the year ended 31 December 2021 and 2020 along with their balances. These transactions were entered into on mutually agreed terms.

(All amounts are in Saudi Riyals unless otherwise stated)

31 Related parties (continued)

31.2 Related party transactions:

Related party	Nature of transactions	2021	2020
Associate	Revenue – General aviation	**55,047,227**	71,533,407
An entity under common control	Revenue	**35,946,347**	43,168,740
An entity under common control	Cost of services	**4,133,232**	2,825,133

31.3 Related party balances:

	Note	Relationship	2021	2020
Amounts due from related parties				
Trade receivables	10			
NAS Private Aviation Company Limited - NAS Jet		Associate	**-**	13,120,281
KalAir International Limited		An entity under common control	**45,353,357**	35,953,377
KalAir Limited		An entity under common control	**54,943,412**	36,252,390
Kingdom Holding Company		Shareholder of the Parent	**199,575**	207,062
Others		An entity under common control	**19,750,323**	18,513,006
Total amount due from related parties			**120,246,667**	104,046,116
Amounts due to related parties				
Trade and other payables	15			
NAS Private Aviation Company Limited - NAS Jet			**7,257,610**	-
Others		An entity under common control	**-**	802,714
			7,257,610	802,714

The due from related parties includes SAR 115.2 million which is past due for more than 90 days and the Company has recognized SAR 90.8 million ECL provision against those balances. As at 31 December 2021, the provision against related parties balances amounted to SAR 93.2 million (2020: SAR 62.6 million). All such balances are unsecured.

31.4 The Parent and its subsidiaries referred to as "NAS Group", includes:

- National Air Services – NAS Holding Company
- Flynas Company
- Flynas Hajj & Umrah Company Limited
- NAS Aircraft Technical Services Company Limited (NAS Tech)
- NAS Private Aviation Company Limited (NAS Jet)

32 Dividend

There was no dividend approved during the current or prior year.

33 New and amended standards and interpretations

33.1 New and amended standards and interpretations, issued, and adopted

The Company has applied the following standards and amendments for the first time for its annual reporting period commencing 1 January 2021:

- COVID-19-Related Rent Concessions Amendment to IFRS 16 issued on 28 May 2020 and effective for annual periods beginning on or after 1 June 2020, and

- Interest rate benchmark (IBOR) reform – phase 2 amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 (issued on 27 August 2020 and effective for annual periods beginning on or after 1 January 2021).

The amendments listed above did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

33.2 New and amended standards and interpretations, issued but is not yet effective

Certain new standards and interpretations have been issued that are mandatory for the annual periods beginning on or after 1 January 2021 or later, and which the Company has not early adopted. These standards are not expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – Amendments to IFRS 10 and IAS 28 (issued on 11 September 2014 and effective for annual periods beginning on or after a date to be determined by the IASB).

- Sale or Contribution of Assets between an Investor and its Associate or Joint Venture – Amendments to IFRS 10 and IAS 28 (issued on 11 September 2014 and effective for annual periods beginning on or after a date to be determined by the IASB).

- Amendments to IFRS 17 and an amendment to IFRS 4 (issued on 25 June 2020 and effective for annual periods beginning on or after 1 January 2023).

- Classification of liabilities as current or non-current – Amendments to IAS 1 (issued on 23 January 2020 and effective for annual periods beginning on or after 1 January 2022).

- Classification of liabilities as current or non-current, deferral of effective date – Amendments to IAS 1 (issued on 15 July 2020 and effective for annual periods beginning on or after 1 January 2023).

- Proceeds before intended use, Onerous contracts – cost of fulfilling a contract, Reference to the Conceptual Framework – narrow scope amendments to IAS 16, IAS 37 and IFRS 3, and Annual Improvements to IFRSs 2018-2020 – amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41 (issued on 14 May 2020 and effective for annual periods beginning on or after 1 January 2022).

- Amendments to IAS 1 and IFRS Practice Statement 2: Disclosure of Accounting policies (issued on 12 February 2021 and effective for annual periods beginning on or after 1 January 2023).

- Amendments to IAS 8: Definition of Accounting Estimates (issued on 12 February 2021 and effective for annual periods beginning on or after 1 January 2023).

- Covid-19-Related Rent Concessions – Amendments to IFRS 16 (issued on 31 March 2021 and effective for annual periods beginning on or after 1 April 2021).

- Deferred tax related to assets and liabilities arising from a single transaction – Amendments to IAS 12 (issued on 7 May 2021 and effective for annual periods beginning on or after 1 January 2023).

34 Impact of COVID-19 on operations and financial statements

During March 2020, the World Health Organisation ("WHO") declared the Coronavirus ("COVID-19") outbreak as a pandemic in recognition of its rapid spread across the globe. This outbreak has also affected the GCC region including KSA. Governments all over the world took steps to contain the spread of virus. Saudi Arabia in particular has implemented closure of borders, released social distancing guidelines, and enforced country wide lockdown and curfews.

In response to the rapid spread of the virus and the resulting disruption of some social and economic activities, the management is assessing the impact on its current and future operational activities and has taken a series of preventive and precautionary measures, including activating of remote work to ensure the safety of its employees and their families.

The full impact of COVID-19 remains uncertain and will be determined by factors that continue to evolve, including but not limited to the success of support measures introduced by the government. The results for the year ended December 31, 2021 and the business outlook for the full year ending December 31, 2022 are and expected to be significantly impacted by associated risks and uncertainties.

35 Climate change impact

In preparing the financial statements, the Company has considered the impact of climate change, particularly in the context of the Kingdom's stated target of net zero carbon emissions by 2060. These considerations did not have a material impact on the financial reporting judgements and estimates in the current year. This reflects the conclusion that climate change is not expected to have a significant impact on the Company's short-term cash flows including those considered in the going concern and viability assessments.

The Company operates a fleet of modern and efficient Airbus A320-family Aircraft (New Engine Option technology). The "neo"-type aircraft (both A320 and A321 variants), are Airbus' new generation of narrow-body aircraft, replacing the "ceo"-type (Current Engine Option) variants of the same model. Equipped with CFM International's LEAP-1A engines, these new generation aircraft have at least a 15% proven fuel-burn efficiency over their previous generation aircraft and a 50% lower noise footprint during take-off and landing. The management strongly believes that this will have a positive impact in reducing carbon footprint of the Company.

36 Subsequent events

During 2021, the Company started negotiating with the bank for a borrowing facility. On 16 February 2022, the Company signed a Master Murabaha Agreement with participating banks through a participating agent amounting to SAR 2,250 million. Accordingly, the first drawdown request was completed on 28 February 2022 amounting to SAR 843.75 million. The first installment is payable after 12-months grace period in 36 equal monthly installments. The Company has pledged and assigned to the security agent its IATA Billing and Settlement Plan (BSP) Receivables under which the Company directs and authorizes IATA to pay the BSP Receivables to the account of the security agent. The loan carries a markup margin of 2.25% plus one-month SAIBOR rate.

37 Date of authorization

These financial statements were authorized for issue on 6 June 2022 by the Board of Directors of the Company.