

**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 2012 to 30 June 2012**

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

Contents	<u>Page</u>
Report on review of consolidated interim financial information	1
Condensed consolidated statement of financial position	2 - 3
Condensed consolidated statement of income (unaudited)	4
Condensed consolidated statement of comprehensive income (unaudited)	5
Condensed consolidated statement of changes in equity	6
Condensed consolidated statement of cash flows (unaudited)	7 - 8
Notes to the condensed consolidated financial statements	9 - 20

REPORT ON REVIEW OF CONSOLIDATED INTERIM FINANCIAL INFORMATION

The Board of Directors
Air Arabia P.J.S.C. (Air Arabia)
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 2012 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
6 August 2012

Condensed consolidated statement of financial position
At 30 June 2012

	Notes	30 June 2012 (unaudited) AED'000	31 December 2011 (audited) AED'000
ASSETS			
Non-current assets			
Property and equipment		2,709,163	2,423,132
Advance for new aircraft		677,889	596,935
Investment properties	4	164,022	164,397
Intangible assets		1,092,347	1,092,347
Goodwill		189,474	189,474
Deferred charges		8,276	11,088
Aircraft lease deposits		15,809	28,733
Available-for-sale investments	5	797,805	733,021
Trade and other receivables		-	2,566
Total non-current assets		5,654,785	5,241,693
Current assets			
Inventories		11,589	9,092
Due from related parties		95,169	102,329
Trade and other receivables		430,564	416,200
Bank balances and cash	6	1,204,841	1,344,900
Total current assets		1,742,163	1,872,521
Total assets		7,396,948	7,114,214

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

Condensed consolidated statement of financial position
At 30 June 2012 (continued)

	Notes	30 June 2012 (unaudited) AED'000	31 December 2011 (audited) AED'000
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	7	4,666,700	4,666,700
Statutory reserve		180,382	180,382
General reserve		123,605	180,382
Cumulative change in fair values		59,750	(9,834)
Retained earnings		112,724	223,255
Equity attributable to owners of the Company		5,143,161	5,240,885
Non-controlling interests		8,847	8,552
Total equity		5,152,008	5,249,437
Non-current liabilities			
Provision for employees' end of service indemnity		41,179	36,987
Trade and other payables		52,136	42,425
Murabaha payable	8	-	32,285
Finance lease liabilities	9	947,542	865,165
Total non-current liabilities		1,040,857	976,862
Current liabilities			
Due to related parties		15,663	22,576
Deferred income		276,320	157,300
Trade and other payables		800,016	606,858
Murabaha payable	8	32,285	32,285
Finance lease liabilities	9	79,799	68,896
Total current liabilities		1,204,083	887,915
Total liabilities		2,244,940	1,864,777
Total equity and liabilities		7,396,948	7,114,214

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 2012 to 30 June 2012

	Notes	Three month period ended 30 June		Six month period ended 30 June	
		2012 AED'000	2011 AED '000	2012 AED '000	2011 AED '000
Revenue		729,563	592,228	1,351,493	1,105,446
Direct costs		(583,549)	(524,922)	(1,152,385)	(1,002,948)
Gross profit		146,014	67,306	199,108	102,498
Selling and marketing expenses		(13,134)	(7,961)	(30,855)	(15,735)
General administrative expenses		(17,587)	(31,175)	(54,133)	(53,939)
Profit on bank deposits		13,802	12,452	28,185	31,619
Finance costs		(8,131)	(3,897)	(15,829)	(7,590)
Other (expenses)/income	10	(54,811)	13,908	(11,037)	38,046
Profit for the period		66,153	50,633	115,439	94,899
Attributable to:					
Owners of the Company		65,034	49,608	112,694	92,312
Non-controlling interests		1,119	1,025	2,745	2,587
		66,153	50,633	115,439	94,899
Basic earnings per share (in AED)	11	0.01	0.01	0.02	0.02

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 2012 to 30 June 2012**

	Three month period ended 30 June		Six month period ended 30 June	
	2012	2011	2012	2011
	AED '000	AED '000	AED '000	AED '000
Profit for the period	66,153	50,633	115,439	94,899
Other comprehensive (loss)/income				
Net (loss)/gain on revaluation of available-for-sale investments	(9,738)	6,431	64,784	11,314
Reclassification adjustment relating to available-for-sale investments impaired during the period	4,800	-	4,800	-
Board of Directors' remuneration	-	-	-	(1,925)
Other comprehensive (loss)/income for the period	(4,938)	6,431	69,584	9,389
Total comprehensive income for the period	61,215	57,064	185,023	104,288
Attributable to:				
Owners of the Company	60,096	56,039	182,278	101,701
Non-controlling interests	1,119	1,025	2,745	2,587
	61,215	57,064	185,023	104,288

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 2012 to 30 June 2012**

	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 Owners of the Company AED '000	Non- controlling interests AED '000	Total AED '000
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 (Note 12)	-	-	-	-	(373,336)	(373,336)	(2,450)	(375,786)
Balance at 30 June 2011 (unaudited)	4,666,700	153,475	153,475	25,114	100,310	5,099,074	6,357	5,105,431
Balance at 31 December 2011 (audited)	4,666,700	180,382	180,382	(9,834)	223,255	5,240,885	8,552	5,249,437
Profit for the period	-	-	-	-	112,694	112,694	2,745	115,439
Other comprehensive income for the period	-	-	-	69,584	-	69,584	-	69,584
Total comprehensive income for the period	-	-	-	69,584	112,694	182,278	2,745	185,023
Transfer to retained earnings (Note 12)	-	-	(56,777)	-	56,777	-	-	-
Dividend (Note 12)	-	-	-	-	(280,002)	(280,002)	(2,450)	(282,452)
Balance at 30 June 2012 (unaudited)	4,666,700	180,382	123,605	59,750	112,724	5,143,161	8,847	5,152,008

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 2012 to 30 June 2012

	Six month period ended 30 June	
	2012	2011
	AED '000	AED '000
Cash flows from operating activities		
Profit for the period	115,439	94,899
Adjustment for:		
Depreciation of property and equipment – net	75,678	42,627
Depreciation of investment property	375	375
Amortisation of deferred charges	2,986	3,727
Impairment loss on available-for-sale investments	4,800	-
Dividend income	(34,894)	-
Unrealised loss on derivative financial instruments	26,359	15,621
Share of net losses in associates	26,684	5,801
Profit on bank deposits	(28,185)	(31,619)
Rental income	(4,145)	(3,047)
Finance costs	15,829	7,590
Operating cash flows before changes in operating assets and liabilities	200,926	135,974
Increase in margin deposits	(200)	(338)
Increase in trade and other receivables	(38,157)	(161,026)
Increase in inventories	(2,497)	(1,065)
Decrease/(increase) in due from related parties	7,160	(33,180)
Increase in trade and other payables	199,918	75,698
Increase in deferred income	119,020	79,385
Decrease in due to related parties	(6,913)	(8,152)
Decrease in aircraft lease deposits	12,924	-
Cash generated from operating activities	492,181	87,296
Net movement in employees' end of service benefits	4,192	4,623
Finance cost paid	(12,433)	(7,590)
Net cash from operating activities	483,940	84,329

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 2012 to 30 June 2012 (continued)**

	Six month period ended 30 June	
	2012	2011
	AED '000	AED '000
Cash flows from investing activities		
Purchase of property and equipment - net	(119,555)	(53,214)
Disposal of property and equipment	447	-
Increase in advance for new aircraft	(196,142)	(141,173)
Increase in deferred charges	(174)	(90)
Payments for investment in associates	(26,684)	(5,801)
Purchase of available-for-sale investments	-	(260)
Decrease in fixed deposits	170,417	351,655
Profit on bank deposits	28,185	31,619
Dividend received	34,894	-
Rental income	4,145	3,047
Net cash (used in)/generated from investing activities	(104,467)	185,783
Cash flows from financing activities		
Dividends paid- subsidiaries	(2,450)	(2,450)
Dividend paid	(280,002)	(373,336)
Decrease in other payables	(445)	(241)
Repayment of Murabaha payable	(32,285)	(32,811)
Repayments of obligations under finance lease	(34,133)	(12,860)
Board of Directors' remuneration paid	-	(1,925)
Net cash used in financing activities	(349,315)	(423,623)
Net increase/(decrease) in cash and cash equivalents	30,158	(153,511)
Cash and cash equivalents at the beginning of the period	171,162	838,529
Cash and cash equivalents at the end of the period (Note 13)	201,320	685,018

Following transactions for the six month period ended 30 June 2012 are not reflected in this condensed consolidated statement of cash flows as these are non-cash transactions.

- Advance paid for purchase of aircraft amounting to AED 115,188 thousand (2011: AED 61,393) has been adjusted with the purchase of two (2011: two) aircraft.
- Obligations under finance lease against 1 (2011: 2) aircraft obtained during the period amounting to AED 127,413 thousand (2011: 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 2012 to 30 June 2012**

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 3.5).

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 and its subsidiaries (together referred to as the “Group”) are international commercial air transportation, aircraft trading, aircraft rental, aircraft rent, aircraft spare parts trading, travel and tourist agencies, hotels, hotel apartment rentals, airlines companies representative office, passengers transport, cargo services, air cargo agents, documents transfer services, telecommunications devices trading, aviation training and aircraft repairs and maintenance.

2. Standards and Interpretations in issue but not yet effective and not early adopted

The Group has not early applied the following new standards, amendments and interpretations that have been issued but not yet effective:

<u>New and revised IFRSs</u>	<u>Effective for annual periods beginning on or after</u>
Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards relating to accounting for government loans at below market interest rate.	1 January 2013
Amendments to IFRS 9 requires all recognised financial assets that are within the scope of IAS 39 <i>Financial Instruments: Recognition and Measurement</i> to be subsequently measured at amortised cost or fair value.	1 January 2015
IFRS 10 <i>Consolidated Financial Statements</i>* uses control as the single basis for consolidation, irrespective of the nature of the investee. IFRS 10 requires retrospective application subject to certain transitional provisions providing an alternative treatment in certain circumstances. Accordingly IAS 27 <i>Separate Financial Statements</i>* and IAS 28 <i>Investments in Associates and Joint Ventures</i>* have been amended for the issuance of IFRS 10.	1 January 2013
IFRS 11 <i>Joint Arrangements</i>* establishes two types of joint arrangements: Joint operations and joint ventures. The two types of joint arrangements are distinguished by the rights and obligations of those parties to the joint arrangement. Accordingly IAS 28 <i>Investments in Associates and Joint Ventures</i> has been amended for the issuance of IFRS 11.	1 January 2013

**Notes to the condensed consolidated financial statements
for the period from 1 January 2012 to 30 June 2012 (continued)**

**2. Standards and Interpretations 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>
IFRS 12 <i>Disclosure of Interests in Other Entities</i>* combines the disclosure requirements for an entity's interests in subsidiaries, joint arrangements, associates and structured entities into one comprehensive disclosure Standard.	1 January 2013
IFRS 13 <i>Fair Value Measurement</i> issued in May 2011 establishes a single framework for measuring fair value and is applicable for both financial and non-financial items.	1 January 2013
Amendments to IAS 1 – <i>Presentation of Other Comprehensive Income</i>. The amendments retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate statements. However, items of other comprehensive income are required to be grouped into those that will and will not subsequently be reclassified to profit or loss with tax on items of other comprehensive income required to be allocated on the same basis.	1 July 2012
Annual Improvements 2009 – 2011 Cycle covering amendments to IFRS 1, IAS 1, IAS 16, IAS 32 and IAS 34	1 January 2013
Amendments to IAS 19 <i>Employee Benefits</i> eliminate the “corridor approach” and therefore require an entity to recognize changes in defined benefit plan obligations and plan assets when they occur.	1 January 2013
IFRIC 20 <i>Stripping Costs in the Production Phase of a Surface Mine</i>	1 January 2013
Amendments to IFRS 7 <i>Financial Instruments: Disclosures</i> enhancing disclosures about offsetting of financial assets and liabilities	1 January 2013
Amendments to IAS 32 <i>Financial Instruments: Presentation</i> relating to application guidance on the offsetting of financial assets and financial liabilities	1 January 2014
Amendments to IFRS 7 <i>Financial Instruments: Disclosures</i> relating to disclosures about the initial application of IFRS 9	1 January 2015 (or otherwise when IFRS 9 is first applied)

*In May 2011, a package of five Standards on consolidation, joint arrangements, associates and disclosures was issued, including IFRS 10, IFRS 11, IFRS 12, IAS 27 (as revised in 2011) and IAS 28 (as revised in 2011). These five standards are effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted provided that all of these five standards are applied early at the same time.

Management anticipates that these new standards, interpretations and amendments will be adopted in the Group's consolidated financial statements for the period beginning 1 January 2013 or as and when they are applicable and adoption of these new standards, interpretations and amendments may have no material impact on the consolidated financial statements of the Group in the period of initial application.

**Notes to the condensed consolidated financial statements
for the period from 1 January 2012 to 30 June 2012 (continued)**

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 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 2011.

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 2011. In addition, results for the six month period ended 30 June 2012 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2012.

The accounting policies in respect of available-for-sale (AFS) investments, investment properties 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:

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.

**Notes to the condensed consolidated financial statements
for the period from 1 January 2012 to 30 June 2012 (continued)**

3. Summary of significant accounting policies (continued)

3.3 Investment properties

Investment properties are accounted under the cost model of IAS 40. Investment properties, which are properties 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 existing investment properties at the time that cost is incurred if the recognition criteria are met; and excludes the cost of day to day servicing of investment properties.

Investment properties under development that are being constructed or developed for future use as investments properties are measured initially at cost including all direct costs attributable to the design and construction of the property including related staff costs. Upon completion of construction or development, such properties are transferred to investment properties. Depreciation of these assets, on the same basis as other investment properties, commences when the assets are ready for their intended use.

Depreciation is charged so as to write off the cost of investment properties, other than land and investment properties under progress, 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 profit and loss in the period of retirement or disposal.

3.4 Property and equipment

Land granted by the Government of Sharjah and acquired in the acquisition of Radisson Blu Hotel and Resort 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.

Depreciation is recognised so as to write off the cost 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.

**Notes to the condensed consolidated financial statements
for the period from 1 January 2012 to 30 June 2012 (continued)**

3. Summary of significant accounting policies (continued)

3.4 Property and equipment (continued)

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

	Years
Building and apartment	15-20
Aircraft	15
Aircraft engines	20
Aircraft rotables and equipment	3 - 10
Airport equipments and vehicles	3 - 15
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 2012 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>
COZMO Travel L.L.C.	Sharjah - U.A.E.	51%	51%	Travel, travel and tours, tourism and cargo services.
COZMO Travel W.L.L.	Doha – Qatar	51%	100%	Travel, travel and tours, tourism and cargo services.

Red Marketing Communications (FZE) ceased operations and was liquidated during the period. COZMO Travel L.L.C., U.A.E. holds the remaining equity in COZMO Travel W.L.L., Qatar, beneficially through nominee arrangements.

4. Investment properties

Investment properties comprise of a building constructed by the Group on a plot of land, adjacent to Sharjah International Airport, granted by the Government of Sharjah and an apartment building under construction located at Dubai, U.A.E.

**Notes to the condensed consolidated financial statements
for the period from 1 January 2012 to 30 June 2012 (continued)**

5. Available-for-sale investments

	30 June 2012 (unaudited) AED '000	31 December 2011 (audited) AED '000
Quoted	6,468	6,254
Unquoted	791,337	726,767
	797,805	733,021
In U.A.E.	430,490	365,706
In other G.C.C. countries	367,315	367,315
	797,805	733,021

6. Bank balances and cash

	30 June 2012 (unaudited) AED '000	31 December 2011 (audited) AED '000
Bank balances:		
Current accounts	155,741	144,516
Call deposits	43,004	25,294
Fixed deposits	1,001,066	1,171,483
Margin deposits	2,455	2,255
Total bank balances	1,202,266	1,343,548
Cash on hand	2,575	1,352
Total bank balances and cash	1,204,841	1,344,900
Bank balances:		
In U.A.E.	1,184,438	1,300,090
In other G.C.C. countries	17,828	43,458
Total bank balances	1,202,266	1,343,548

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

**Notes to the condensed consolidated financial statements
for the period from 1 January 2012 to 30 June 2012 (continued)**

7. Share capital

	30 June 2012 (unaudited) AED '000	31 December 2011 (audited) AED '000
Authorised and issued share capital (of 4,666,700 thousand shares of AED 1 each)	4,666,700	4,666,700

8. Murabaha payable

The Group entered into a Murabaha agreement with a bank to finance the purchase of hotel property in U.A.E. The Murabaha is secured by mortgage of the hotel property along with endorsement of insurance policy and assignment over revenues earned from this hotel property. Murabaha payable is due for settlement within twelve months from the reporting date.

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 nine aircraft. The term of the lease is 12 years. The finance lease liabilities are secured by the nine (2011: eight) aircraft leased.

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 (expenses)/income

Other (expenses)/income includes unrealised loss on derivative financial instruments amounting to AED 26,359 thousand (6 month period ended 30 June 2011: loss amounting to AED 15,621 thousand) and also includes share of losses from investment in associates.

11. Basic earnings per share

	Three month period ended 30 June 2012 (unaudited)	30 June 2011 (unaudited)	Six month period ended 30 June 2012 (unaudited)	30 June 2011 (unaudited)
Profit for the period (in AED '000)	65,034	49,608	112,694	92,312
Number of shares (in '000)	4,666,700	4,666,700	4,666,700	4,666,700
Basic earnings per share (in AED)	0.01	0.01	0.02	0.02

**Notes to the condensed consolidated financial statements
for the period from 1 January 2012 to 30 June 2012 (continued)**

12. Dividend

At the Annual General Meeting held on 9 April 2012, the shareholders approved a cash dividend of 6% amounting to AED 280,002 thousand for 2011 (2010: cash dividend of 8% amounting to AED 373,336 thousand). The Shareholders also approved transfer of AED 56,777 thousand from general reserve to retained earnings.

13. Cash and cash equivalents

	Six month period ended 30 June	
	2012	2011
	(unaudited)	(unaudited)
	AED '000	AED '000
Bank balances and cash	1,204,841	1,339,735
Fixed deposits being maturity over three months	(1,001,066)	(652,979)
Margin deposits	(2,455)	(1,738)
	201,320	685,018

14. Operating aircraft lease commitments

	30 June	31 December
	2012	2011
	(unaudited)	(audited)
	AED '000	AED '000
<i>a) Where the Group is a lessee:</i>		
Within one year	215,039	248,465
In the second to fifth years inclusive	259,670	354,087
	474,709	602,552
<i>b) Where the Group is a lessor:</i>		
Within one year	87,820	66,705
In the second to fifth years inclusive	98,828	107,294
	186,648	173,999

**Notes to the condensed consolidated financial statements
for the period from 1 January 2012 to 30 June 2012 (continued)**

15. Contingent liabilities

	30 June 2012 (unaudited) AED '000	31 December 2011 (audited) AED '000
Letters of credit	70,984	64,147
Letters of guarantee	14,093	13,944

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:

	30 June 2012 (unaudited) AED '000	31 December 2011 (audited) AED '000
<i>Authorised and contracted:</i>		
Aircraft fleet	9,701,746	10,373,714
Others	-	23,638
	9,701,746	10,397,352
<i>Authorised but not contracted:</i>		
Aircraft fleet	1,422,807	1,422,807

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 34 aircraft order was approximately USD 2.8 billion (AED: 10.4 billion) (31 December 2011: 36 aircrafts, USD 2.9 billion (AED 11 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 34 (2011: 36) 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 2012 to 30 June 2012 (continued)**

17. Investment in associates

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

<u>Name of associate</u>	<u>Place of incorporation and operation</u>	<u>Proportion of ownership interest</u>	<u>Proportion of voting power held</u>	<u>Principal activities</u>
Air Arabia Maroc, S.A.	Morocco	40%	40%	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.

	Three month period ended		Six month period ended	
	2012	30 June 2011	2012	30 June 2011
	(unaudited)	(unaudited)	(unaudited)	(unaudited)
	AED '000	AED '000	AED '000	AED '000
Rental income from investment property	825	825	1,650	1,650
Rental income from operating lease – aircraft	20,305	23,478	38,203	44,624
Management fees	1,694	1,932	3,354	3,522
Board of Director's remuneration	-	-	-	1,925
Board of Director's fees	1,295	-	1,295	-

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 55,435 thousand (6 month period ended 30 June 2011: AED 59,032 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 2012 to 30 June 2012 (continued)**

19. Segment information (continued)

Primary reporting format – business segments

30 June 2012 (unaudited)	Airline	Other segments	Eliminations	Total
	AED '000	AED '000	AED '000	AED '000
Revenue				
External sales	1,252,291	40,675	-	1,292,966
Inter-segment sales	-	3,192	(3,192)	-
Total revenue	1,252,291	43,867	(3,192)	1,292,966
Result				
Segment result	66,229	17,718	-	83,947
Finance costs	(14,451)	(1,378)		(15,829)
Share of losses in associates				(26,684)
Share of results in joint ventures				14,096
Profit from bank deposits and other income				59,909
Profit for the period				115,439
Other information				
Additions to property and equipment and deferred charges	359,661	260	-	359,921
Depreciation and amortization	62,619	13,138	-	75,757
30 June 2011 (unaudited)				
Assets				
Segment assets	4,771,700	666,045	(33,014)	5,404,731
Unallocated Group assets				1,992,217
Total Assets				7,396,948
Liabilities				
Segment liabilities	2,156,337	93,602	(33,014)	2,216,925
Unallocated Group liabilities				28,015
Total Liabilities				2,244,940

**Notes to the condensed consolidated financial statements
for the period from 1 January 2012 to 30 June 2012 (continued)**

19. Segment information (continued)

Primary reporting format – business segments (continued)

30 June 2011 (unaudited)	<u>Airline</u>	<u>Other</u>	<u>Eliminations</u>	<u>Total</u>
	<u>AED '000</u>	<u>segments</u>	<u>AED '000</u>	<u>AED '000</u>
		<u>AED '000</u>	<u>AED '000</u>	
Revenue				
External sales	1,039,586	7,098	-	1,046,684
Inter-segment sales	-	7,222	(7,222)	-
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total revenue	1,039,586	14,320	(7,222)	1,046,684
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Result				
Segment result	35,979	5,674	-	41,653
Finance costs	(7,590)	-	-	(7,590)
Share of losses in associates				(5,801)
Share of results in joint ventures				7,778
Profit from bank deposits and other income				58,859
				<u> </u>
Profit for the period				94,899
				<u> </u>
Other information				
Additions to property and equipment and deferred charges	347,090	332,274	-	679,364
Depreciation and amortisation	40,064	3,233	-	43,297
31 December 2011 (audited)				
Assets				
Segment assets	4,373,438	650,166	(10,925)	5,012,679
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Unallocated Group assets				2,101,535
				<u> </u>
Total Assets				7,114,214
				<u> </u>
Liabilities				
Segment liabilities	1,741,503	111,857	(10,925)	1,842,435
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Unallocated Group Liabilities				22,342
				<u> </u>
Total Liabilities				1,864,777
				<u> </u>

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 6 August 2012.