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

Consolidated financial statements
and independent auditor's report
for the year ended 31 December 2012

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

Contents **Pages**

Deloitte & Touche (M.E.)
701 Corniche Plaza 2
P.O. Box 5470
Sharjah, United Arab Emirates

Tel: +971 (0) 6 574 1052
Fax: +971 (0) 6 574 1053
www.deloitte.com

INDEPENDENT AUDITOR'S REPORT

The Shareholders
Air Arabia P.J.S.C. (Air Arabia)
Sharjah
United Arab Emirates

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of **Air Arabia P.J.S.C. (Air Arabia) (the "Company") and its Subsidiaries (together the "Group"), Sharjah, United Arab Emirates** which comprise the consolidated statement of financial position as at 31 December 2012, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Group's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Cont'd...

Deloitte.

INDEPENDENT AUDITOR'S REPORT (continued)

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of **Air Arabia P.J.S.C. (Air Arabia) and its Subsidiaries, Sharjah, United Arab Emirates** as at 31 December 2012, and their consolidated financial performance and their consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on Other Legal and Regulatory Requirements

Also, in our opinion, the Group has maintained proper books of account and the physical inventory was properly conducted. The information contained in the Directors' report relating to the consolidated financial statements is in agreement with the books. We obtained all the information which we considered necessary for our audit. According to the information available to us, there were no contraventions during the year of the U.A.E. Federal Commercial Companies Law No. 8 of 1984 (as amended), or the Articles of Association of the group companies which might have materially affected the consolidated financial position of the Group or their consolidated financial performance.

Deloitte & Touche (M.E.)

Samir Madbak
Registration No. 386
14 February 2013

Consolidated statement of financial position
At 31 December 2012

	Notes	2012 AED'000	2011 AED'000
ASSETS			
Non-current assets			
Property and equipment	**5**	**3,301,569**	2,423,132
Advance for new aircraft	**6**	**649,800**	596,935
Investment properties	**7**	**163,647**	164,397
Intangible assets	**8**	**1,092,347**	1,092,347
Goodwill	**9**	**189,474**	189,474
Deferred charges	**10**	**5,116**	11,088
Aircraft lease deposits	**11**	**15,809**	28,733
Available-for-sale investments	**12**	**738,779**	733,021
Trade and other receivables	**13**	**16,292**	2,566
Total non-current assets		**6,172,833**	5,241,693
Current assets			
Inventories		**11,571**	9,092
Due from related parties	**14**	**68,660**	102,329
Trade and other receivables	**13**	**462,129**	416,200
Bank balances and cash	**15**	**1,329,752**	1,344,900
Total current assets		**1,872,112**	1,872,521
Total assets		**8,044,945**	7,114,214

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

Consolidated statement of financial position
At 31 December 2012 (continued)

	Notes	2012 AED '000	2011 AED'000
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	16	4,666,700	4,666,700
Statutory reserve	17	222,337	180,382
General reserve	18	165,560	180,382
Cumulative change in fair values		38,672	(9,834)
Retained earnings		335,669	223,255
Equity attributable to owners of the Company		5,428,938	5,240,885
Non-controlling interests		11,705	8,552
Total equity		5,440,643	5,249,437
Non-current liabilities			
Provision for employees' end of service indemnity	19	45,058	36,987
Trade and other payables	20	48,232	42,425
Finance lease liabilities	21	1,259,443	865,165
Murabaha payable		-	32,285
Total non-current liabilities		1,352,733	976,862
Current liabilities			
Due to a related party	14	1,074	22,576
Deferred income		188,560	157,300
Trade and other payables	20	951,640	606,858
Finance lease liabilities	21	110,295	68,896
Murabaha payable		-	32,285
Total current liabilities		1,251,569	887,915
Total liabilities		2,604,302	1,864,777
Total equity and liabilities		8,044,945	7,114,214

Chairman Chief Executive Officer Director of Finance

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

Consolidated statement of income
for the year ended 31 December 2012

	Notes	2012 AED'000	2011 AED'000
Revenue	22	**2,942,428**	2,434,660
Direct costs	23	**(2,418,412)**	(2,112,004)
Gross profit		**524,016**	322,656
Selling and marketing expenses	24	**(45,413)**	(32,889)
General and administrative expenses	25	**(125,261)**	(105,561)
Profit on deposits		**57,616**	71,553
Finance costs		**(34,718)**	(20,941)
Other income	26	**48,570**	39,035
Profit for the year	28	**424,810**	273,853
Attributable to:			
Owners of the Company		**419,549**	269,071
Non-controlling interests		**5,261**	4,782
		424,810	273,853
Basic earnings per share	29	**0.09**	0.06

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

Consolidated statement of comprehensive income
for the year ended 31 December 2012

	Notes	2012 AED '000	2011 AED'000
Profit for the year		**424,810**	273,853
Other comprehensive income/(loss)			
Gain/(loss) on revaluation of available-for-sale investments	**12**	**49,407**	(23,634)
Reclassification adjustment relating to available-for-sale investments impaired included in profit and loss		**4,800**	-
Transfer to consolidated statement of income on sale of available-for-sale investments		**(5,701)**	-
Board of Directors' remuneration		**-**	(1,925)
Total other comprehensive income/(loss)		**48,506**	(25,559)
Total comprehensive income for the year		**473,316**	248,294
Attributable to:			
Owners of the Company		**468,055**	243,512
Non-controlling interests		**5,261**	4,782
		473,316	248,294

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

Consolidated statement of changes in equity
for the year ended 31 December 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	4,666,700	153,475	153,475	13,800	383,259	5,370,709	6,220	5,376,929
Profit for the year	-	-	-	-	269,071	269,071	4,782	273,853
Other comprehensive loss for the year	-	-	-	(23,634)	(1,925)	(25,559)	-	(25,559)
Total comprehensive income for the year	-	-	-	(23,634)	267,146	243,512	4,782	248,294
Transfer to reserves	-	26,907	26,907	-	(53,814)	-	-	-
Dividend paid	-	-	-	-	(373,336)	(373,336)	(2,450)	(375,786)
Balance at 31 December 2011	4,666,700	180,382	180,382	(9,834)	223,255	5,240,885	8,552	5,249,437
Profit for the year	-	-	-	-	419,549	419,549	5,261	424,810
Other comprehensive income for the year	-	-	-	48,506	-	48,506	-	48,506
Total comprehensive income for the year	-	-	-	48,506	419,549	468,055	5,261	473,316
Transfer to retained earnings (Note 18)	-	-	(56,777)	-	56,777	-	-	-
Transfer to reserves	-	41,955	41,955	-	(83,910)	-	-	-
Increase in non-controlling interests	-	-	-	-	-	-	342	342
Dividend paid (Note 38)	-	-	-	-	(280,002)	(280,002)	(2,450)	(282,452)
Balance at 31 December 2012	**4,666,700**	**222,337**	**165,560**	**38,672**	**335,669**	**5,428,938**	**11,705**	**5,440,643**

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

Consolidated statement of cash flows
for the year ended 31 December 2012

	2012	2011
	AED '000	AED'000
Cash flows from operating activities		
Profit for the year	**424,810**	273,853
Adjustment for:		
Depreciation of property and equipment	**166,118**	104,316
Depreciation of investment property	**750**	750
Amortisation of deferred charges	**6,314**	7,575
Provision for employees' end of service indemnity	**11,325**	11,275
Impairment losses on available-for-sale investments	**4,800**	-
Unrealised (gain)/loss on derivative financial instruments	**(13,785)**	6,621
Share of net losses from associates	**26,684**	5,801
Allowance made during the year	**406**	1,078
Amounts recovered during the year	**(149)**	(170)
Profit on deposits	**(57,616)**	(71,553)
Dividend income	**(34,894)**	**-**
Rental income	**(7,118)**	(5,826)
Gain on disposal of available-for-sale investments	**(5,701)**	-
Finance costs	**34,718**	20,941
Operating cash flow before changes in operating assets and liabilities	**556,662**	354,661
Increase in margin deposits	**(175)**	(855)
Increase in trade and other receivables	**(41,180)**	(109,993)
Increase in inventories	**(2,479)**	(2,655)
Decrease/(increase) in due from related parties	**33,669**	(73,894)
Decrease in aircraft lease deposits	**12,924**	5,483
Increase in trade and other payables	**345,021**	32,070
Increase in deferred income	**31,260**	8,740
(Decrease)/increase in due to a related party	**(21,502)**	9,228
Cash generated by operating activities	**914,200**	222,785
Employees' end of service indemnity paid	**(3,254)**	(3,561)
Interest paid	**(28,350)**	(17,297)
Net cash from operating activities	**882,596**	201,927
Cash flows from investing activities		
Purchase of property and equipment	**(288,367)**	(92,470)
Proceeds from disposal of property and equipment	**491**	139
Proceeds from disposal of available-for-sale-investments	**43,649**	-
Increase in advance for new aircraft	**(295,664)**	(186,761)
Increase in deferred charges	**(342)**	(621)
Payments for investment in associates	**(26,684)**	(5,801)
Purchase of available-for-sale investments	**-**	(260)
Increase in fixed deposits	**(40,554)**	(166,849)
Dividend received	**34,894**	-
Rental income	**7,118**	5,826
Profit on deposits received	**52,669**	52,694
Net cash used in investing activities	**(512,790)**	(394,103)

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

Consolidated statement of cash flows
for the year ended 31 December 2012 (continued)

	2012 AED '000	2011 AED'000
Cash flows from financing activities		
Decrease in other payables	**(800)**	(518)
Increase in non-controlling interests	**342**	-
Dividend paid	**(280,002)**	(373,336)
Dividend paid to non-controlling interests	**(2,450)**	(2,450)
Board of Directors' remuneration	**-**	(1,925)
Repayment of finance lease obligations	**(78,203)**	(32,906)
Repayment of murabaha payable	**(64,570)**	(64,056)
Net cash used in financing activities	**(425,683)**	(475,191)
Net decrease in cash and cash equivalents	**(55,877)**	(667,367)
Cash and cash equivalents at the beginning of the year	**171,162**	838,529
Cash and cash equivalents at the end of the year (Note 15)	**115,285**	171,162

The following transactions are not reflected in the consolidated statement of cash flows as these are non-cash transactions.

- Advance paid for purchase of aircraft amounting to AED 242,799 thousand (2011: AED 183,039 thousand) has been adjusted with the purchase of six aircraft (Note 6).

- Obligations under finance lease against four (2011: six) aircraft obtained during the year (Note 21).

Notes to the consolidated financial statements
for the year ended 31 December 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).

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. Adoption of new and revised International Financial Reporting Standards (IFRSs)

2.1 New and revised IFRSs applied with no material effect on the consolidated financial statements

The following new and revised IFRSs have been adopted in these consolidated financial statements. The adoption of these new and revised IFRSs has not had any material impact on the amounts reported for the current and prior years but may affect the accounting for future transactions or arrangements.

- Amendments to IFRS 1 *Removal of Fixed Dates for First-Time Adopter.*

The amendments regarding the removal of the fixed dates provide the relief to the first-time adopters of IFRSs from reconstructing transactions that occurred before their date of transition to IFRS. The amendments are effective for annual periods beginning on or after 1 July 2011 with retrospective application.

- Amendments to IFRS 1 *Severe Hyperinflation*

The amendments regarding severe hyperinflation provide guidance for entities emerging from severe hyperinflation either to resume presenting IFRS financial statements or to present IFRS financial statements for first time. The amendments are effective for annual periods beginning on or after 1 July 2011 with retrospective application.

- Amendments to IAS 12 *Income Taxes – Deferred Tax: Recovery of Underlying Assets*

The amendments provide an exception to the general principles of IAS 12 for investment property measured using the fair value model in IAS 40 Investment Property by the introduction of a rebuttable presumption that the carrying amount of the investment property will be recovered entirely through sale. The amendments are effective for annual periods beginning on or after 1 January 2012 with retrospective application.

2. Adoption of new and revised International Financial Reporting Standards (IFRSs) (continued)

2.1 New and revised IFRSs applied with no material effect on the consolidated financial statements (continued)

- Amendments to IFRS 7 *Disclosures Transfers of Financial Assets*

The amendments increase the disclosure requirements for transactions involving transfers of financial assets. These amendments are intended to provide greater transparency around risk exposures of transactions when a financial asset is transferred but the transferor retains some level of continuing exposure in the asset. The amendments also require disclosures where transfers of financial assets are not evenly distributed throughout the period. The amendments are effective for annual periods beginning on or after 1 July 2011. Entities need not provide the disclosures required by the amendments for any period presented that begins before the date of the initial application of the amendments.

2.2 New and revised International Financial Reporting Standards (IFRSs) 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:

New and revised IFRSs	Effective for annual periods beginning on or after
• Amendments to IFRS 1 *Government Loans* provide relief to first-time adopters of IFRSs by amending IFRS 1 to allow prospective application of IAS 39 or IFRS 9 and paragraph 10A of IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance* to government loans outstanding at the date of transition to IFRSs.	1 January 2013
• Amendments to IFRS 7 *Financial Instruments*: Disclosures relating to disclosures about the initial application of IFRS.	1 January 2015 (or otherwise when IFRS 9 is first applied)
• Amendments to IFRS 7 *Financial Instruments:* Disclosures enhancing disclosures about offsetting of financial assets and liabilities.	1 January 2013
• IFRS 9 *Financial Instruments* issued in November 2009 introduces new requirements for the classification and measurement of financial assets. IFRS 9 amended in October 2010 includes the requirements for the classification and measurement of financial liabilities and for derecognition.	1 January 2015

Key requirements of IFRS 9 are described as follows:

- IFRS 9 requires all recognised financial assets that are within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.

Notes to the consolidated financial statements
for the year ended 31 December 2012 (continued)

2. Adoption of new and revised International Financial Reporting Standards (IFRSs) (continued)

2.2 New and revised International Financial Reporting Standards (IFRSs) in issue but not yet effective and not early adopted (continued):

New and revised IFRSs	Effective for annual periods beginning on or after
Key requirements of IFRS 9 are described as follows (continued):	
▪ The most significant effect of IFRS 9 regarding the classification and measurement of financial liabilities relates to the accounting for changes in the fair value of a financial liability (designated as at fair value through profit or loss) attributable to changes in the credit risk of that liability. Specifically, under IFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under IAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was presented in profit or loss.	
• IFRS 10 *Consolidated Financial Statements** 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 *Separate Financial Statements** and IAS 28 *Investments in Associates and Joint Ventures** have been amended for the issuance of IFRS 10.	1 January 2013
• IFRS 11 *Joint Arrangements** 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 *Investments in Associates and Joint Ventures* has been amended for the issuance of IFRS 11.	1 January 2013
• IFRS 12 *Disclosure of Interests in Other Entities** 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

Notes to the consolidated financial statements
for the year ended 31 December 2012 (continued)

2. Adoption of new and revised International Financial Reporting Standards (IFRSs) (continued)

2.2 New and revised International Financial Reporting Standards (IFRSs) in issue but not yet effective and not early adopted (continued):

New and revised IFRSs	Effective for annual periods beginning on or after
• IFRS 13 *Fair Value Measurement* 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 – *Presentation of Other Comprehensive Income*. 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
• Amendments to IAS 19 *Employee Benefits* eliminate the "corridor approach" and therefore require an entity to recognise changes in defined benefit plan obligations and plan assets when they occur.	1 January 2013
• Amendments to IAS 32 *Financial Instruments: Presentation* relating to application guidance on the offsetting of financial assets and financial liabilities.	1 January 2014
• IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine*.	1 January 2013
• Annual Improvements to *IFRSs 2009 – 2011 Cycle* The annual improvements include the amendments to five IFRSs which have been summarized below: ▪ *IFRS 1 First Time Adoption of International Financial Reporting Standards* – Repeated application of IFRS 1. ▪ *IFRS 1 First Time Adoption of International Financial Reporting Standards* – Borrowing costs. • *IAS 1 Presentation of Financial Statements* – Clarification of the requirements for comparative information. • *IAS 16 Property, Plant and Equipment* – Classification of serving equipment. • *IAS 32 Financial Instruments: Presentation* - Tax effect of the distribution to the holders of equity instruments. • *IAS 34 Interim Financial Reporting* - Interim financial reporting and segment information for total assets and liabilities.	1 January 2013

Notes to the consolidated financial statements
for the year ended 31 December 2012 (continued)

2. Adoption of new and revised International Financial Reporting Standards (IFRSs) (continued)

2.2 New and revised International Financial Reporting Standards (IFRSs) in issue but not yet effective and not early adopted (continued):

New and revised IFRSs	Effective for annual periods beginning on or after
• Amendments to IFRS 10, IFRS 12 and IAS 27 – Guidance on Investment Entities On 31 October 2012, the IASB published a final standard on investment entities, which amends IFRS 10, IFRS 12, and IAS 27 and introduces the concept of an investment entity in IFRSs. The amendments establish an exception to IFRS 10's general consolidation principle for investment entities, requiring them to "measure particular subsidiaries at fair value through profit or loss, rather than consolidate them." In addition, the amendments outline required disclosures for reporting entities that meet the definition of an investment entity.	1 January 2014

*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). In June 2012, the amendments to IFRS 10, IFRS 11 and IFRS 12 were issued to clarify certain transitional guidance on the application of these IFRSs for the first time. 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, other than IFRS 11 Joint Arrangements.

3. Summary of significant accounting policies

3.1 Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS).

3.2 Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis except for financial instruments that have been measured at fair values, as explained in the accounting policies below. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

The principal accounting policies are set out below.

3. Summary of significant accounting policies (continued)

3.3 Basis of consolidation

The consolidated financial statements of Air Arabia P.J.S.C. (Air Arabia) and its Subsidiaries (the "Group") incorporate the financial statements of the Company and entities 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.

The results of subsidiaries acquired or disposed of during the year are included in the profit and loss from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of group companies to bring their accounting policies in line with those used by other numbers of the Group.

Non-controlling interests in the net assets (excluding goodwill) of consolidated subsidiaries are identified separately from the Group's equity therein. The interests of non-controlling shareholders may be initially measured either at fair value or at the non-controlling interests' proportionate share of the fair value of the acquiree's identifiable net assets. The choice of measurement basis is made on an acquisition-by-acquisition basis. Subsequent to acquisition, the carrying amount of non-controlling interests is the amount of those interests at initial recognition plus the non-controlling interests' share of subsequent changes in equity. Total comprehensive income is attributed to non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Changes in the Group's interests in subsidiaries that do not result in a loss of control are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, the profit or loss on disposal is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests.

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

Notes to the consolidated financial statements
for the year ended 31 December 2012 (continued)

3. Summary of significant accounting policies (continued)

3.4 Subsidiaries

Details of the Company's subsidiaries at 31 December 2012 were as follows:

Name of subsidiary	Place of incorporation and operation	Proportion of ownership interest	Proportion of voting power held	Principal activities
COZMO Travel L.L.C. and Subsidiaries	Sharjah - U.A.E.	51%	51%	Travel, travel and tours, tourism and cargo services.

3.5 Business combination

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit and loss. At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at fair value or, when applicable, on the basis specified in another IFRS.

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

Notes to the consolidated financial statements
for the year ended 31 December 2012 (continued)

3. Summary of significant accounting policies (continued)

3.5 Business combination (continued)

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with IAS 39, or IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, as appropriate, with the corresponding gain or loss being recognised in profit or loss.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control) and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognised at that date.

Business combinations that took place prior to 1 January 2010 were accounted for in accordance with the previous version of IFRS 3.

3.6 Goodwill

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group’s interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If, after reassessment, the Group’s interest in the net fair value of the acquiree’s identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the excess is recognised immediately in profit and loss.

Goodwill arising on the acquisition of a subsidiary or jointly controlled entity represents the excess of the cost of acquisition over the Group’s assets in the net fair value of the identifiable assets, liabilities and contingent liabilities of the subsidiary or jointly controlled entity recognised at the date of acquisition. Goodwill is initially recognised as an asset at cost and is subsequently measured at cost less any accumulated impairment losses.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

3. Summary of significant accounting policies (continued)

3.6 Goodwill (continued)

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss in the profit and loss. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit and loss on disposal.

3.7 Investments in associates

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*. Under the equity method, an investment in an associate is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate. When the Group's share of losses of an associate exceeds the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of an associate recognised at the date of acquisition is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of acquisition, after reassessment, is recognised immediately in profit or loss.

The requirements of IAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group’s investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 Impairment of Assets as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount, Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

3. Summary of significant accounting policies (continued)

3.7 Investments in associates (continued)

When a group entity transacts with its associate, profits and losses resulting from the transactions with the associate are recognised in the Group' consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

3.8 Interests in joint ventures

A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity that is subject to joint control (i.e. when the strategic financial and operating policy decisions relating to the activities of the joint venture require the unanimous consent of the parties sharing control).

When a group entity undertakes its activities under joint venture arrangements directly, the Group's share of jointly controlled assets and any liabilities incurred jointly with other venturers are recognised in the financial statements of the relevant entity and classified according to their nature. Liabilities and expenses incurred directly in respect of interests in jointly controlled assets are accounted for on an accrual basis. Income from the sale or use of the Group's share of the output of jointly controlled assets, and its share of joint venture expenses, are recognised when it is probable that the economic benefits associated with the transactions will flow to/from the Group and their amount can be measured reliably.

Joint venture arrangements that involve the establishment of a separate entity in which each venturer has an interest are referred to as jointly controlled entities.

The Group reports its interests in jointly controlled entities using proportionate consolidation, except when the investment is classified as held for sale, in which case it is accounted for in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*. The Group's share of the assets, liabilities, income and expenses of jointly controlled entities is combined with the equivalent items in the consolidated financial statements on a line-by-line basis.

Any goodwill arising on the acquisition of the Group's interest in a jointly controlled entity is accounted for in accordance with the Group's accounting policy for goodwill arising in a business combination (see 3.5 and 3.6 above).

When a group entity transacts with its jointly controlled entity, profits and losses resulting from the transactions with the jointly controlled entity are recognised in the Group' consolidated financial statements only to the extent of interests in the joint venture.

3.9 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

3.9.1 Rendering of services

Passenger revenue is recognised in the period in which the service is provided. Unearned revenue represents flight seats sold but not yet flown and is included in current liabilities as deferred income. It is released to the profit or loss when flown or time expired.

Sales of other services are recognised when the services are rendered.

3. Summary of significant accounting policies (continued)

3.9 Revenue recognition (continued)

3.9.2 Hotel revenue

Income from Hotel services rendered to guests and customers is recognised pro-rata over the periods of occupancy. Revenue from sale of goods, food and beverages is recognised upon issuance of related sales invoices on delivery to guests and customers

3.9.3 Sale of goods

Revenue from the sale of goods is recognised when all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the entity; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Specifically, revenue from the sale of goods is recognised when the goods are delivered and legal title is passed.

3.9.4 Dividend on investments and profit on deposits

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

Profit on deposits from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably.

Profit on deposits are accrued on a time basis, by reference to the principal outstanding and at the effective profit rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the asset's net carrying amount on initial recognition.

3.9.5 Rental income

The Group's policy for recognition of revenue from operating leases is described in 3.10 below.

3. Summary of significant accounting policies (continued)

3.10 Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

3.10.1 The Group as lessor

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

3.10.2 The Group as lessee

Assets held under finance leases are initially recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss. Contingent rentals are recognised as expenses in the periods in which they are incurred.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

3.11 Foreign currencies

The individual financial statements of each group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each group entity are expressed in Arab Emirates Dirhams (“AED”), which is the functional currency of the Group and the presentation currency for the consolidated financial statements.

In preparing the financial statements of the individual entities, transactions in currencies other than the entity’s functional currency (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. Exchange rate differences are recognised in profit or loss in the year in which they arise.

3. Summary of significant accounting policies (continued)

3.12 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 any identified impairment losses.

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
Buildings	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. Summary of significant accounting policies (continued)

3.13 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 are measured initially at cost including all direct costs attributable to the design and construction of the property including related staff costs. Depreciation of these assets, on the same basis as other investment property, 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.

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

3.14 Government grants

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

3.15 Deferred charges

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

3.16 Intangible assets acquired in a business combination

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

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

3.17 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises invoice price of materials and, where applicable, labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the first-in-first-out method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

3. Summary of significant accounting policies (continued)

3.18 Impairment of tangible and intangible assets excluding goodwill

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

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

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 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 profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (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 (cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

3.19 Deferred income

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

3.20 Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

3. Summary of significant accounting policies (continued)

3.21 Employee benefits

3.21.1 Defined contribution plan

UAE national employees of the Group are members of the Government-managed retirement pension and social security benefit scheme pursuant to U.A.E. labour law no. 7 of 1999. The Group is required to contribute 12.5% of the "contribution calculation salary" of payroll costs to the retirement benefit scheme to fund the benefits. The employees and the Government contribute 5% and 2.5% of the "contribution calculation salary" respectively, to the scheme. The only obligation of the Group with respect to the retirement pension and social security scheme is to make the specified contributions. The contributions are charged to profit or loss.

3.21.2 Annual leave and leave passage

An accrual is made for the estimated liability for employees' entitlement to annual leave and leave passage as a result of services rendered by eligible employees up to the end of the year.

3.21.3 Provision for employees' end of service indemnity

Provision is also made for the full amount of end of service benefit due to non-UAE national employees in accordance with the UAE Labour Law and is based on current remuneration and their period of service at the end of the reporting period. Provisions for employees' end of service indemnity for the employees working with the entities domiciled in other countries are made in accordance with local laws and regulations applicable to each entity.

The accrual relating to annual leave and leave passage is disclosed as a current liability, while the provision relating to end of service benefit is disclosed as a non-current liability.

3.22 Aircraft maintenance

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

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

3.23 Financial instruments

Financial assets and financial liabilities are recognised when a Group entity becomes a party to the contractual provisions of the instrument.

All financial assets are recognised and derecognised on trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value.

Financial assets are classified into the following specified categories: financial assets 'at fair value through profit or loss' (FVTPL), 'held-to-maturity' investments, 'available-for-sale' (AFS) investments and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

3. Summary of significant accounting policies (continued)

3.24 Financial assets

The effective interest method is a method of calculating the amortised cost of a financial asset and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

The Group has classified the following financial assets as 'loans and receivables': cash and cash equivalents, trade and other receivables (excluding prepaid aircraft lease rentals and prepaid expenses), due from related parties and aircraft lease deposits.

3.24.1 Bank balances and cash

Bank balances and cash include cash on hand and deposits held with banks (excluding deposits held under lien) with original maturities of three months or less.

3.24.2 Available-for-sale investments (AFS)

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 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.

Dividend 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.

3.24.3 Loans and receivables

Loans and receivables are measured at amortised costs using the effective interest method, less any impairment. Interest income is recognised by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

3.24.4 Impairment of financial assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

Notes to the consolidated financial statements
for the year ended 31 December 2012 (continued)

3. Summary of significant accounting policies (continued)

3.24 Financial assets (continued)

3.24.4 Impairment of financial assets (continued)

For listed and unlisted AFS equity investments, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as a default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate. For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit and loss.

When an AFS investment is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit and loss in the period.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of AFS equity securities, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income.

3. Summary of significant accounting policies (continued)

3.24 Financial assets (continued)

3.24.5 Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset

3.25 Financial liabilities and equity instruments issued by the group

3.25.1 Classification as debt and equity instruments

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

3.26 Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue costs.

3.27 Financial liabilities

The Group has classified the following financial liabilities as ‘other financial liabilities’: finance lease liabilities, trade and other payables, Murabaha payable and due to a related party and are initially measured at fair value, net of transaction costs and are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis except for short term payable when the recognition of interest would be immaterial.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

3.27.1 Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group’s obligations are discharged, cancelled or expired.

3.28 Dividend distribution

Dividend distribution to the Shareholders is recognised as a liability in the consolidated financial statements in the period in which the dividends are approved by the Shareholders.

3. Summary of significant accounting policies (continued)

3.29 Derivative financial instruments

Derivatives financial instruments are initially recognised at fair value at the date a derivative contract is entered into and are subsequently re-measured to their fair value at the end of each reporting period. All the derivatives financial instruments are carried at their fair values as financial assets where the fair values are positive and as financial liabilities where the fair values are negative. A derivative financial instrument is presented as non-current assets or a non-current liability if the remaining maturity of the instrument is more than 12 months and it is not expected to be realised or settled within 12 months. Other derivative financial instruments are presented as current assets or current liabilities. The resulting gain or loss is recognised in profit and loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit and loss depends on the nature of hedge relationship.

4. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies, which are described in Note 3 to these consolidated financial statements, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

The significant judgements and estimates made by management, 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:

4.1 Critical judgments in applying accounting policies

The following are the critical judgements, apart from those involving estimations (see 4.2 below), that management has made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in consolidated financial statements.

4.1.1 Classification of investments

Management decides on acquisition of a financial asset whether it should be classified as FVTPL - held for trading, held to maturity investments, loans and receivables or AFS investments.

The Group has classified its investment as AFS investments as these investments are not falling under the category of FVTPL - held for trading, held to maturity investments or loans and receivables.

4. Critical accounting judgments and key sources of estimation uncertainty (continued)

4.1 Critical judgments in applying accounting policies (continued)

4.1.2 Fair value of derivative financial instruments

At 31 December 2012 the Group has outstanding commodity swap as disclosed in Note 27 to these consolidated financial statements. The fair value has been determined as such in accordance with best market practice and using observable market data.

4.1.3 Valuation of unquoted investments

Valuation of unquoted investments is normally based on recent market transactions on an arm's length basis, fair value of another instrument that is substantially the same, expected cash flows discounted at current rates for similar instruments or other valuation models.

4.1.4 Impairment of AFS investments

The Group determines whether AFS investments are impaired when there has been a significant or prolonged decline in their fair value below cost. This determination of what is significant or prolonged requires judgement. In making this judgement and to record whether an impairment occurred, the Group evaluates among other factors, the normal volatility in share price, the financial health of the investee, industry and sector performance, changes in technology and operational and financial cash flows.

Management has considered an amount of AED 4,800 thousand (2011: Nil) as impairment loss on AFS based on impairment test performed during the year.

4.1.5 Impairment of goodwill and intangible assets

Goodwill is tested annually for impairment and at other times when such indications exist. The impairment calculation requires the use of estimates.

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

Management has concluded that no impairment of goodwill and intangible assets is required based on independent valuer's report on impairment test performed as of 31 December 2012.

4.1.6 Classification of leases

The Group, as a lessor and lessee, has entered into lease arrangements for leasing of aircrafts.

In the process of determining whether these arrangements represent operating leases or finance leases, the Group's management has made various judgements. In making its judgements, the Group's management considered the terms and conditions of the lease agreements and the requirements of IAS 17 Leases, including the Basis for Conclusions on IAS 17 provided by the International Accounting Standards Board and related guidance, to determine whether significant risks and rewards associated with the asset in accordance with each lease term would have been transferred to the lessee at the end of the lease period. The Group evaluated the transfer of risks and rewards before and after entering into the lease arrangements and the management is satisfied that the lease arrangements accounted for in the consolidated financial statements are appropriately classified as financial lease (Note 21) and operating lease (Note 32).

4. Critical accounting judgments and key sources of estimation uncertainty (continued)

4.2 Key sources of estimation uncertainty

The following are 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.

4.2.1 Leased aircraft maintenance costs

The Group incurs liabilities for maintenance costs in respect of its leased aircraft during the course of the lease term. These are a result of legal and constructive obligations in the lease contract in respect of the return conditions applied by lessors, which require aircraft airframes, engines, landing gear and auxiliary power units to reach at least a specified condition on their return at the end of the lease term. A charge is made in the profit or loss each month based on the number of flight hours or cycles used to build up an accrual to cover the cost of heavy-duty maintenance checks when they occur. Estimates involved in calculating the provision required include the expected date of the check, market conditions for heavy-duty maintenance checks pertaining at the expected date of check, the condition of asset at the time of the check, the likely utilisation of the asset in terms of either flying hours or cycles, and the regulations in relation to extensions to lives of life-limited parts, which form a significant proportion of the cost of heavy-duty maintenance costs of engines. Additional maintenance costs for aircraft engines are considered for accrual based on the estimates made by Engineering Department on the basis of operational requirements.

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

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

4.2.2 Accrual for aircraft flying costs

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

4.2.3 Property and equipment and investment property

The cost of property and equipment and investment property is depreciated (except land) over the estimated useful life, which is based on expected usage of the asset, expected physical wear and tear, the repair and maintenance program and technological obsolescence arising from changes and the residual value. The management has considered residual values while computing the depreciation for aircraft, aircraft engines and aircraft rotables and equipment.

4. Critical accounting judgments and key sources of estimation uncertainty (continued)

4.2 Key sources of estimation uncertainty (continued)

4.2.4 Deferred charges

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

4.2.5 Inventories

Inventories are stated at the lower of cost and net realisable value. Adjustments to reduce the cost of inventory to its realisable value, if required, are made at the product group level for estimated excess, obsolescence or impaired balances. Factors influencing these adjustments include changes in demand, product pricing, physical deterioration and quality issues.

4.2.6 Impairment of trade receivables

An estimate of the collectible amount of trade receivables is made when collection of the full amount is no longer probable. This determination of whether these trade receivables are impaired, entails the Group evaluating, the credit and liquidity position of the customers, historical recovery rates and collateral requirements from certain customers in certain circumstances. The difference between the estimated collectible amount and the book amount is recognised as an expense in profit or loss. Any difference between the amounts actually collected in the future periods and the amounts expected will be recognised in profit or loss at the time of collection.

Notes to the consolidated financial statements
for the year ended 31 December 2012 (continued)

5. Property and equipment

	Land AED '000	Buildings AED '000	Aircraft AED '000	Aircraft engines AED '000	Aircraft rotables and equipment AED '000	Airport equipments and vehicles AED '000	EDP equipment AED '000	Office equipment and furniture and fixtures AED '000	Capital work-in-progress AED '000	Total AED '000
Cost										
31 December 2010	-	62,839	773,958	161,392	21,557	36,396	16,289	12,761	231,745	1,316,937
Additions during the year	50,000	281,727	942,715	-	2,417	1,693	3,640	1,710	48,186	1,332,088
Disposals	-	-	-	-	-	(135)	-	(111)	-	(246)
Transfers	-	226,891	-	-	-	1,688	54	2,271	(230,904)	-
31 December 2011	50,000	571,457	1,716,673	161,392	23,974	39,642	19,983	16,631	49,027	2,648,779
Additions during the year	-	2,640	975,113	39,530	2,552	1,755	1,932	1,920	19,604	1,045,046
Disposals	-	-	-	-	-	(1,059)	-	(78)	-	(1,137)
Transfers	-	32,675	-	-	-	19,545	-	463	(52,683)	-
31 December 2012	**50,000**	**606,772**	**2,691,786**	**200,922**	**26,526**	**59,883**	**21,915**	**18,936**	**15,948**	**3,692,688**
Accumulated depreciation										
31 December 2010	-	774	77,108	15,994	5,525	7,307	8,747	5,983	-	121,438
Charge for the year	-	19,182	67,021	6,457	1,802	3,093	3,475	3,286	-	104,316
Eliminated on disposals	-	-	-	-	-	(61)	-	(46)	-	(107)
31 December 2011	-	19,956	144,129	22,451	7,327	10,339	12,222	9,223	-	225,647
Charge for the year	-	30,531	114,582	7,789	1,980	4,730	2,915	3,591	-	166,118
Eliminated on disposals	-	-	-	-	-	(597)	-	(49)	-	(646)
31 December 2012	**-**	**50,487**	**258,711**	**30,240**	**9,307**	**14,472**	**15,137**	**12,765**	**-**	**391,119**
Carrying amount										
31 December 2012	**50,000**	**556,285**	**2,433,075**	**170,682**	**17,219**	**45,411**	**6,778**	**6,171**	**15,948**	**3,301,569**
31 December 2011	50,000	551,501	1,572,544	138,941	16,647	29,303	7,761	7,408	49,027	2,423,132

Notes to the consolidated financial statements
for the year ended 31 December 2012 (continued)

5. Property and equipment (continued)

Buildings include hotel apartments, simulator and staff quarters. Simulator and staff quarters are constructed on leasehold land, leased from Sharjah Airport Authority, Sharjah, United Arab Emirates.

At 31 December 2012, 12 (2011: 8) aircrafts with carrying amount of AED 1,778,076 thousand (2011: AED 1,197,173 thousand) are held under finance lease (Note 21).

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

All of the Group's non-movable assets are located in the U.A.E., except for property and equipment with carrying amount of AED 920 thousand (2011: AED 801 thousand), located outside U.A.E.

Capital work in progress includes advance payment made towards purchase of aircraft engines amounting to AED 15,062 thousand (2011: AED 13,510 thousand).

6. Advance for new aircraft

Advance for new aircraft represents pre-delivery payments made to suppliers outside U.A.E. for an amount of USD 177.5 million (equivalent to AED 650 million) (2011: USD 162.7 million, equivalent to AED 597 million) made in respect of 30 (2011: 36) Airbus A320 aircraft.

Movement in the advance for new aircraft were as follows:

	2012 **AED'000**	2011 AED'000
Balance, at the beginning of the year	**596,935**	593,213
Advances paid during the year	**398,911**	340,270
Adjusted against aircraft purchase	**(242,799)**	(183,039)
Refund of advance paid	**(103,247)**	(153,509)
Balance, at the end of the year	**649,800**	596,935

Notes to the consolidated financial statements
for the year ended 31 December 2012 (continued)

7. Investment properties

	Investment property AED '000	Investment property under progress AED '000	Total AED '000
Cost			
31 December 2010	54,040	-	54,040
Transfers	-	115,795	115,795
31 December 2011 and 2012	**54,040**	**115,795**	**169,835**
Accumulated depreciation			
31 December 2010	4,688	-	4,688
Charge for the year	750	-	750
31 December 2011	5,438	-	5,438
Charge for the year	750	-	750
31 December 2012	**6,188**	**-**	**6,188**
Carrying amount			
31 December 2012	**47,852**	**115,795**	**163,647**
31 December 2011	48,602	115,795	164,397

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. The Group has accounted this land at AED 39 million, based on independent valuers' report, engaged for the purpose of applying IFRS3 'Business Combination', at the time of acquisition of Air Arabia L.L.C. (Air Arabia) by the Company.

The building is leased to Sharjah Airport International Free Zone for a period of 50 years from 1 October 2004 at an annual rent of AED 3 million for the first five years and at AED 3.3 million annually for the balance of forty five years.

The property rental income earned by the Group during the year amounted to AED 3,300 thousand (2011: AED 3,300 thousand) and direct operating expenses arising on the investment property amounted to AED 750 thousand (2011: AED 750 thousand).

Management anticipates the fair value of investment properties as at 31 December 2012 to be AED 167.8 million (2011: AED 167.8 million).

Investment property under progress comprise of a building located at Dubai, U.A.E.

Notes to the consolidated financial statements
for the year ended 31 December 2012 (continued)

8. Intangible assets

Intangible assets arising out of acquisition of Air Arabia L.L.C. (Air Arabia), determined by independent valuer is as follows:

	2012 **AED'000**	2011 AED'000
Trade name	**395,410**	395,410
Landing rights	**468,273**	468,273
Price benefit from related parties	**180,281**	180,281
Handling licence - Sharjah Aviation Services	**48,383**	48,383
	1,092,347	1,092,347

The useful lives of intangible assets have been estimated to be indefinite by the independent valuer.

During the year intangible assets were subject to impairment test similar to goodwill (Note 9) and management has concluded based on the independent valuer's report that intangible assets are unlikely to be impaired for the reporting period.

9. Goodwill

Goodwill arising out of acquisition of Air Arabia L.L.C. (Air Arabia), determined by an independent valuer is as follows:

	2012 **AED'000**	2011 AED'000
Total fair value of Air Arabia Company L.L.C. (Air Arabia)	**1,400,000**	1,400,000
Fair value of intangible assets (Note 8)	**(1,092,347)**	(1,092,347)
Fair value of tangible assets (net)	**(118,179)**	(118,179)
	189,474	189,474

During the year, the Group has performed the impairment test on goodwill through an independent valuer. The recoverable amount of cash-generating unit for impairment test has been determined using value in use calculation. For calculation purpose management approved cash flow projections for 5 year period from 2013-2017 and a discount rate between 9.8% to 10.3% per annum has been considered.

Cash flow projections during the budget period are based on the same expected gross margins throughout the budget period. Management believes that any reasonably possible change in the key assumptions on which recoverable amount is based would not cause the aggregate carrying amount to exceed the aggregate recoverable amount of the cash-generating unit. Based on the results of impairment test performed it is unlikely that underlying goodwill will be impaired.

Notes to the consolidated financial statements
for the year ended 31 December 2012 (continued)

10. Deferred charges

	Aircraft upgrade costs AED'000	Landing permission charges AED'000	Computer software AED'000	Total AED'000
Cost				
31 December 2010	21,680	51,745	1,676	75,101
Additions during the year	348	-	273	621
31 December 2011	22,028	51,745	1,949	75,722
Additions during the year	125	-	217	342
31 December 2012	**22,153**	**51,745**	**2,166**	**76,064**
Accumulated amortisation				
31 December 2010	15,753	40,715	591	57,059
Charge for the year	2,699	4,553	323	7,575
31 December 2011	18,452	45,268	914	64,634
Charge for the year	1,469	4,318	527	6,314
31 December 2012	**19,921**	**49,586**	**1,441**	**70,948**
Carrying amount				
31 December 2012	**2,232**	**2,159**	**725**	**5,116**
31 December 2011	3,576	6,477	1,035	11,088

The useful live considered for amortisation is 3 – 5 years.

11. Aircraft lease deposits

Aircraft lease deposits are placed with lessors located outside U.A.E. for leasing the aircraft.

Notes to the consolidated financial statements
for the year ended 31 December 2012 (continued)

12. Available-for-sale investments

	2012	2011
	AED '000	AED '000
Quoted	**7,312**	6,254
Unquoted	**731,467**	726,767
	738,779	733,021
In U.A.E.	**371,464**	365,706
In other G.C.C. countries	**367,315**	367,315
	738,779	733,021

Movement during the year were as follows:

	2012	2011
Fair value, at the beginning of the year	**733,021**	756,395
Purchases during the year	**-**	260
Disposed during the year	**(43,649)**	-
Change in fair value	**49,407**	(23,634)
Fair value, at the end of the year	**738,779**	733,021

The market rate as at 31 December 2012 is considered for the calculation of the fair value of the available-for-sale investments that are quoted in the stock exchange.

Notes to the consolidated financial statements
for the year ended 31 December 2012 (continued)

13. Trade and other receivables

	2012 **AED '000**	2011 AED '000
Current		
Trade receivables	**159,902**	141,088
Allowance for doubtful debts	**(2,002)**	(2,028)
	157,900	139,060
Prepaid aircraft lease rentals	**17,991**	22,301
Prepaid expenses - others	**7,563**	3,669
Advances and other receivables	**251,991**	224,545
Derivative financial instruments (Note 27)	**26,684**	26,625
	462,129	416,200
Non-current		
Derivatives financial instruments (Note 27)	**16,292**	2,566

13.1 Trade receivables

The average credit period ranges between 29 – 45 days (2011: 29 – 45 days). Trade receivables more than 180 days are provided for based on estimated irrecoverable amounts, determined by reference to past default experience in addition to specific provision made on identified customers. No interest is charged on trade receivables.

Before accepting any new customer the Group assesses the potential customers' credit quality and defines credit limits by customer. There are 3 customers (2011: 4 customers) who represent more than 5% of the total balance of trade receivables.

Trade receivables include receivable from Sales Agents amounting to AED 108.43 million (2011: AED 69.03 million), which is fully secured by bank guarantees.

13.2 Movement in the allowance for doubtful debts were as follows:

	2012 **AED '000**	2011 AED '000
Balance, at the beginning of the year	**2,028**	1,162
Allowance made during the year	**406**	1,078
Amounts recovered during the year	**(149)**	(170)
Amounts written off as uncollectible	**(283)**	(42)
Balance, at end of the year	**2,002**	2,028

Notes to the consolidated financial statements
for the year ended 31 December 2012 (continued)

13. Trade and other receivables (continued)

13.2 Movement in the allowance for doubtful debts were as follows: (continued)

In determining the recoverability of a trade receivable, the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the reporting date. The concentration of credit risk is limited due to the customer base being large and unrelated. Further, trade receivables from Sales Agents are secured by bank guarantees. Accordingly, the management believes that there is no further credit provision required in excess of the allowance for doubtful debts. Management has assessed the advances and other receivables for impairment and have concluded that they are fully recoverable in the normal course of business.

14. Related party transactions

Related parties include the Group's major Shareholders, Directors and businesses controlled by them and their families over which they exercise significant management influence as well as key management personnel.

14.1 At the reporting date, amounts due from/to related parties were as follows:

	2012 **AED '000**	2011 AED '000
Due from related parties:		
Alpha Flight Services, Jordan	**142**	128
Due from associates	**66,791**	102,201
Sharjah Airport Travel Agency – U.A.E.	**1,727**	-
	68,660	102,329
Due to a related party:		
Sharjah Airport Authority - U.A.E.	**1,074**	22,576

The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received.

Notes to the consolidated financial statements
for the year ended 31 December 2012 (continued)

14. Related party transactions (continued)

14.2 Transactions:

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

	2012 AED '000	2011 AED '000
Rental income from investment property (Note 7)	**3,300**	3,300
Rental income from aircraft operating lease – associates (Note 32.2.1)	**82,838**	87,189
Management fees (Note 26)	**7,186**	6,851

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

14.3 Compensation of board of directors/key management personnel:

	2012 AED '000	2011 AED '000
Short term benefits	**9,337**	10,025
Long term benefits	**1,950**	1,656
Board of Directors' remuneration	**-**	1,925
Board of Directors' fees	**1,925**	-

15. Bank balances and cash

	2012 AED '000	2011 AED '000
Bank balances:		
Current accounts	**97,210**	144,516
Call deposits	**16,515**	25,294
Fixed deposits	**1,212,037**	1,171,483
Margin deposits	**2,430**	2,255
Total bank balances	**1,328,192**	1,343,548
Cash on hand	**1,560**	1,352
Total bank balances and cash	**1,329,752**	1,344,900
Less: Fixed deposits with maturity over 3 months	**(1,212,037)**	(1,171,483)
Margin deposits	**(2,430)**	(2,255)
Total cash and cash equivalents	**115,285**	171,162

Notes to the consolidated financial statements
for the year ended 31 December 2012 (continued)

15. Bank balances and cash (continued)

	2012 **AED '000**	2011 AED '000
Bank balances:		
In U.A.E.	**1,309,061**	1,300,090
In other countries	**19,131**	43,458
Total bank balances	**1,328,192**	1,343,548

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

16. Share capital

	2012 **AED '000**	2011 AED '000
Authorised and issued share capital (of 4,666,700 thousand shares of AED 1 each)	**4,666,700**	4,666,700

17. Statutory reserve

In accordance with the Commercial Companies Law and the Company's Articles of Association, 10% of net profit for the year is required to be transferred to statutory reserve. The Company may resolve to discontinue such annual transfers when the statutory reserve is equal to 50% of the paid up share capital. The reserve is not available for distribution except in the circumstances stipulated by the law.

18. General reserve

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

At the Annual General Meeting held on 9 April 2012, the Shareholders approved a transfer of AED 56,777 thousand from general reserve to retained earnings.

Notes to the consolidated financial statements
for the year ended 31 December 2012 (continued)

19. Provision for employees' end of service indemnity

Movements in the net liability were as follows:

	2012 **AED '000**	2011 AED '000
Balance, at the beginning of the year	**36,987**	29,273
Amounts charged to income during the year	**11,325**	11,275
Amounts paid during the year	**(3,254)**	(3,561)
Balance, at the end of the year	**45,058**	36,987

20. Trade and other payables

	2012 **AED '000**	2011 AED '000
Trade payables	**117,984**	127,600
Accrued expenses	**543,746**	314,186
Lease deposit payables	**22,533**	16,221
Other payables	**315,609**	191,276
	999,872	649,283
Less: Amount due for settlement after 12 months (shown under non-current liabilities)	**(48,232)**	(42,425)
Amount due for settlement within 12 months	**951,640**	606,858

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

Other payables include an amount of AED 5,259 thousand (2011: AED 6,059 thousand) towards end of service indemnity liability pertaining to the employees who were transferred from Department of Civil Aviation and Sharjah Airport Authority, Sharjah, to the joint venture companies and is payable to them upon discontinuation of employment with the joint venture companies.

Notes to the consolidated financial statements
for the year ended 31 December 2012 (continued)

21. Finance lease liabilities

The Group has entered into a leasing arrangement with a leasing company to finance the purchase of twelve aircrafts (2011: eight). The terms of the leases are 12 years and payments due under lease agreement are as follows:

	Minimum lease payment		**Present value of minimum lease payment**	
	2012	2011	**2012**	2011
	AED '000	AED '000	**AED '000**	AED '000
Not later than one year	**147,904**	96,451	**110,295**	68,896
Later than one year but not later than five year	**586,286**	385,810	**467,701**	297,729
Later than five years	**862,562**	627,070	**791,742**	567,436
	1,596,752	1,109,331	**1,369,738**	934,061
Less : Future finance costs	**(227,014)**	(175,270)	**-**	-
Present value of minimum lease payments	**1,369,738**	934,061	**1,369,738**	934,061

The finance charges will be calculated based on 2.6% (2011: 3.2%).

Included in the consolidated financial statements as:

Current portion of finance lease liabilities	**110,295**	68,896
Non-current portion of finance lease liabilities	**1,259,443**	865,165
	1,369,738	934,061

The finance lease liabilities are secured by the twelve (2011: eight) aircraft leased (Note 5).

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.

Notes to the consolidated financial statements
for the year ended 31 December 2012 (continued)

22. Revenue

	2012 AED '000	2011 AED '000
Passenger revenue	**2,561,037**	2,192,788
Baggage revenue	**39,658**	33,607
Cargo revenue	**62,435**	53,251
Service revenue	**31,634**	21,669
Catering revenue	**33,079**	32,366
Flight handling revenue	**33,146**	34,211
Cargo handling revenue	**32,368**	31,833
Passenger services	**10,801**	10,605
Other operating income	**119,191**	32,078
Revenue from hotel operations	**57,371**	23,435
Sales commission and expenses	**(38,292)**	(31,183)
	2,942,428	2,434,660

23. Direct costs

	2012 AED '000	2011 AED '000
Staff costs	**356,864**	328,277
Aircraft lease rentals (net)	**99,713**	133,232
Fuel	**1,187,498**	1,022,278
Aircraft maintenance expenses	**235,028**	222,534
Passenger, ground and technical handling charges	**139,957**	129,312
Landing and overflying charges	**150,449**	123,439
Insurance	**21,100**	19,768
Service costs	**25,973**	17,151
Depreciation of property and equipment	**156,484**	94,464
Other operating costs	**45,346**	21,549
	2,418,412	2,112,004

Notes to the consolidated financial statements for the year ended 31 December 2012 (continued)

24. Selling and marketing expenses

	2012 AED ’000	2011 AED ’000
Staff costs	**22,189**	17,798
Advertisement expenses	**18,450**	10,949
Reservation management expenses	**4,774**	4,142
	45,413	32,889

25. General and administrative expenses

	2012 AED ’000	2011 AED ’000
Staff costs	**48,128**	45,477
Legal and professional fees	**8,142**	9,014
Travel and accommodation costs	**4,257**	3,309
Communication costs	**3,960**	3,081
Depreciation of property and equipment	**9,634**	9,852
Rent	**6,920**	6,267
Other expenses	**44,220**	28,561
	125,261	105,561

26. Other income

	2012 AED ’000	2011 AED ’000
Dividend income	**34,894**	-
Investment property income, net	**6,368**	5,076
Exchange rate variance	**471**	(2,417)
Impairment losses on available-for-sale investments	**(4,800)**	-
Management fees (Note 14)	**7,186**	6,851
Gain on disposal of available-for-sale investments	**5,701**	-
Share of net losses in associates	**(26,684)**	(5,801)
Unrealised gain/(loss) on fuel derivatives (Note 27)	**13,785**	(6,621)
Gain on acquisition of investment property under progress	**-**	22,440
Other income	**11,649**	19,507
	48,570	39,035

Notes to the consolidated financial statements
for the year ended 31 December 2012 (continued)

27. Derivative financial instruments

The Group uses derivative financial instruments for risk management purpose. These derivatives are linked to the underlying commodity, they do not meet the criteria for hedge accounting as defined by IAS 39 "Financial instruments: Recognition and measurement" and thus do not qualify for hedge accounting.

At 31 December 2012, the change in fair value of these derivatives amounting to AED 13,785 thousand (gain) (2011: AED 6,621 thousand (loss)) which has been taken to the consolidated profit and loss for the year ended 31 December 2012 with a corresponding current asset of AED 26,684 thousand (2011: AED 26,625 thousand) and non-current asset of AED 16,292 thousand (2011: AED 2,566 thousand) where contract expires after 12 months from the end of reporting date.

28. Profit for the year

Profit for the year is arrived at after charging the following expenses:

	2012	2011
	AED ’000	AED ’000
Staff costs	**427,181**	391,552
Depreciation of property and equipment	**166,118**	104,316
Depreciation of investment property	**750**	750
Amortisation of deferred charges	**6,314**	7,575

29. Basic earnings per share

	2012	2011
Profit for the year (in AED ’000)	**419,549**	269,071
Number of shares (in thousand)	**4,666,700**	4,666,700
Basic earnings per share (AED)	**0.09**	0.06

Basic earnings per share have been calculated by dividing the profit for the year by the number of shares outstanding as at the reporting date.

30. 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	40%	40%	International commercial air transportation.
Air Arabia – Egypt Company (S.A.E.)	Cairo, Egypt	50%	50%	International commercial air transportation.

31. Joint Ventures

31.1 The Group has interest in the following joint ventures:

Name of joint venture	**Place of incorporation and operation**	**Proportion of ownership interest**	**Principal activity**
Information Systems Associates (FZC)	Sharjah Airport International Free Zone, U.A.E.	51%	Trading in IT products and providing IT services.
Sharjah Aviation Services (L.L.C.)	Sharjah, U.A.E.	50%	Providing aircraft handling services and passenger services.
Alpha Flight Services U.A.E. L.L.C.	Sharjah, U.A.E.	51%	Providing in-flight and retail catering and ancillary services for airports and airlines.

Notes to the consolidated financial statements
for the year ended 31 December 2012 (continued)

31. Joint ventures (continued)

31.2 Financial performance of joint ventures

The following amounts are included in the Group's consolidated financial statements as a result of the proportionate consolidation of the above joint ventures:

	2012 **AED '000**	2011 AED '000
Current assets	**40,498**	44,775
Non-current assets	**38,932**	40,024
Current liabilities	**23,231**	17,650
Non-current liabilities	**11,850**	11,551
Income	**109,945**	98,294
Expenses	**82,489**	71,951

31.3 An analysis of the joint venture profit was as follows:

	2012 **AED '000**	2011 AED '000
Information Systems Associates (FZC), U.A.E	**2,638**	992
Sharjah Aviation Services (L.L.C.), U.A.E.	**17,376**	18,758
Alpha Flight Services U.A.E. L.L.C., U.A.E.	**7,442**	6,593
	27,456	26,343

32. Operating lease arrangements

32.1 Where the Group is a lessee:

	2012 **AED '000**	2011 AED '000
Minimum lease payment under operating leases (excluding variable lease rental on the basis of flying hours) recognised in profit and loss for the year	**182,551**	215,172

32.1.1 The fixed lease commitments against 15 (2011: 18) delivered aircraft were as follows:

	2012 **AED '000**	2011 AED '000
Within one year	**179,022**	248,465
In the second to fifth years inclusive	**175,066**	354,087
	354,088	602,552

In addition to the above fixed lease commitments, there is a variable lease rental element depending on the flying hours of the leased aircraft.

The Group does not have the option to purchase the leased aircraft at the expiry of the lease period but the lease can be renewed upon mutual agreements of both parties.

The aircraft lease agreements are subject to various covenants including restriction to sell or convey substantially all of the Group's property and assets or merge or consolidate with or into any other corporation without the prior consent of the lessor and no security interest may be created by the Group on the leased aircraft.

Notes to the consolidated financial statements
for the year ended 31 December 2012 (continued)

32. Operating lease arrangements (continued)

32.2 Where the Group is a lessor:

The Group has leased out 7 (2011: 5) aircraft under non-cancellable operating lease agreements to related parties.

32.2.1 Minimum lease payments:

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

	2012	2011
	AED ’000	AED ’000
Within one year	**83,175**	66,705
In the second to fifth years inclusive	**58,290**	107,294
	141,465	173,999

The lease income amounting to AED 82,838 thousand (2011: AED 87,189 thousand) has been setoff with lease expenses in the profit and loss (Note 23).

The Group leased out 4 aircraft (2011: 2 aircraft) owned by the Group under operating leases (where the Group is the lessor) and the details as at reporting date are as follows:

	2012	2011
	AED ’000	AED ’000
Net book value	**488,662**	246,098
Accumulated depreciation	**147,335**	68,739
Depreciation charge for the year	**36,112**	18,655

Notes to the consolidated financial statements
for the year ended 31 December 2012 (continued)

33. Contingent liabilities

	2012	2011
	AED '000	AED '000
Letters of credit	**70,984**	64,147
Letters of guarantee	**18,042**	13,944

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

34. Capital commitments

34.1 The Group has entered into the following capital commitments:

	2012	2011
	AED '000	AED '000
34.1.1 Authorised and contracted:		
Aircraft fleet (Note 34.2)	**7,162,794**	10,373,714
Others	**2,105**	23,638
	7,164,899	10,397,352
34.1.2 Authorised but not contracted:		
Aircraft fleet (Note 34.2)	**1,422,807**	1,422,807

34.2 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 30 aircraft order was approximately USD 2.1 billion (AED: 7.8 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 30 (2011: 36) aircraft is payable over the next four years, with the balance being due on delivery.

Notes to the consolidated financial statements
for the year ended 31 December 2012 (continued)

35. Capital risk management

35.1 Objectives and management of capital risk

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance.

The capital structure of the Group consists of cash and cash equivalents and equity attributable to equity holders of the parent company, comprising issued capital, cumulative change in fair values, reserves and retained earnings as disclosed in the consolidated statement of changes in equity.

The Group's management reviews the capital structure on a semi-annual basis. As part of this review, the management considers the cost of capital and the risks associated with capital. The Group does not have a formalised optimal target capital structure or target ratios in connection with its capital risk management objective.

36. Financial instruments

36.1 Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 3 to the consolidated financial statements.

36.2 Categories of financial instruments and others

31 December 2012

	Financial assets			
Assets	**Loans and receivables AED '000**	**Available-for-sale AED '000**	**Non-financial assets AED '000**	**Total AED '000**
Bank balances and cash	1,329,752	-	-	1,329,752
Trade and other receivables	452,867	-	25,554	478,421
Due from related parties	68,660	-	-	68,660
Inventories	-	-	11,571	11,571
Available-for-sale investments	-	738,779	-	738,779
Aircraft lease deposits	15,809	-	-	15,809
Deferred charges	-	-	5,116	5,116
Goodwill	-	-	189,474	189,474
Intangible assets	-		1,092,347	1,092,347
Investment properties	-	-	163,647	163,647
Advance for new aircraft	-	-	649,800	649,800
Property and equipment	-	-	3,301,569	3,301,569
Total assets	**1,867,088**	**738,779**	**5,439,078**	**8,044,945**

Notes to the consolidated financial statements
for the year ended 31 December 2012 (continued)

36. Financial instruments (continued)

36.2 Categories of financial instruments and others (continued)

31 December 2011

Assets	Financial assets: Loans and receivables AED '000	Financial assets: Available-for-sale AED '000	Non-financial assets AED '000	Total AED '000
Bank balances and cash	1,344,900	-	-	1,344,900
Trade and other receivables	392,796	-	25,970	418,766
Due from related parties	102,329	-	-	102,329
Inventories	-	-	9,092	9,092
Available-for-sale investments	-	733,021	-	733,021
Aircraft lease deposits	28,733	-	-	28,733
Deferred charges	-	-	11,088	11,088
Goodwill	-	-	189,474	189,474
Intangible assets	-	-	1,092,347	1,092,347
Investment properties	-	-	164,397	164,397
Advance for new aircraft	-	-	596,935	596,935
Property and equipment	-	-	2,423,132	2,423,132
Total assets	1,868,758	733,021	4,512,435	7,114,214

31 December 2012

Liabilities and equity	**Financial liabilities: At amortised cost AED '000**	**Non-financial liabilities AED '000**	**Total AED '000**
Finance lease liabilities	1,369,738	-	1,369,738
Trade and other payables	999,872	-	999,872
Deferred income	-	188,560	188,560
Due to a related party	1,074	-	1,074
Provision for employees' end of service indemnity	-	45,058	45,058
Capital and reserves	-	5,440,643	5,440,643
Total liabilities and equity	**2,370,684**	**5,674,261**	**8,044,945**

Notes to the consolidated financial statements
for the year ended 31 December 2012 (continued)

36. Financial instruments (continued)

36.2 Categories of financial instruments and others (continued)

31 December 2011

Liabilities and equity	Financial liabilities At amortised cost	Non-financial liabilities	Total
	AED '000	AED '000	AED '000
Finance lease liabilities	934,061	-	934,061
Trade and other payables	649,283	-	649,283
Murabaha payable	64,570	-	64,570
Deferred income	-	157,300	157,300
Due to a related party	22,576	-	22,576
Provision for employees' end of service indemnity	-	36,987	36,987
Capital and reserves	-	5,249,437	5,249,437
Total liabilities and equity	1,670,490	5,443,724	7,114,214

36.3 Fair values

36.3.1 The fair values of financial assets and financial liabilities are determined as follows;

- The fair values of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market bid prices at the close of the business on the reporting date.
- The fair values of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments.

Management consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values.

Notes to the consolidated financial statements
for the year ended 31 December 2012 (continued)

36. Financial instruments (continued)

36.3 Fair values (continued)

36.3.2 Fair value analysis

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

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

31 December 2012

	Level 1	**Level 2**	**Level 3**	**Total**
	AED '000	**AED '000**	**AED '000**	**AED '000**
Derivative financial instruments	-	42,976	-	**42,976**
Available-for-sale investments				
Quoted investments	7,312	-	-	**7,312**
Unquoted investments	-	731,467	-	**731,467**
	7,312	**774,443**	-	**781,755**

31 December 2011

	Level 1	Level 2	Level 3	Total
	AED '000	AED '000	AED '000	AED '000
Derivative financial instruments	-	29,191	-	29,191
Available-for-sale investments				
Quoted investments	6,254	-	-	6,254
Unquoted investments	-	726,767	-	726,767
	6,254	755,958	-	762,212

There were no transfers between each of level during the year. There are no financial liabilities which should be measured at fair value and accordingly no disclosure is made in the above table. There are no financial assets that are measured at fair value using level 3.

Notes to the consolidated financial statements
for the year ended 31 December 2012 (continued)

36. Financial instruments (continued)

36.4 Financial risk management objectives

The Group's Finance Department provides services to the business, co-ordinates access to domestic and international financial markets, monitors and manages the financial risks relating to the operations of the Group through internal risk reports which analyse exposures by degree and magnitude of risks. These risks include market risk (including currency risk, fair value interest rate risk and price risk), credit risk, liquidity risk and cash flow interest rate risk.

The Finance Department function reports quarterly to the Group's management that monitors risks and policies implemented to mitigate risk exposures.

36.4.1 Market risk

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates.

Market risk exposures are measured using sensitivity analysis.

36.4.2 Foreign currency risk management

The Group undertakes certain transactions denominated in foreign currencies. Hence, exposures to exchange rate fluctuations arise.

36.4.2.1 Aircraft lease foreign currency exchange rate risk

There are no significant exchange rate risks as all aircraft lease rental agreements, new aircraft commitments and deposits are made in US Dollars to which UAE Dirham is pegged.

36.4.3 Profit rate risk management

The Group's exposure to profit rate risk relate to its deposits with banks, other unquoted investments, and finance lease liabilities. At 31 December 2012, deposits carried a profit rate of 2.5% to 4% per annum (31 December 2011: 3.5% to 4% per annum) and finance lease liabilities carried profit rate of 2.6% per annum (2011: 3.2% per annum).

The sensitivity analysis below, have been determined based on the exposure to profit rates at the reporting date. A 50 basis point increase or decrease is used when reporting profit rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in profit rates.

If profit rates had been 50 basis points higher/lower and all other variables were held constant, the Group's profit for the year ended 31 December 2012 would decrease/increase by AED 288 thousand (31 December 2011: AED 452 thousand).

The Group's sensitivity to profit rates has not changed significantly from the prior year.

36.4.4 Fuel price risk

The Group is exposed to fluctuations in the price of jet fuel. The Group closely monitors the actual cost of jet fuel against the forecasted cost. Significant changes in jet fuel and other product prices may have a substantial effect on the Group's results.

Notes to the consolidated financial statements
for the year ended 31 December 2012 (continued)

36. Financial instruments (continued)

36.4 Financial risk management objectives (continued)

36.4.5 Equity price risk

The Group is exposed to equity price risks arising from equity investments. Equity investments are held for strategic rather than trading purposes. The Group does not actively trade these investments.

Equity price sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to equity price risks at the reporting date.

If equity prices had been 5% higher/lower, equity reserves would increase/decrease by AED 0.4 million (31 December 2011: AED 0.3 million) for the Group as a result of the changes in fair value of available-for-sale investments.

36.4.6 Credit risk management

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient bank guarantees (from general selling agents) as a means of mitigating the risk of financial loss from defaults. The Group's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties. Credit exposure is controlled by counterparty limits that are reviewed and approved by the management annually.

Trade receivables consist of a large number of customers, spread across diverse industries and geographical areas. Ongoing credit evaluation is performed on the financial condition of accounts receivable.

The Group does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The Group defines counterparties as having similar characteristics if they are related entities.

The carrying amount of financial assets recorded in the consolidated financial statements, which is net of impairment losses, represents the Group's maximum exposure to credit risk.

36.4.7 Liquidity risk management

Liquidity risk refers to the risk that an entity will encounter difficulty in meeting obligations associated with its financial liabilities at maturity date. The Group manages the liquidity risk through risk management framework for the Group's short, medium and long-term funding and liquidity management requirements by maintaining adequate reserves, sufficient cash and cash equivalent and banks facilities, to ensure that funds are available to meet their commitments for liabilities as they fall due.

The maturity profile is monitored by management to ensure adequate liquidity is maintained. The table below summarises the maturity profile of the Group's financial assets and liabilities based on remaining undiscounted contractual obligations including interest receivable and payable.

Notes to the consolidated financial statements
for the year ended 31 December 2012 (continued)

36. Financial instruments (continued)

36.4 Financial risk management objective (continued)

36.4.7 Liquidity risk management (continued)

36.4.7.1 Financial assets

31 December 2012

	Upto 1 month AED '000	**1 month – 3 months AED '000**	**3 months - 1 year AED '000**	**1 year – 5 years AED '000**	**Above 5 years AED '000**	**Total AED '000**
Bank balances and cash	117,715	-	1,212,037	-	-	**1,329,752**
Trade and other receivables	69,261	42,472	324,842	16,292	-	**452,867**
Due from related parties	68,660	-	-	-	-	**68,660**
Available-for-sale investments	-	-	-	738,779	-	**738,779**
Aircraft lease deposits	-	-	3,506	12,303	-	**15,809**
Total financial assets	**255,636**	**42,472**	**1,540,385**	**767,374**	**-**	**2,605,867**

31 December 2011

	Upto 1 month AED '000	1 month – 3 months AED '000	3 months - 1 year AED '000	1 year – 5 years AED '000	Above 5 years AED '000	Total AED '000
Bank balances and cash	173,417	-	1,171,483	-	-	1,344,900
Trade and other receivables	44,848	29,019	316,363	2,566	-	392,796
Due from related parties	102,329	-	-	-	-	102,329
Available-for-sale investments	-	-	-	733,021	-	733,021
Aircraft lease deposits	-	-	2,010	26,723	-	28,733
Total financial assets	320,594	29,019	1,489,856	762,310	-	2,601,779

Notes to the consolidated financial statements
for the year ended 31 December 2012 (continued)

36. Financial instruments (continued)

36.4 Financial risk management objective (continued)

36.4.7 Liquidity risk management (continued)

36.4.7.2 Financial liabilities

31 December 2012

	Upto 1 month AED ’000	**1 month - 3 months AED ’000**	**3 months 1 year AED ’000**	**1 year - 5 years AED ’000**	**Above 5 years AED ’000**	**Total AED ’000**
Trade and other payables	192,124	415,667	343,849	48,232	-	**999,872**
Finance lease liabilities	-	-	110,295	467,701	791,742	**1,369,738**
Due to a related party	1,074	-	-	-	-	**1,074**
Total financial liabilities	**193,198**	**415,667**	**454,144**	**515,933**	**791,742**	**2,370,684**

31 December 2011

	Upto 1 month AED ’000	1 month - 3 months AED ’000	3 months 1 year AED ’000	1 year - 5 years AED ’000	Above 5 years AED ’000	Total AED ’000
Trade and other payables	96,089	305,884	214,770	32,540	-	649,283
Finance lease liabilities	-	-	68,896	297,729	567,436	934,061
Due to a related party	22,576	-	-	-	-	22,576
Murabaha payable	-	-	32,285	32,285	-	64,570
Total financial liabilities	118,665	305,884	315,951	362,554	567,436	1,670,490

Notes to the consolidated financial statements
for the year ended 31 December 2012 (continued)

37. Segment information

IFRS 8 requires a 'management approach' under which segment information is presented on the same basis as that used for internal reporting purposes.

37.1 Primary reporting format - business segments

Year ended 31 December 2012	Airline	Other segments	Eliminations	Total
	AED '000	AED '000	AED '000	AED '000
Revenue				
External sales	2,748,440	84,043	-	2,832,483
Inter-segment sales	-	8,447	(8,447)	-
	2,748,440	92,490	(8,447)	2,832,483
Result				
Segment result	327,292	30,319	-	357,611
Share of losses in associates				(26,684)
Share of results in joint ventures				27,456
Finance costs	(34,718)	-	-	(34,718)
Profit from deposits and other income	99,468	1,677		101,145
Profit for the year				424,810
Other information				
Additions to property and equipment	1,038,702	719	-	1,039,421
Addition to deferred charges	125	-	-	125
Depreciation	118,470	42,015	-	160,485
Amortisation	5,787	-	-	5,787
31 December 2012				
Assets				
Segment assets	5,287,087	645,196	(21,553)	5,910,730
Unallocated Group assets				2,134,215
Total assets				8,044,945
Liabilities				
Segment liabilities	2,556,020	60,514	(21,553)	2,594,981
Unallocated Group liabilities				9,321
Total liabilities				2,604,302

Notes to the consolidated financial statements
for the year ended 31 December 2012 (continued)

37. Segment information (continued)

37.1 Primary reporting format – business segments (continued)

Year ended 31 December 2011	Airline	Other segments	Eliminations	Total
	AED '000	AED '000	AED '000	AED '000
Revenue				
External sales	2,277,741	51,160	-	2,328,901
Inter-segment sales	-	5,486	(5,486)	-
	2,277,741	56,646	(5,486)	2,328,901
Result				
Segment result	136,975	16,142	-	153,117
Share of losses in associates				(5,801)
Share of results in joint ventures				26,343
Finance costs	(18,236)	(2,705)	-	(20,941)
Profit from deposits and other income	96,169	24,966	-	121,135
Profit for the year				273,853
Other information				
Additions to property and equipment	998,961	328,778	-	1,327,739
Addition to deferred charges	348	-	-	348
Depreciation	79,210	19,282	-	98,492
Amortisation	7,252	-	-	7,252
31 December 2011				
Assets				
Segment assets	4,373,438	650,166	(10,925)	5,012,679
Unallocated Group assets				2,101,535
Total assets				7,114,214
Liabilities				
Segment liabilities	1,741,503	111,857	(10,925)	1,842,435
Unallocated Group liabilities				22,342
Total liabilities				1,864,777

37. Segment information (continued)

37.2 Segment accounting policies

Inter-segment sales are charged at prevailing market prices.

The accounting policies of the reportable segments are the same as the Group's accounting policies described in Note 3 to the consolidated financial statements. Segment revenue does not include the Group's share of external revenue of joint ventures, amounting to AED 109,945 thousand (2011: AED 98,294 thousand), and the revenue from hotel operations amounting to AED 57,131 thousand (2011: AED 23,435 thousand) as the share of their revenue 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 deposits, and other income. Segment assets do not include fixed deposits, available-for-sale investments, buildings and investment properties and the Group's share of assets in joint ventures and associates. Goodwill and intangible assets have been allocated to Airline segment (Notes 8 and 9). Segment liabilities do not include Group's share of liabilities in joint ventures.

38. Dividend

During 2012, a dividend of AED 6 fils per share (2011: AED 8 fils) was paid to the Shareholders.

The Directors propose that a dividend of AED 326,669,000, AED 7 fils per share (2011: AED 280,002,000, AED 6 fils per share) will be paid to the Shareholders in 2013. This dividend is subject to approval by the Shareholders at the Annual General Meeting and has not been included as a liability in these consolidated financial statements.

39. Approval of consolidated financial statements

The consolidated financial statements were approved by the Board of Directors and authorised for issue on 14 February 2013.