

**AIR ARABIA P.J.S.C. (AIR ARABIA)  
AND SUBSIDIARIES  
SHARJAH - UNITED ARAB EMIRATES**

**Review report and consolidated interim  
financial information for the period  
from 1 January 2011 to 30 June 2011**

## **AIR ARABIA P.J.S.C. (AIR ARABIA) AND SUBSIDIARIES**

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## REPORT ON REVIEW OF CONSOLIDATED INTERIM FINANCIAL INFORMATION

**The Board of Directors  
Air Arabia P.J.S.C. (Air Arabia) and Subsidiaries  
Sharjah - United Arab Emirates**

### *Introduction*

We have reviewed the accompanying condensed consolidated statement of financial position of **Air Arabia P.J.S.C. (Air Arabia) (the "Company") and its Subsidiaries (together the "Group")**, Sharjah, United Arab Emirates, as at 30 June 2011 and the related condensed consolidated statements of income, comprehensive income, changes in equity and cash flows for the six month period then ended. Management is responsible for the preparation and presentation of this consolidated interim financial information in accordance with International Accounting Standard 34: "*Interim Financial Reporting*". Our responsibility is to express a conclusion on this consolidated interim financial information based on our review.

### *Scope of Review*

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity." A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### *Conclusion*

Based on our review, nothing has come to our attention that causes us to believe that the accompanying consolidated interim financial information is not prepared, in all material respects, in accordance with International Accounting Standard 34: "*Interim Financial Reporting*".

Deloitte & Touche (M.E.)



Samir Madbak  
Registration No. 386  
3 August 2011

**Condensed consolidated statement of financial position  
At 30 June 2011**

	Notes	30 June 2011 (unaudited) AED'000	31 December 2010 (audited) AED'000
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property and equipment		1,834,377	1,195,499
Advance for new aircraft		672,993	593,213
Investment property	4	48,977	49,352
Intangible assets		1,092,347	1,092,347
Goodwill		189,474	189,474
Deferred charges		14,405	18,042
Aircraft lease deposits		34,216	34,216
Available-for-sale investments	5	767,969	756,395
Trade and other receivables		189,607	15,395
<b>Total non-current assets</b>		<b>4,844,365</b>	3,943,933
<b>Current assets</b>			
Inventories		7,502	6,437
Due from related parties		61,615	28,435
Trade and other receivables		369,036	546,630
Bank balances and cash	6	1,339,735	1,844,563
<b>Total current assets</b>		<b>1,777,888</b>	2,426,065
<b>Total assets</b>		<b>6,622,253</b>	6,369,998


The accompanying notes form an integral part of these condensed consolidated financial statements.

Condensed consolidated statement of financial position  
At 30 June 2011 (continued)

	Notes	30 June 2011 (unaudited) AED'000	31 December 2010 (audited) AED'000
<b>EQUITY AND LIABILITIES</b>			
<b>Capital and reserves</b>			
Share capital	7	4,666,700	4,666,700
Statutory reserve		153,475	153,475
General reserve		153,475	153,475
Cumulative change in fair values		25,114	13,800
Retained earnings		100,310	383,259
		<u>5,099,074</u>	<u>5,370,709</u>
Attributable to equity holders of the parent company		5,099,074	5,370,709
Non-controlling interests		6,357	6,220
		<u>5,105,431</u>	<u>5,376,929</u>
<b>Total equity</b>			
<b>Non-current liabilities</b>			
Provision for employees' end of service indemnity		33,896	29,273
Trade and other payables		29,861	30,104
Murabahah payable	8	64,313	-
Finance lease liabilities	9	431,237	214,303
Deferred income		28,829	-
		<u>588,136</u>	<u>273,680</u>
<b>Total non-current liabilities</b>			
<b>Current liabilities</b>			
Due to related parties		5,196	13,348
Deferred income		241,703	148,560
Trade and other payables		617,096	541,396
Murabahah payable	8	31,502	-
Finance lease liabilities	9	33,189	16,085
		<u>928,686</u>	<u>719,389</u>
<b>Total current liabilities</b>			
		<u>1,516,822</u>	<u>993,069</u>
<b>Total liabilities</b>			
		<u>6,622,253</u>	<u>6,369,998</u>
<b>Total equity and liabilities</b>			


  
Chairman


  
Chief Executive Officer


  
Director of Finance

The accompanying notes form an integral part of these condensed consolidated financial statements.

**Condensed consolidated statement of income (unaudited)  
for the period from 1 January 2011 to 30 June 2011**

	Notes	Six month period ended		Three month period ended	
		2011	30 June 2010	2011	30 June 2010
		AED'000	AED '000	AED '000	AED '000
<b>Revenue</b>		<b>1,105,446</b>	967,404	<b>592,228</b>	485,350
Cost of sales		<b>(1,002,948)</b>	(870,991)	<b>(524,922)</b>	(438,813)
<b>Gross profit</b>		<b>102,498</b>	96,413	<b>67,306</b>	46,537
Selling and marketing expenses		<b>(15,735)</b>	(18,394)	<b>(7,961)</b>	(8,259)
General administrative expenses		<b>(53,939)</b>	(34,353)	<b>(31,175)</b>	(10,847)
Finance costs		<b>(7,590)</b>	-	<b>(3,897)</b>	-
Profit on bank deposits		<b>31,619</b>	90,112	<b>12,452</b>	57,113
Other income/(expenses)	<b>10</b>	<b>38,046</b>	(34,111)	<b>13,908</b>	(35,057)
<b>Profit for the period</b>		<b>94,899</b>	99,667	<b>50,633</b>	49,487
<b>Attributable to:</b>					
Equity holders of the parent company		<b>92,312</b>	98,356	<b>49,608</b>	48,749
Non-controlling interests		<b>2,587</b>	1,311	<b>1,025</b>	738
		<b>94,899</b>	99,667	<b>50,633</b>	49,487
<b>Basic earnings per share (in AED)</b>	<b>11</b>	<b>0.02</b>	<b>0.02</b>	<b>0.01</b>	0.01

The accompanying notes form an integral part of these condensed consolidated financial statements.

**Condensed consolidated statement of comprehensive income (unaudited)  
for the period from 1 January 2011 to 30 June 2011**

	<b>Six month period ended</b>		<b>Three month period ended</b>	
	<b>2011</b>	<b>30 June</b>	<b>2011</b>	<b>30 June</b>
	<b>AED '000</b>	<b>2010</b>	<b>AED '000</b>	<b>2010</b>
		<b>AED '000</b>		<b>AED '000</b>
Profit for the period	<b>94,899</b>	99,667	<b>50,633</b>	49,487
<b>Other comprehensive income/(loss)</b>				
Net gain/(loss) on revaluation of available-for-sale investments	<b>11,314</b>	42,464	<b>6,431</b>	(24,606)
Transfer to statement of income on sale of available-for-sale investments	-	295	-	-
Board of Directors' remuneration	<b>(1,925)</b>	(1,925)	-	-
Other comprehensive income/(loss) for the period	<b>9,389</b>	40,834	<b>6,431</b>	(24,606)
<b>Total comprehensive income for the period</b>	<b>104,288</b>	140,501	<b>57,064</b>	24,881
<b>Attributable to:</b>				
Equity holders of the parent company	<b>101,701</b>	139,190	<b>56,039</b>	24,143
Non-controlling interests	<b>2,587</b>	1,311	<b>1,025</b>	738
	<b>104,288</b>	140,501	<b>57,064</b>	24,881

The accompanying notes form an integral part of these condensed consolidated financial statements.

**AIR ARABIA P.J.S.C. (AIR ARABIA) AND SUBSIDIARIES**
**Condensed consolidated statement of changes in equity  
for the period from 1 January 2011 to 30 June 2011**

	Share capital AED '000	Statutory reserve AED '000	General reserve AED '000	Cumulative change in fair values AED '000	Retained earnings AED '000	Attributable to equity holders of the parent AED '000	Non- controlling interests AED '000	Total AED '000
Balance at 31 December 2009 (audited)	4,666,700	122,896	122,896	(51,405)	607,223	5,468,310	-	5,468,310
Profit for the period	-	-	-	-	98,356	98,356	1,311	99,667
Other comprehensive income for the period	-	-	-	42,759	(1,925)	40,834	-	40,834
Total comprehensive income for the period	-	-	-	42,759	96,431	139,190	1,311	140,501
Increase in non-controlling interests	-	-	-	-	-	-	2,450	2,450
Dividend (see Note 12)	-	-	-	-	(466,670)	(466,670)	-	(466,670)
	-	-	-	-	(466,670)	(466,670)	2,450	(464,220)
Balance at 30 June 2010 (unaudited)	4,666,700	122,896	122,896	(8,646)	236,984	5,140,830	3,761	5,144,591
Balance at 31 December 2010 (audited)	4,666,700	153,475	153,475	13,800	383,259	5,370,709	6,220	5,376,929
Profit for the period	-	-	-	-	92,312	92,312	2,587	94,899
Other comprehensive income for the period	-	-	-	11,314	(1,925)	9,389	-	9,389
Total comprehensive income for the period	-	-	-	11,314	90,387	101,701	2,587	104,288
Dividend (see Note 12)	-	-	-	-	(373,336)	(373,336)	(2,450)	(375,786)
<b>Balance at 30 June 2011 (unaudited)</b>	<b>4,666,700</b>	<b>153,475</b>	<b>153,475</b>	<b>25,114</b>	<b>100,310</b>	<b>5,099,074</b>	<b>6,357</b>	<b>5,105,431</b>

The accompanying notes form an integral part of these condensed consolidated financial statements.

**Condensed consolidated statement of cash flows (unaudited)  
for the period from 1 January 2011 to 30 June 2011**

	<b>Six month period ended 30 June</b>	
	<b>2011</b>	<b>2010</b>
	<b>AED '000</b>	<b>AED '000</b>
<b>Cash flows from operating activities</b>		
Profit for the period	<b>94,899</b>	99,667
Adjustment for:		
Depreciation of property and equipment – net	<b>42,627</b>	20,470
Depreciation of investment property	<b>375</b>	375
Amortisation of deferred charges	<b>3,727</b>	4,542
Dividend income	<b>-</b>	(215)
Unrealised gain/(loss) on derivative financial instruments	<b>15,621</b>	(16,591)
Share of net losses in associates	<b>5,801</b>	17,040
Profit on bank deposits	<b>(31,619)</b>	(90,112)
Rental income	<b>(3,047)</b>	(1,650)
Loss on disposal of available-for-sale investments	<b>-</b>	1,514
Finance costs	<b>7,590</b>	-
	<hr/>	<hr/>
<b>Operating cash flows before changes in operating assets and liabilities</b>	<b>135,974</b>	35,040
(Increase)/decrease in margin deposits	<b>(338)</b>	804
(Increase)/decrease in trade and other receivables	<b>(161,026)</b>	31,379
Increase in inventories	<b>(1,065)</b>	(874)
Increase in due from related parties	<b>(33,180)</b>	(11,418)
Increase in trade and other payables	<b>75,698</b>	62,798
Increase in deferred income	<b>79,385</b>	101,522
(Decrease)/increase in due to related parties	<b>(8,152)</b>	1,853
Decrease in aircraft lease deposits	<b>-</b>	4,690
	<hr/>	<hr/>
<b>Cash generated from operating activities</b>	<b>87,296</b>	225,794
Net movement in employees' end of service benefits	<b>4,623</b>	3,020
Finance cost paid	<b>(7,590)</b>	-
	<hr/>	<hr/>
<b>Net cash from operating activities</b>	<b>84,329</b>	228,814
	<hr/>	<hr/>

The accompanying notes form an integral part of these condensed consolidated financial statements.

**Condensed consolidated statement of cash flows (unaudited)  
for the period from 1 January 2011 to 30 June 2011 (continued)**

	<b>Six month period ended 30 June</b>	
	<b>2011</b>	<b>2010</b>
	<b>AED '000</b>	<b>AED '000</b>
<b>Cash flows from investing activities</b>		
Purchase of property and equipment - net	(53,214)	(93,385)
Increase in advance for new aircraft	(141,173)	(208,819)
Increase in deferred charges	(90)	(1,184)
Payments for investment in associates	(5,801)	(9,150)
Proceeds from disposal of available-for-sale investments	-	367,903
Purchase of available-for-sale investments	(260)	(87,931)
Decrease in fixed deposits	351,655	393,260
Profit on bank deposits	31,619	90,112
Dividend received	-	215
	<hr/>	<hr/>
<b>Net cash generated from investing activities</b>	<b>182,736</b>	<b>451,021</b>
	<hr/>	<hr/>
<b>Cash flows from financing activities</b>		
Dividends paid- subsidiaries	(2,450)	-
Dividend paid	(373,336)	(466,670)
Decrease in other payables	(241)	-
Repayment of Murabahah payable	(32,811)	-
Repayments of obligations under finance lease	(12,860)	-
Rental income	3,047	1,650
Increase in non-controlling interest	-	2,450
Board of Directors' remuneration paid	(1,925)	(1,925)
	<hr/>	<hr/>
<b>Net cash used in financing activities</b>	<b>(420,576)</b>	<b>(464,495)</b>
	<hr/>	<hr/>
<b>Net (decrease)/increase in cash and cash equivalents</b>	<b>(153,511)</b>	<b>215,340</b>
Cash and cash equivalents at the beginning of the period	838,529	421,836
	<hr/>	<hr/>
<b>Cash and cash equivalents at the end of the period (Note 13)</b>	<b>685,018</b>	<b>637,176</b>
	<hr/> <hr/>	<hr/> <hr/>

Following transactions for the six month period ended 30 June 2011 are not reflected in the condensed consolidated statement of cash flows as those are non-cash transactions.

- Advance paid for purchase of aircraft amounting to AED 61,393 thousand has been adjusted with the purchase of two aircraft.
- Obligations under finance lease against two aircraft obtained during the period amounting to AED 246,898 thousand.

The accompanying notes form an integral part of these condensed consolidated financial statements.

**Notes to the condensed consolidated financial statements  
for the period from 1 January 2011 to 30 June 2011**

**1. General information**

Air Arabia P.J.S.C. (Air Arabia) - Sharjah (the “Company”) was incorporated on June 19, 2007 as a Public Joint Stock Company in accordance with UAE Federal Law No. 8 of 1984 (as amended). The Company operates in the United Arab Emirates under a trade license issued by the Economic Development Department of the Government of Sharjah and Air Operator's Certificate Number AC 2 issued by the General Civil Aviation Authority, United Arab Emirates. The “Group” comprises Air Arabia P.J.S.C. (Air Arabia) and its Subsidiaries (Note 3).

The Company’s ordinary shares are listed on the Dubai Financial Market, United Arab Emirates.

The Company is domiciled in the United Arab Emirates and the registered office address is P.O. Box 8, Sharjah, United Arab Emirates.

The licensed activities of the Company are international commercial air transportation, aircraft trading, aircraft rental, aircraft rent, aircraft spare parts trading, travel and tourist agencies, airlines companies representative office, passengers transport, cargo services, air cargo agents, documents transfer services, telecommunications devices trading, aviation training and aircraft repairs and maintenance.

During the period, the Group acquired a hotel property in the U.A.E. valued at AED 320 million and to facilitate this transaction obtained a Murabahah liability (note 8). The resultant gain arising out of this receivable swapping transaction will be recognised as and when payments against receivable which arose on account of the above transaction is collected.

**2. New and revised IFRSs in issue but not yet effective and not early adopted**

The Group has not applied the following new and revised IFRSs that have been issued but are not yet effective:

<b><u>New and revised IFRSs</u></b>	<b><u>Effective for annual periods beginning on or after</u></b>
Amendments to IAS 1 <i>Presentation of Financial Statements</i> : relating to grouping items recognised in other comprehensive income.	1 July 2012
Deferred Tax: Recovery of Underlying Assets – <i>Amendments to IAS 12: Income Taxes</i>	1 January 2012
IAS 19 <i>Employee Benefits</i> (revised 2011)	1 January 2013
IAS 27 <i>Separate Financial Statements</i> (revised in 2011)	1 January 2013
IAS 28 <i>Investments in Associates and Joint Ventures</i> (revised in 2011)	1 January 2013
Amendments to IFRS 1: <i>Removal of Fixed Dates for First-Time Adopter</i>	1 July 2011
Amendments to IFRS 1: <i>Severe Hyperinflation</i>	1 July 2011

**Notes to the condensed consolidated financial statements  
for the period from 1 January 2011 to 30 June 2011 (continued)**

**2. New and revised IFRSs in issue but not yet effective and not early adopted (continued)**

<u>New and revised IFRSs</u>	<u>Effective for annual periods beginning on or after</u>
Amendments to IFRS 7 <i>Financial Instruments: Disclosures</i> , relating to Disclosures on Transfers of Financial Assets	1 July 2011
IFRS 9 <i>Financial Instruments</i> (as amended in 2010)	1 January 2013
IFRS 10 <i>Consolidated Financial Statements</i>	1 January 2013
IFRS 11 <i>Joint Arrangements</i>	1 January 2013
IFRS 12 <i>Disclosure of Interests in Other Entities</i>	1 January 2013
IFRS 13 <i>Fair Value Measurement</i>	1 January 2013

Management anticipates that these amendments will be adopted in the Group's consolidated financial statements for the period beginning 1 January 2012 or as and when they are applicable and adoption of these standards and interpretations may have no material impact on the consolidated financial statements of the Group in the period of initial application.

**3. Summary of significant accounting policies**

**3.1 Basis of preparation**

These condensed consolidated financial statements have been prepared in accordance with International Accounting Standard (IAS) No. 34 – “*Interim Financial Reporting*” and also comply with the applicable requirements of the laws in the U.A.E.

These condensed consolidated financial statements are presented in U.A.E. Dirhams (AED in thousands) since that is the currency in which the majority of the Group's transactions are denominated.

These condensed consolidated financial statements are prepared in accordance with the historical cost basis, except for the revaluation of financial instruments.

The accounting policies used in the preparation of these condensed consolidated financial statements are consistent with those used in the annual audited consolidated financial statements for the year ended 31 December 2010.

These condensed consolidated financial statements do not include all the information required for full annual consolidated financial statements and should be read in conjunction with the Group's audited consolidated financial statements as at and for the year ended 31 December 2010. In addition, results for the six month period ended 30 June 2011 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2011.

The accounting policies in respect of available-for-sale (AFS) investments, investment property and property and equipment disclosed in the annual audited consolidated financial statements are stated below as required by Securities and Commodities Authority notification dated 12 October 2008:

**Notes to the condensed consolidated financial statements  
for the period from 1 January 2011 to 30 June 2011 (continued)**

**3. Summary of significant accounting policies (continued)**

**3.2 AFS financial assets**

Listed shares held by the Group that are traded in an active market are classified as being AFS and are stated at fair value. The Group also has other investments that are not traded in an active market but are also classified as AFS financial assets and stated at fair value because management considers that fair value can be reliably measured. Gains and losses arising from changes in fair value are recognised in other comprehensive income and accumulated in the cumulative change in fair values with the exception of impairment losses, which are recognised in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the cumulative change in fair values is reclassified to profit or loss.

Dividends on AFS equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established.

The fair value of AFS monetary assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the reporting date. The change in fair value attributable to translation differences that result from a change in amortised cost of the asset is recognised in profit or loss, and other changes are recognised in other comprehensive income.

**3.3 Investment property**

Investment property is accounted under the cost model of IAS 40. Investment properties, which are property held to earn rentals and/or for capital appreciation (including property under construction for such purposes), are stated at cost less accumulated depreciation and any identified impairment losses. Cost includes the cost of replacing part of an existing investment property at the time that cost is incurred if the recognition criteria are met; and excludes the cost of day to day servicing of an investment property.

Depreciation is charged so as to write off the cost of investment property, other than land, over the estimated useful lives of 20 years, using the straight line method. Value of land granted by the Government of Sharjah on which investment property is constructed was valued by an external consultant.

Investment properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognised in the statement of income in the period of retirement or disposal.

**3.4 Property and equipment**

Land granted by the Government of Sharjah is not depreciated, as it is deemed to have an infinite life.

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any identified impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Other property and equipment are stated at cost less accumulated depreciation and identified impairment losses.

**Notes to the condensed consolidated financial statements  
for the period from 1 January 2011 to 30 June 2011 (continued)**

**3. Summary of significant accounting policies (continued)**

**3.4 Property and equipment (continued)**

Depreciation is recognised so as to write off the cost or valuation of assets (other than freehold land and properties under construction) less their residual values over their useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis. Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

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

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

	Years
Aircraft	15
Aircraft engines	20
Aircraft rotables and equipment	3 - 10
Airport equipments and vehicles	3 - 15
Apartments and hotel properties	10 - 20
Other property and equipment	3 - 7

**3.5 Basis of consolidation**

These condensed consolidated financial statements of Air Arabia P.J.S.C. (Air Arabia) and Subsidiaries (the "Group") incorporate the financial statements of the Company and enterprises controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

All significant intra-group transactions, balances, income and expenses are eliminated on consolidation.

**Subsidiaries**

Details of the Company's subsidiaries at 30 June 2011 are as follows:

<u>Name of subsidiary</u>	<u>Place of incorporation and operation</u>	<u>Proportion of ownership interest</u>	<u>Proportion of voting power held</u>	<u>Principal activity</u>
Red Marketing Communications (FZE)	Sharjah Airport International Free Zone, U.A.E.	100%	100%	Providing marketing, advertisement agency and communication services.
COZMO Travel L.L.C.	Sharjah, U.A.E.	51%	51%	Travel, travel and tours, tourism and cargo services.

**Notes to the condensed consolidated financial statements  
for the period from 1 January 2011 to 30 June 2011 (continued)**

**4. Investment property**

Investment property comprises a building constructed by the Group on a plot of land, adjacent to Sharjah International Airport, granted by the Government of Sharjah.

**5. Available-for-sale investments**

	<b>30 June 2011 (unaudited) AED '000</b>	31 December 2010 (audited) AED '000
Quoted	8,736	11,003
Unquoted	759,233	745,392
	<u>767,969</u>	<u>756,395</u>
In U.A.E.	393,436	389,080
In other G.C.C. countries	374,533	367,315
	<u>767,969</u>	<u>756,395</u>

**6. Bank balances and cash**

	<b>30 June 2011 (unaudited) AED '000</b>	31 December 2010 (audited) AED '000
Bank balances:		
Current accounts	81,300	51,913
Call deposits	49,287	31,242
Fixed deposits	1,204,589	1,758,542
Margin deposits	1,738	1,400
Total bank balances	<u>1,336,914</u>	<u>1,843,097</u>
Cash on hand	2,821	1,466
Total bank balances and cash	<u>1,339,735</u>	<u>1,844,563</u>
Bank balances:		
In U.A.E.	1,328,398	1,839,800
In other G.C.C. countries	8,516	3,297
Total bank balances	<u>1,336,914</u>	<u>1,843,097</u>

Margin deposits are held by a bank against letter of guarantee.

**Notes to the condensed consolidated financial statements  
for the period from 1 January 2011 to 30 June 2011 (continued)**

**7. Share capital**

	<b>30 June 2011 (unaudited) AED '000</b>	31 December 2010 (audited) AED '000
Authorised and issued share capital (of 4,666,700 thousand shares of AED 1 each)	<b>4,666,700</b>	4,666,700

**8. Murabahah payable**

The Group has entered into a Murabahah agreement with a bank to finance the purchase of a hotel property in U.A.E. The Murabahah is secured by mortgage of the hotel property along with endorsement of insurance policy and assignment over revenues earned from this hotel property.

**9. Finance lease liabilities**

The Group has entered into a leasing arrangement with a leasing company registered in the Cayman Islands to finance the purchase of four aircraft. The term of the lease is 12 years. The finance lease liabilities are secured by the four leased aircraft having a carrying amount of AED 593,891 thousand as at 30 June 2011 (31 December 2010: AED 293,783 thousand).

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

**10. Other income/(expenses)**

Other income includes unrealised gain on derivative financial instruments amounting to AED 15,621 thousand (6 month period ended 30 June 2010: loss amounting to AED 16,591 thousand) and also includes share of losses from investment in associates.

**11. Basic earnings per share**

	<b>Six month period ended 30 June</b>		<b>Three month period ended 30 June</b>	
	<b>2011 (unaudited)</b>	2010 (unaudited)	<b>2011 (unaudited)</b>	2010 (unaudited)
Profit for the period (in AED '000)	<b>92,312</b>	98,356	<b>49,608</b>	48,749
Number of shares (in '000)	<b>4,666,700</b>	4,666,700	<b>4,666,700</b>	4,666,700
Basic earnings per share (in AED)	<b>0.02</b>	0.02	<b>0.01</b>	0.01

**Notes to the condensed consolidated financial statements  
for the period from 1 January 2011 to 30 June 2011 (continued)**

**12. Dividend**

At the Annual General Meeting held on 23 March 2011, the shareholders approved a cash dividend of 8% amounting to AED 373,336 thousand for 2010 (2009: cash dividend of 10% amounting to AED 466,670 thousand).

Board of Director's remuneration of AED 1,925 thousand (2010: AED 1,925 thousand) was also approved in the above meeting.

**13. Cash and cash equivalents**

	<b>Six month period ended 30 June</b>	
	<b>2011 (unaudited) AED '000</b>	<b>2010 (unaudited) AED '000</b>
Bank balances and cash	1,339,735	1,817,527
Fixed deposits being maturity over three months	(652,979)	(869,127)
Murabaha deposits	-	(311,224)
Margin deposits	(1,738)	-
	<b>685,018</b>	<b>637,176</b>
	<b>685,018</b>	<b>637,176</b>

**14. Operating aircraft lease commitments**

	<b>30 June 2011 (unaudited) AED '000</b>	<b>31 December 2010 (audited) AED '000</b>
	<i>a) Where the Group is a lessee:</i>	
Within one year	269,850	285,271
In the second to fifth years inclusive	473,945	595,509
After five years	-	7,043
	<b>743,795</b>	<b>887,823</b>
	<b>743,795</b>	<b>887,823</b>
<i>b) Where the Group is a lessor:</i>		
Within one year	91,935	83,887
In the second to fifth years inclusive	130,212	164,166
	<b>222,147</b>	<b>248,053</b>
	<b>222,147</b>	<b>248,053</b>

**Notes to the condensed consolidated financial statements  
for the period from 1 January 2011 to 30 June 2011 (continued)**

**15. Contingent liabilities**

	<b>30 June 2011 (unaudited) AED '000</b>	31 December 2010 (audited) AED '000
Letters of credit	<b>62,707</b>	74,636
Letters of guarantee	<b>14,779</b>	14,575

Letters of credit mainly comprise letters of credit issued to lessors of aircraft in lieu of placing deposits against leased aircraft.

**16. Capital commitments**

*The Group has entered into the following capital commitments:*

	<b>30 June 2011 (unaudited) AED '000</b>	31 December 2010 (audited) AED '000
<i>Authorised and contracted:</i>		
Aircraft fleet	<b>11,422,549</b>	12,033,882
Investment in an associate	<b>34,921</b>	34,921
Hotel project	-	7,703
Simulator project	<b>4,331</b>	42,945
Others	-	1,383
	<b>11,461,801</b>	12,120,834

*Authorised but not contracted:*

Aircraft fleet	<b>1,422,807</b>	1,422,807
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*Aircraft fleet*

The Group has entered into a contract with Airbus S.A.S. for the purchase of 34 Airbus A320 aircraft and there was an option in the contract to purchase 15 aircraft from Airbus, out of which, the Group has exercised the option of purchasing 10 aircraft. The total value of the 40 aircraft order was approximately USD 3.3 billion (AED: 12.1 billion) (31 December 2010: 42 aircrafts, USD 3.5 billion (AED 12.6 billion) at list prices subject to adjustment in accordance with the Airbus price revision formula. As per the contract, 20% of the purchase price of 40 (2010: 42) aircraft is payable over the next four years, with the balance being due on delivery.

**Notes to the condensed consolidated financial statements  
for the period from 1 January 2011 to 30 June 2011 (continued)**

**17. Investment in associates**

Details of the Group's associates at the reporting date are as follows:

Name of associate	Place of incorporation and operation	Proportion of ownership interest	Proportion of voting power held	Principal activities
Air Arabia Maroc, S.A.	Morocco	29%	29%	International commercial air transportation.
Air Arabia – Egypt Company (S.A.E.)	Cairo, Egypt	50%	50%	International commercial air transportation.

**18. Related party transactions**

*Transactions:*

*During the period, the Group entered into the following transactions with related parties.*

	Six month period ended		Three month period ended	
	2011 (unaudited) AED '000	30 June 2010 (unaudited) AED '000	2011 (unaudited) AED '000	30 June 2010 (unaudited) AED '000
Rental income from investment property	1,275	1,275	450	450
Rental income from operating lease – aircraft	44,624	26,745	23,478	15,402
Management fees	3,522	1,966	1,932	967

Transactions with related parties were carried out at terms agreed by the management.

**19. Segment information**

The accounting policies of the reportable segments are the same as the Group's accounting policies described in Note 3 to the annual audited financial statements. Segment revenue does not include the Group's share of external revenue of joint ventures, amounting to AED 59,032 thousand (6 month period ended 30 June 2010: AED 48,922 thousand), as the share of their results have been disclosed separately as unallocated under segment result. Segment result represents the profit earned by each segment without considering unallocated costs, shares of profits in joint ventures, share of losses in associates, profit from bank deposits and other income. Segment assets do not include fixed deposits, available-for-sale investments, derivative financial instruments and the Group's share of assets in joint ventures and associates. Goodwill and intangible assets have been allocated to Airline segment. Segment liabilities do not include Group's share of liabilities in joint ventures.

Notes to the condensed consolidated financial statements  
for the period from 1 January 2011 to 30 June 2011 (continued)

19. Segment information (continued)

Primary reporting format – business segments

30 June 2011 (unaudited)	<u>Airline</u> AED '000	<u>Other segments</u> AED '000	<u>Eliminations</u> AED '000	<u>Total</u> AED '000
<b>Revenue</b>				
External sales	1,039,586	7,098	-	1,046,684
Inter-segment sales	-	7,222	(7,222)	-
<b>Total revenue</b>	<u>1,039,586</u>	<u>14,320</u>	<u>(7,222)</u>	<u>1,046,684</u>
<b>Result</b>				
Segment result	28,389	5,674	-	34,063
Share of losses in associates	-	-	-	(5,801)
Share of results in joint ventures	-	-	-	7,778
Profit from bank deposits and other income				58,859
<b>Profit for the period</b>				<u>94,899</u>
<b>Other information</b>				
Additions to property and equipment and deferred charges	347,090	332,274	-	679,364
Depreciation and amortisation	40,064	3,233	-	43,297
<b>30 June 2011 (unaudited)</b>				
<b>Assets</b>				
Segment assets	4,251,854	287,071	(3,099)	4,535,826
Unallocated Group assets				2,086,427
<b>Total Assets</b>				<u>6,622,253</u>
<b>Liabilities</b>				
Segment liabilities	1,442,807	40,466	(3,099)	1,480,174
Unallocated Group liabilities				36,648
<b>Total Liabilities</b>				<u>1,516,822</u>

**Notes to the condensed consolidated financial statements  
for the period from 1 January 2011 to 30 June 2011 (continued)**

**19. Segment information (continued)**

Primary reporting format – business segments (continued)

30 June 2010 (unaudited)	<u>Airline</u> AED '000	<u>Other segments</u> AED '000	<u>Eliminations</u> AED '000	<u>Total</u> AED '000
Revenue				
External sales	913,320	-	-	913,320
Inter-segment sales	-	5,594	(5,250)	344
	<hr/>	<hr/>	<hr/>	<hr/>
Total revenue	913,320	5,594	(5,250)	913,664
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
Result				
Segment result	22,410	2,616	-	25,026
Share of losses in associates	-	-	-	(17,040)
Share of results in joint ventures	-	-	-	11,618
Profit from bank deposits and other income				80,063
				<hr/>
Profit for the period				99,667
				<hr/> <hr/>
Other information				
Additions to property and equipment and deferred charges	86,643	1,721	-	88,364
Depreciation and amortisation	22,484	151	-	22,635
				<hr/>
31 December 2010 (audited)				
Assets				
Segment assets	3,722,118	28,430	(4,192)	3,746,356
	<hr/>	<hr/>	<hr/>	<hr/>
Unallocated Group assets				2,623,642
				<hr/>
Total Assets				6,369,998
				<hr/> <hr/>
Liabilities				
Segment liabilities	944,667	12,710	(4,192)	953,185
	<hr/>	<hr/>	<hr/>	<hr/>
Unallocated Group liabilities				39,884
				<hr/>
Total Liabilities				993,069
				<hr/> <hr/>

Inter-segment sales are charged at prevailing market prices.

**20. Approval of condensed consolidated financial statements**

The condensed consolidated financial statements were approved by the Board of Directors and authorised for issue on 3 August 2011.