

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

**CONSOLIDATED FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT
FOR THE YEAR ENDED DECEMBER 31, 2008**

**Air Arabia P.J.S.C. (Air Arabia) and Subsidiary
Sharjah - United Arab Emirates**

**Consolidated Financial Statements and
Independent Auditor's Report
For the Year Ended December 31, 2008**

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Independent Auditor's Report

The Shareholders
Air Arabia P.J.S.C. (Air Arabia) and Subsidiary
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 Subsidiary (together the "Group")**, Sharjah, United Arab Emirates which comprise the consolidated balance sheet as at December 31, 2008, and the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory notes.

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. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

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 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.

Independent Auditor's Report (continued)*Opinion*

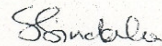
In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the **Group**, as of December 31, 2008, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International 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 financial position of the Group or its financial performance.

Sharjah
February 15, 2009

For Deloitte & Touche



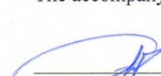
Saba Y. Sindaha
Partner
(Registration No. 410)

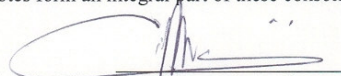
**Air Arabia Company P.J.S.C. (Air Arabia) and Subsidiary
Sharjah - United Arab Emirates**

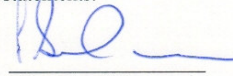
**Consolidated Balance Sheet
At December 31, 2008
(In Arab Emirates Dirhams)**

	Notes	December 31, 2008	December 31, 2007
ASSETS			
Current assets			
Bank balances and cash	5	1,767,125,257	2,969,905,739
Trade and other receivables	6	241,695,553	134,009,886
Due from a related party	7	103,191	-
Inventories		<u>1,562,249</u>	<u>747,707</u>
Total current assets		<u>2,010,486,250</u>	<u>3,104,663,332</u>
Non-current assets			
Available-for-sale investments	8	1,522,810,487	581,215,288
Aircraft lease deposits	9	42,438,716	37,669,225
Deferred charges	10	31,694,171	6,457,738
Goodwill	11	189,474,216	189,474,216
Intangible assets	12	1,092,346,500	1,092,346,500
Investment property	13	50,852,083	51,602,083
Advance for new aircraft	14	257,709,990	160,181,266
Property and equipment	15	<u>663,760,795</u>	<u>112,239,533</u>
Total non-current assets		<u>3,851,086,958</u>	<u>2,231,185,849</u>
Total Assets		<u>5,861,573,208</u>	<u>5,335,849,181</u>
LIABILITIES AND EQUITY			
Current liabilities			
Trade and other payables	16	322,552,719	182,028,689
Deferred income		132,803,072	104,303,403
Due to related parties	7	<u>8,370,662</u>	<u>10,051,501</u>
Total current liabilities		<u>463,726,453</u>	<u>296,383,593</u>
Non-current liabilities			
Due to a related party	7	-	2,250,000
Provision for employees' end of service indemnity	17	<u>14,241,314</u>	<u>7,738,209</u>
Total non-current liabilities		<u>14,241,314</u>	<u>9,988,209</u>
Total Liabilities		<u>477,967,767</u>	<u>306,371,802</u>
Capital and reserves			
Share capital	18	4,666,700,000	4,666,700,000
Treasury shares		(42,582,203)	-
Statutory reserve		77,672,380	27,665,734
Cumulative change in fair values		(105,882,324)	4,866,635
Retained earnings		<u>787,697,588</u>	<u>330,245,010</u>
Total Equity		<u>5,383,605,441</u>	<u>5,029,477,379</u>
Total Liabilities and Equity		<u>5,861,573,208</u>	<u>5,335,849,181</u>

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


Chairman


Chief Executive Officer


Director of Finance

**Air Arabia P.J.S.C. (Air Arabia) and Subsidiary
Sharjah - United Arab Emirates**

**Consolidated Income Statement
For the Year Ended December 31, 2008
(In Arab Emirates Dirhams)**

	<u>Notes</u>	<u>Year ended December 31, 2008</u>	<u>Period from inception to December 31, 2007</u>
Revenue	19	2,065,786,197	803,669,430
Cost of sales	20	(1,671,571,748)	(591,704,084)
Gross profit		394,214,449	211,965,346
Selling and marketing costs	21	(37,067,198)	(21,340,403)
General and administrative expenses	22	(66,920,099)	(36,508,000)
Operating profit		290,227,152	154,116,943
Profit on bank deposits		163,900,358	100,682,948
Other income	23	<u>55,597,813</u>	<u>27,172,024</u>
Profit for the year/ period	24	<u>509,725,323</u>	<u>281,971,915</u>
Basic earnings per share	25	<u>0.11</u>	<u>0.06</u>

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

**Air Arabia P.J.S.C. (Air Arabia) and Subsidiary
Sharjah - United Arab Emirates**

**Consolidated Statement of Changes in Equity
For the Year Ended December 31, 2008
(In Arab Emirates Dirhams)**

	<u>Share capital</u>	<u>Treasury shares</u>	<u>Statutory reserve</u>	<u>Cumulative change in fair values</u>	<u>Retained earnings</u>	<u>Total</u>
Share capital introduced	<u>4,666,700,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,666,700,000</u>
Pre-incorporation profit directly recognised in equity (see Note 26)	-	-	-	-	75,938,829	75,938,829
Gain on available-for-sale investments directly recognised in equity	-	-	-	4,866,635	-	4,866,635
Profit for the period	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>281,971,915</u>	<u>281,971,915</u>
Total recognised income and expense for the period	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,866,635</u>	<u>357,910,744</u>	<u>362,777,379</u>
Transfer to statutory reserve	<u>-</u>	<u>-</u>	<u>27,665,734</u>	<u>-</u>	<u>(27,665,734)</u>	<u>-</u>
Balance at December 31, 2007	<u>4,666,700,000</u>	<u>-</u>	<u>27,665,734</u>	<u>4,866,635</u>	<u>330,245,010</u>	<u>5,029,477,379</u>
Loss on available-for-sale investments directly recognised in equity	-	-	-	(110,748,959)	-	(110,748,959)
Profit for the year	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>509,725,323</u>	<u>509,725,323</u>
Total recognised income and expense for the year	<u>-</u>	<u>-</u>	<u>-</u>	<u>(110,748,959)</u>	<u>509,725,323</u>	<u>398,976,364</u>
Transfer to statutory reserve	-	-	50,006,646	-	(50,006,646)	-
Other movements	-	-	-	-	(1,754,477)	(1,754,477)
Treasury shares purchased	<u>-</u>	<u>(42,582,203)</u>	<u>-</u>	<u>-</u>	<u>(511,622)</u>	<u>(43,093,825)</u>
	<u>-</u>	<u>(42,582,203)</u>	<u>50,006,646</u>	<u>-</u>	<u>(52,272,745)</u>	<u>(44,848,302)</u>
Balance at December 31, 2008	<u>4,666,700,000</u>	<u>(42,582,203)</u>	<u>77,672,380</u>	<u>(105,882,324)</u>	<u>787,697,588</u>	<u>5,383,605,441</u>
	=====	=====	=====	=====	=====	=====

**Air Arabia P.J.S.C. (Air Arabia) and Subsidiary
Sharjah - United Arab Emirates**

**Consolidated Cash Flow Statement
For the Year Ended December 31, 2008
(In Arab Emirates Dirhams)**

	<u>Notes</u>	<u>Year ended December 31, 2008</u>	<u>Period from inception to December 31, 2007</u>
Operating activities			
Profit for the year/period		509,725,323	281,971,915
Adjustment for:			
Depreciation of property and equipment		29,036,491	3,411,453
Depreciation of investment property		750,000	397,917
Amortisation/impairment of deferred charges		6,710,800	19,742,184
Provision for employees' end of service indemnity		7,289,555	1,425,015
Impairment losses on available-for-sale investments		6,808,088	-
(Gain)/loss on disposal of property and equipment		(76,714)	426,577
Profit on bank deposits		(163,900,358)	(100,682,948)
Dividend income		(56,435,700)	(47,522)
Rental income		(2,250,000)	(1,193,750)
Operating cash flows before movements in working capital		337,657,485	205,450,841
Increase in margin deposits		(417,500)	-
Increase in trade and other receivables		(107,685,667)	(34,918,626)
Increase in inventories		(814,542)	(747,707)
(Increase)/decrease in due from a related party		(103,191)	123,673
Increase in aircraft lease deposits		(4,769,491)	(12,188,968)
Increase in trade and other payables		140,524,030	67,865,969
Increase/(decrease) in deferred income		28,499,669	(26,676,963)
Decrease in due to related parties		(3,930,839)	(100,419,063)
Cash generated from operations		388,959,954	98,489,156
Employees' end of service indemnity paid		(786,450)	(572,110)
Net cash from operating activities		388,173,504	97,917,046
Investing activities			
Purchase of property and equipment	15	(580,624,368)	(46,221,391)
Proceeds from sale of property and equipment		143,329	-
Advance for new aircraft		(97,528,724)	(160,181,266)
Increase in deferred charges		(31,947,233)	(15,159,376)
Pre-incorporation profit	26	-	75,938,829
Purchase of available-for-sale investments	8	(1,059,152,246)	(551,090,000)
Increase in Murhaba deposits		(312,350,000)	-
Increase in fixed deposits		(1,266,988,475)	-
Profit on bank deposits		163,900,358	100,682,948
Rental income		2,250,000	1,193,750
Net cash used in investing activities		(3,182,297,359)	(594,836,506)

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

**Air Arabia P.J.S.C. (Air Arabia) and Subsidiary
Sharjah - United Arab Emirates**

**Consolidated Cash Flow Statement (continued)
For the Year Ended December 31, 2008
(In Arab Emirates Dirhams)**

	<u>Notes</u>	<u>Year ended December 31, 2008</u>	<u>Period from inception to December 31, 2007</u>
Financing activities			
Dividend paid by a joint venture		(1,754,477)	-
Dividend received		56,435,700	47,522
Treasury shares purchased		(43,093,825)	-
Share capital received in cash	18	<u>-</u>	<u>3,266,700,000</u>
Cash from financing activities		<u>11,587,398</u>	<u>3,266,747,522</u>
Net (decrease)/increase in cash and cash equivalents		(2,782,536,457)	2,769,828,062
Cash and cash equivalents at the beginning of the year/acquired at June 19, 2007		<u>2,969,905,739</u>	<u>200,077,677</u>
Cash and cash equivalents at the end of the year/period	27	<u>187,369,282</u> =====	<u>2,969,905,739</u> =====

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

Air Arabia P.J.S.C. (Air Arabia) and Subsidiary Sharjah - United Arab Emirates

Notes to the Consolidated Financial Statements For the Year Ended December 31, 2008

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 Subsidiary (see Note 3). The address of the Company’s registered office is P.O. Box 8, Sharjah, United Arab Emirates.

The licensed activities of the Company are international commercial air transportation, aircraft trading, aircraft rental, aircraft rent, aircraft spare parts trading, travel and tourist agencies, airlines companies representative office, passengers transport, air cargo agents, documents transfer services, telecommunications devices trading and aircraft repairs and maintenance. To date the principal operations comprise international commercial air transportation through Air Arabia operating out of Sharjah, United Arab Emirates.

2. Standards and interpretations in issue but not effective

At the date of authorisation of these consolidated financial statements, the following Standards and Interpretations were in issue but not yet effective:

IAS 1 (Revised)	<i>Presentation of Financial Statements</i> (effective for accounting periods beginning on or after January 1, 2009)
IAS 16 (Revised)	<i>Property, Plant and Equipment</i> (effective for accounting periods beginning on or after January 1, 2009)
IAS 19 (Revised)	<i>Employee Benefits</i> (effective for accounting periods beginning on or after January 1, 2009)
IAS 20 (Revised)	<i>Government Grants and Disclosure of Government Assistance</i> (effective for accounting periods beginning on or after January 1, 2009)
IAS 23 (Revised)	<i>Borrowing Costs</i> (effective for accounting periods beginning on or after January 1, 2009)
IAS 27 (Revised)	<i>Consolidated and Separate Financial Statements</i> (effective for accounting periods beginning on or after January 1, 2009)
IAS 28 (Revised)	<i>Investments in Associates</i> (effective for accounting periods beginning on or after January 1, 2009)
IAS 29 (Revised)	<i>Financial Reporting in Hyperinflationary Economies</i> (effective for accounting periods beginning on or after January 1, 2009)
IAS 31 (Revised)	<i>Interest in Joint Ventures</i> (effective for accounting periods beginning on or after January 1, 2009)

**Air Arabia P.J.S.C. (Air Arabia) and Subsidiary
Sharjah - United Arab Emirates**

**Notes to the Consolidated Financial Statements (continued)
For the Year Ended December 31, 2008**

2. Standards and interpretations in issue but not effective (continued)

IAS 32 (Revised)	<i>Financial Instruments: Presentation</i> (effective for accounting periods beginning on or after January 1, 2009)
IAS 36 (Revised)	<i>Impairment of Assets</i> : (effective for accounting periods beginning on or after January 1, 2009)
IAS 38 (Revised)	<i>Intangible Assets</i> (effective for accounting periods beginning on or after January 1, 2009)
IAS 39 (Revised)	<i>Financial Instruments: Recognition and Measurement</i> : (effective for accounting periods beginning on or after January 1, 2009)
IAS 40 (Revised)	<i>Investment Property</i> (effective for accounting periods beginning on or after January 1, 2009)
IAS 41 (Revised)	<i>Agriculture</i> (effective for accounting periods beginning on or after January 1, 2009)
IFRS 1 (Revised)	<i>First time Adoption of International Financial Reporting Standards</i> (effective for accounting periods beginning on or after January 1, 2009)
IFRS 2 (Revised)	<i>Share-based Payment</i> (effective for accounting periods beginning on or after January 1, 2009)
IFRS 3 (Revised)	<i>Business Combinations</i> (effective for accounting periods beginning on or after July 1, 2009)
IFRS 5 (Revised)	<i>Non-current Assets Held for Sale and Discontinued Operations</i> (effective for accounting periods beginning on or after July 1, 2009)
IFRS 8	<i>Operating Segments</i> (effective for accounting periods beginning on or after January 1, 2009)
IFRIC 13	<i>Customer Loyalty Programmes</i> (effective for accounting periods beginning on or after July 1, 2008)
IFRIC 15	<i>Agreements for the Construction of Real Estate</i> (effective for accounting periods beginning on or after January 1, 2009)
IFRIC 16	<i>Hedges of a Net Investment in a Foreign Operation</i> (effective for accounting periods beginning on or after October 1, 2008)
IFRIC 17	<i>Distribution of Non-cash Assets to Owners</i> (effective for accounting periods beginning on or after July 1, 2009)
IFRIC 18	<i>Transfer of Assets from Customers</i> (effective for transfers received on or after July 1, 2009)

**Air Arabia P.J.S.C. (Air Arabia) and Subsidiary
Sharjah - United Arab Emirates**

**Notes to the Consolidated Financial Statements (continued)
For the Year Ended December 31, 2008**

2. Standards and interpretations in issue but not effective (continued)

The directors anticipate that all of the above Standards and Interpretations as applicable will be adopted in the Group's financial statements for the period commencing January 1, 2009 or as and when applicable and that the adoption of those Standards and Interpretations will have no material impact on the consolidated financial statements of the Group in the period of initial application.

3. Significant accounting policies

Statement of compliance

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

Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis, except for the revaluation of financial instruments. For the purpose of the consolidated financial statements, the results and financial position of the Group are expressed in Arab Emirates Dirhams, which is the functional currency of the Group, and the presentation currency for the consolidated financial statements. The principal accounting policies adopted are set out below.

Basis of consolidation

The consolidated financial statements of Air Arabia P.J.S.C. (Air Arabia) and Subsidiary (the "Group") incorporate the financial statements of the Company and entities controlled by the Company (its Subsidiary). 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 or loss from the effective date of acquisition or up to the effective date of disposal, as appropriate.

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

**Air Arabia P.J.S.C. (Air Arabia) and Subsidiary
Sharjah - United Arab Emirates**

**Notes to the Consolidated Financial Statements (continued)
For the Year Ended December 31, 2008**

3. Significant accounting policies (continued)

Subsidiary

Details of the Company's subsidiary at December 31, 2008 is as follows:

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

Business combination

Acquisitions of subsidiaries and businesses are accounted for using the purchase method. The cost of the business combination is measured as the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 *Business Combinations* are recognised at their fair values at the acquisition date.

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 or loss.

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, that is when the strategic financial and operating policy decisions relating to the activities require the unanimous consent of the parties sharing control.

**Air Arabia P.J.S.C. (Air Arabia) and Subsidiary
Sharjah - United Arab Emirates**

**Notes to the Consolidated Financial Statements (continued)
For the Year Ended December 31, 2008**

3. Significant accounting policies (continued)

Interests in joint ventures (continued)

Where 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 consolidated 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 under IFRS 5: Non-current Assets Held for Sale and Discontinued Operations. The Group's share of the assets and liabilities, income and expenses, of jointly controlled entities are combined with the equivalent items in the consolidated financial statements on a line-by-line basis.

Where the Group transacts with its jointly controlled entities, unrealised profits and losses are eliminated to the extent of the Group's interest in the joint venture.

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.

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.

**Air Arabia P.J.S.C. (Air Arabia) and Subsidiary
Sharjah - United Arab Emirates**

**Notes to the Consolidated Financial Statements (continued)
For the Year Ended December 31, 2008**

3. Significant accounting policies (continued)

Revenue recognition (continued)

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.

Dividend and bank deposit profit revenue

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

Bank deposit profit revenue is accrued on a time basis, by reference to the principal outstanding and at the effective profit rate applicable.

Rental income

Rental income from investment property is recognised on a straight line basis over the term of the relevant lease.

Leasing

All of the Group's lease contracts are of an operating lease nature and are accounted for as operating leases. 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.

**Air Arabia P.J.S.C. (Air Arabia) and Subsidiary
Sharjah - United Arab Emirates**

**Notes to the Consolidated Financial Statements (continued)
For the Year Ended December 31, 2008**

3. Significant accounting policies (continued)

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 Company 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 recorded at the rates of exchange prevailing at the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the balance sheet 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 differences are recognised in profit or loss in the period in which they arise except for:

- i) exchange differences which relate to assets under construction for future productive use, which are included in the cost of those assets where they are regarded as an adjustment to interest costs on foreign currency borrowings;
- ii) exchange differences on transactions entered into in order to hedge certain foreign currency risks and
- iii) exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur, which form part of the net investment in a foreign operation, and which are recognised in the foreign currency translation reserve and recognised in profit or loss on disposal of the net investment.

Provision for employees' end of service indemnity

Provision for employees' end of service indemnity is made in accordance with the U.A.E. labour laws, and is based on current remuneration and cumulative years of service at the balance sheet date.

Air Arabia P.J.S.C. (Air Arabia) and Subsidiary Sharjah - United Arab Emirates

Notes to the Consolidated Financial Statements (continued) For the Year Ended December 31, 2008

3. Significant accounting policies (continued)

Defined contribution plan

UAE national employees of the Group are members of the Government-managed retirement pension and social security benefit scheme pursuant to Federal Labor 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. These employees are also required to contribute 5% of the “contribution calculation salary” 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 the profit or loss.

Statutory reserve

In accordance with United Arab Emirates Federal Commercial Companies Law No. 8 of 1984, as amended, the Company is required to establish a statutory reserve by appropriation of 10% of profit for each year until the reserve equals 50% of the paid up share capital. This reserve is not available for distribution except as stipulated by the Law.

Property and equipment

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

Capital work-in-progress is stated at cost less any identified impairment losses.

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

Depreciation is charged so as to write off the cost of assets, other than land and capital work-in-progress, over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at each period end, with the effect of any changes in estimate accounted for on a prospective basis.

The 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.

Investment property

Investment property is accounted under the cost model of IAS 40. Investment property is stated at cost less accumulated depreciation and any identified impairment loss. Depreciation is charged so as to write off the cost of investment property, other than land, over the estimated useful lives of 20 years, using the straight-line method. Value of land granted by the Government of Sharjah on which investment property is constructed is valued by an external consultant.

**Air Arabia P.J.S.C. (Air Arabia) and Subsidiary
Sharjah - United Arab Emirates**

**Notes to the Consolidated Financial Statements (continued)
For the Year Ended December 31, 2008**

3. Significant accounting policies (continued)

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. Grants related to income, which reduce operating costs, are presented as credits in the profit or loss.

Deferred charges

Deferred charges are amortised on the straight-line method over the estimated period of benefit. Landing permission charges are tested for impairment on a regular basis.

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 accumulated impairment losses, on the same basis as intangible assets acquired separately.

Goodwill

Goodwill arising on the acquisition of a subsidiary or a jointly controlled entity represents the excess of the cost of acquisition over the Group's interest 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 purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, 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 on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

On disposal of a subsidiary or a jointly controlled entity, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

**Air Arabia P.J.S.C. (Air Arabia) and Subsidiary
Sharjah - United Arab Emirates**

**Notes to the Consolidated Financial Statements (continued)
For the Year Ended December 31, 2008**

3. Significant accounting policies (continued)

Impairment of tangible and intangible assets excluding goodwill

At each balance sheet date, 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.

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 discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

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 (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.

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 less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

Deferred income

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

**Air Arabia P.J.S.C. (Air Arabia) and Subsidiary
Sharjah - United Arab Emirates**

**Notes to the Consolidated Financial Statements (continued)
For the Year Ended December 31, 2008**

3. Significant accounting policies (continued)

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 that 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 balance sheet date, 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.

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.

Financial assets

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) financial assets 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.

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 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.

The Group has classified the following financial assets as 'loans and receivables': cash and cash equivalents, trade and other receivables, due from a related party and aircraft lease deposits. Financial assets also include available-for-sale investments.

Investments are recognised and derecognised on trade date where the purchase or sale of an investment is under a contract whose terms require delivery of the investment 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.

**Air Arabia P.J.S.C. (Air Arabia) and Subsidiary
Sharjah - United Arab Emirates**

**Notes to the Consolidated Financial Statements (continued)
For the Year Ended December 31, 2008**

3. Significant accounting policies (continued)

Financial assets (continued)

AFS financial assets

Investments in listed shares that are traded in an active market and investments in unlisted fund held by the Group are classified as being AFS and are stated at fair value. Gains and losses arising from changes in fair value are recognised directly in equity in the investments revaluation reserve with the exception of impairment losses, interest calculated using the effective interest method and foreign exchange gains and losses on monetary assets, which are recognised directly in profit or loss. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognised in the investments revaluation reserve is included in profit or loss for the period.

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

The fair value of AFS monetary assets denominated in a foreign currency is determined in that foreign currency and translated at the spot rate at the balance sheet 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 equity.

Trade and other receivables and due from a related party

Trade and other receivables and due from a related party, that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. These are measured at amortised cost using the effective interest method, less any impairment.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Impairment of financial assets

Financial assets are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where 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 impacted. For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

**Air Arabia P.J.S.C. (Air Arabia) and Subsidiary
Sharjah - United Arab Emirates**

**Notes to the Consolidated Financial Statements (continued)
For the Year Ended December 31, 2008**

3. Significant accounting policies (continued)

Financial assets (continued)

Impairment of financial assets (continued)

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of insurance receivables where the carrying amount is reduced through the use of an allowance account. When an insurance receivable is 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 or loss.

Fair value of financial instruments

The fair value of financial assets and financial liabilities are determined as follows:

- The fair value of financial assets 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 balance sheet date;
- The fair value 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.

Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire; or 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.

**Air Arabia P.J.S.C. (Air Arabia) and Subsidiary
Sharjah - United Arab Emirates**

**Notes to the Consolidated Financial Statements (continued)
For the Year Ended December 31, 2008**

3. Significant accounting policies (continued)

Financial liabilities and equity instruments

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.

Equity instruments

Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue costs.

Treasury shares

Treasury shares are presented in the consolidated balance sheet as a deduction from equity, and the acquisition of treasury shares are presented in the consolidated financial statements as a change in equity. Treasury shares are not reported as an asset. Additionally, no gain or loss is recognised in the consolidated income statement on the sale, issuance or cancellation of treasury shares and consideration received is presented in the consolidated financial statements as a change in equity.

Financial liabilities

Financial liabilities are initially measured at fair value, net of transaction costs.

Financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

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.

The Group has classified the following financial liabilities as 'other financial liabilities': trade and other payables, due to related parties and provision for employees' end of service indemnity.

**Air Arabia P.J.S.C. (Air Arabia) and Subsidiary
Sharjah - United Arab Emirates**

**Notes to the Consolidated Financial Statements (continued)
For the Year Ended December 31, 2008**

3. Significant accounting policies (continued)

Financial liabilities and equity instruments (continued)

Derecognition of financial liabilities

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire.

Dividend distribution

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

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, 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.

Critical judgements in applying accounting policies

The following are the critical judgements, apart from those involving estimations (see 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.

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 financial asset.

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

**Air Arabia P.J.S.C. (Air Arabia) and Subsidiary
Sharjah - United Arab Emirates**

**Notes to the Consolidated Financial Statements (continued)
For the Year Ended December 31, 2008**

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

Critical judgements in applying accounting policies (continued)

Impairment of financial assets

The Group determines whether available-for-sale 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.

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 performed impairment test during the year and based on the estimated profit and expansion plans of related entities, have concluded that future cash flows expected to arise from each intangibles, accordingly no impairment is required.

Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the balance sheet date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

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.

**Air Arabia P.J.S.C. (Air Arabia) and Subsidiary
Sharjah - United Arab Emirates**

**Notes to the Consolidated Financial Statements (continued)
For the Year Ended December 31, 2008**

4. Critical accounting judgements and key sources of estimation uncertainty

Key sources of estimation uncertainty (continued)

Leased aircraft maintenance costs (continued)

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

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

Accrual for aircraft flying costs

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.

Property and equipment

The cost of property and equipment is depreciated 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 not considered any residual value as it is deemed immaterial.

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.

**Air Arabia P.J.S.C. (Air Arabia) and Subsidiary
Sharjah - United Arab Emirates**

**Notes to the Consolidated Financial Statements (continued)
For the Year Ended December 31, 2008**

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

Key sources of estimation uncertainty (continued)

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.

5. Bank balances and cash

	December 31,	
	2008	2007
	AED	AED
Bank balances:		
Current accounts	34,743,550	55,796,746
Call deposits	45,825,500	76,773,398
Fixed deposits	1,372,728,961	2,836,745,009
Murabaha deposits	312,350,000	-
Margin deposits	417,500	-
	<u>1,766,065,511</u>	<u>2,969,315,153</u>
Cash on hand	<u>1,059,746</u>	<u>590,586</u>
	<u>1,767,125,257</u>	<u>2,969,905,739</u>
	=====	=====
Bank balances:		
In U.A.E.	1,453,588,019	2,968,972,783
In other G.C.C. countries	<u>312,477,492</u>	<u>342,370</u>
	<u>1,766,065,511</u>	<u>2,969,315,153</u>
	=====	=====

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

**Air Arabia P.J.S.C. (Air Arabia) and Subsidiary
Sharjah - United Arab Emirates**

**Notes to the Consolidated Financial Statements (continued)
For the Year Ended December 31, 2008**

6. Trade and other receivables

	December 31,	
	2008	2007
	AED	AED
Trade receivables	110,628,186	87,166,947
Allowance for doubtful debts	(745,990)	(242,130)
	109,882,196	86,924,817
Prepaid expenses	17,636,794	15,539,446
Accrued interest	76,115,913	14,019,251
Advances and other receivables	38,060,650	17,526,372
	241,695,553	134,009,886
	=====	=====

The average credit period ranges between 25-45 days (2007: 25-45 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.

Before accepting any new customer the Group assesses the potential customers' credit quality and defines credit limits by customer. There are 2 customers (2007: 3 customers) who represent more than 5% of the total balance of trade receivables.

Trade receivables include receivable from Sales Agents amounting to AED 79.7 million (2007: AED 71.2 million), which is fully secured by bank guarantees.

Movement in the allowance for doubtful debts:

	2008	2007
	AED	AED
Balance, at the beginning of the year/ transferred from Air Arabia Company L.L.C. (Air Arabia)	242,130	291,402
Impairment losses recognised on receivables	542,562	242,130
Amounts recovered during the year/period	(38,702)	(291,402)
Balance, at end of the year/period	745,990	242,130
	=====	=====

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. Accordingly, the directors believe that there is no further credit provision required in excess of the allowance for doubtful debts.

**Air Arabia P.J.S.C. (Air Arabia) and Subsidiary
Sharjah - United Arab Emirates**

**Notes to the Consolidated Financial Statements (continued)
For the Year Ended December 31, 2008**

6. Trade and other receivables (continued)

Ageing of impaired trade receivables:

	December 31,	
	2008	2007
	AED	AED
Impaired trade receivables:		
60 - 90 days	70,307	17,025
90 - 180 days	2,940	7,180
More than 180 days	672,743	217,925
	745,990	242,130
	=====	=====

7. Related party transactions

At the balance sheet date, amounts due from/to related parties were as follows:

	December 31,	
	2008	2007
	AED	AED
Due from a related party:		
Alpha Flight Services, Jordan	103,191	-
	=====	=====
Due to related parties:		
Current		
Sharjah Airport International Free Zone - U.A.E.	2,234,603	2,880,240
Sharjah Airport Authority - U.A.E.	6,136,059	5,531,518
Alpha Flight Services, Jordan	-	227,638
Alpha Airport Group PLC, United Kingdom	-	1,412,105
	8,370,662	10,051,501
	=====	=====
Non - current		
Sharjah Airport International Free Zone - U.A.E. (see Note 13)	-	2,250,000
	=====	=====

**Air Arabia P.J.S.C. (Air Arabia) and Subsidiary
Sharjah - United Arab Emirates**

**Notes to the Consolidated Financial Statements (continued)
For the Year Ended December 31, 2008**

7. Related party transactions

The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received. No expense has been recognised in the year/period for bad or doubtful debts in respect of the amount owed by a related party.

Transactions:

During the year/period, the Group entered into the following transactions with related parties who are not members of the Group:

	Year ended December 31, 2008	Period from inception to December 31, 2007
	<u>AED</u>	<u>AED</u>
Rental income	2,250,000	1,193,750

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

Compensation of board of directors/key management personnel:

	Year ended December 31, 2008	Period from inception to December 31, 2007
	<u>AED</u>	<u>AED</u>
Short term benefits	7,534,015	5,392,276
Long term benefits	91,000	91,000

**Air Arabia P.J.S.C. (Air Arabia) and Subsidiary
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**Notes to the Consolidated Financial Statements (continued)
For the Year Ended December 31, 2008**

8. Available-for-sale investments

	December 31,	
	2008	2007
	AED	AED
Quoted	9,477,991	30,125,288
Unquoted	1,513,332,496	551,090,000
	1,522,810,487	581,215,288
	=====	=====
In U.A.E.	647,418,241	213,875,288
In other G.C.C. countries	875,392,246	367,340,000
	1,522,810,487	581,215,288
	=====	=====
<i>Movement during the year/period:</i>		
	2008	2007
	AED	AED
Balance, at the beginning of the year/ balance resulting from the acquisition of Air Arabia Company L.L.C. (Air Arabia)	581,215,288	25,258,653
Purchases during the year/period	1,059,152,246	551,090,000
Impairment loss	(6,808,088)	-
Net fair value (loss)/ gain directly recognised in equity	(110,748,959)	4,866,635
Balance, at the end of the year/period	1,522,810,487	581,215,288
	=====	=====

9. Aircraft lease deposits

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

**Air Arabia P.J.S.C. (Air Arabia) and Subsidiary
Sharjah - United Arab Emirates**

**Notes to the Consolidated Financial Statements (continued)
For the Year Ended December 31, 2008**

10. Deferred charges

	Aircraft upgrade costs	Landing permission charges	Computer software	Total
	AED	AED	AED	AED
<i>Cost</i>				
Balance resulting from the acquisition of Air Arabia Company L.L.C. (Air Arabia)	11,962,325	10,444,001	954,567	23,360,893
Additions during the period	<u>275,625</u>	<u>14,883,751</u>	<u>-</u>	<u>15,159,376</u>
At December 31, 2007	12,237,950	25,327,752	954,567	38,520,269
Additions during the year	5,647,098	25,816,875	483,260	31,947,233
Eliminated on disposals	<u>-</u>	<u>-</u>	<u>(531,770)</u>	<u>(531,770)</u>
At December 31, 2008	<u>17,885,048</u>	<u>51,144,627</u>	<u>906,057</u>	<u>69,935,732</u>
<i>Amortisation/impairment</i>				
Balance resulting from the acquisition of Air Arabia Company L.L.C. (Air Arabia)	5,011,220	6,936,398	372,729	12,320,347
Charge for the period	<u>1,191,789</u>	<u>18,391,354</u>	<u>159,041</u>	<u>19,742,184</u>
At December 31, 2007	6,203,009	25,327,752	531,770	32,062,531
Charge for the year	3,253,988	3,333,021	123,791	6,710,800
Eliminated on disposals	<u>-</u>	<u>-</u>	<u>(531,770)</u>	<u>(531,770)</u>
At December 31, 2008	<u>9,456,997</u>	<u>28,660,773</u>	<u>123,791</u>	<u>38,241,561</u>
<i>Carrying amount</i>				
At December 31, 2008	8,428,051	22,483,854	782,266	31,694,171
	=====	=====	=====	=====
At December 31, 2007	6,034,941	-	422,797	6,457,738
	=====	=====	=====	=====

11. Goodwill

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

	Amount
	AED
Total fair value of Air Arabia Company L.L.C. (Air Arabia) (see Note 18)	1,400,000,000
Fair value of intangible assets (see Note 12)	(1,092,346,500)
Fair value of tangible assets (net)	(118,179,284)
At December 31, 2007 and 2008	189,474,216
	=====

**Air Arabia P.J.S.C. (Air Arabia) and Subsidiary
Sharjah - United Arab Emirates**

**Notes to the Consolidated Financial Statements (continued)
For the Year Ended December 31, 2008**

12. Intangible assets

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

	December 31,	
	2008	2007
	AED	AED
Trade name	395,410,000	395,410,000
Landing rights	468,273,000	468,273,000
Price benefit from related parties	180,281,000	180,281,000
Handling licence - Sharjah Aviation Services	48,382,500	48,382,500
Fair value	1,092,346,500	1,092,346,500
	=====	=====

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

13. Investment property

	Amount
	AED
<i>Cost</i>	
Balance resulting from the acquisition of Air Arabia Company L.L.C. (Air Arabia)	15,000,000
Increase on account of application of IFRS - 3	39,039,583
At December 31, 2007 and 2008	54,039,583
<i>Accumulated depreciation</i>	
Balance resulting from the acquisition of Air Arabia Company L.L.C. (Air Arabia)	2,039,583
Charge for the period	397,917
At December 31, 2007	2,437,500
Charge for the year	750,000
At December 31, 2008	3,187,500
<i>Carrying amount</i>	
At December 31, 2008	50,852,083
	=====
At December 31, 2007	51,602,083
	=====

**Air Arabia P.J.S.C. (Air Arabia) and Subsidiary
Sharjah - United Arab Emirates**

**Notes to the Consolidated Financial Statements (continued)
For the Year Ended December 31, 2008**

13. Investment property (continued)

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 Company has accounted this land at AED 39 million, based on independent valuers' report, engaged for the purpose of applying IFRS-3 'Business Combination', at the time of acquisition of Air Arabia L.L.C. (Air Arabia) by the Company.

The construction of the building was financed by Sharjah Airport International Free Zone, a related party and later the building was leased to this related party by Air Arabia Company L.L.C. (Air Arabia) for a period of 50 years from October 1, 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 finance obtained from this related party for the building construction amounting to AED 15 million, was bridged with rental receipts of AED 15 million receivable from them for the first five years of the lease.

The property rental income earned by the Group during the year amounted to AED 3,000,000 (period from inception to December 31, 2007: AED 1,591,667) and direct operating expenses arising on the investment property amounted to AED 750,000 (period from inception to December 31, 2007: AED 397,917) (see Note 23).

The fair value of investment property as at December 31, 2008 amounted to AED 52 million (2007: AED 52 million).

14. Advance for new aircraft

Advance for new aircraft represents pre-delivery payments made to suppliers outside U.A.E. for an amount of USD 70.12 million (equivalent to AED 257.7 million) (2007: USD 43.6 million, equivalent to AED 160.2 million) made in respect of 44 (2007: 34) Airbus A320 aircraft.

**Air Arabia P.J.S.C. (Air Arabia) and Subsidiary
Sharjah - United Arab Emirates**

**Notes to the Consolidated Financial Statements (continued)
For the Year Ended December 31, 2008**

15. Property and equipment

	<u>Aircraft AED</u>	<u>Aircraft engines AED</u>	<u>Aircraft rotables and equipment AED</u>	<u>Airport equipments AED</u>	<u>EDP equipment AED</u>	<u>Office equipment AED</u>	<u>Furniture and fixtures AED</u>	<u>Motor vehicles AED</u>	<u>Capital work-in- progress AED</u>	<u>Total AED</u>
<i>Cost</i>										
Balance resulting from the acquisition of Air Arabia Company L.L.C. (Air Arabia)	-	54,907,116	7,160,936	6,494,309	3,759,453	504,764	1,233,410	1,478,002	226,476	75,764,466
Additions during the period	-	28,289,753	3,059,748	4,465,452	2,058,301	773,883	367,834	276,146	6,930,274	46,221,391
Disposals	-	-	(484,732)	-	-	-	-	-	-	(484,732)
At December 31, 2007	-	83,196,869	9,735,952	10,959,761	5,817,754	1,278,647	1,601,244	1,754,148	7,156,750	121,501,125
Additions during the year	478,282,875	41,492,460	8,446,270	10,283,032	4,826,486	2,093,244	672,828	185,900	34,341,273	580,624,368
Disposals	-	-	(17,824)	(90,250)	-	(2,375)	-	(42,000)	-	(152,449)
At December 31, 2008	<u>478,282,875</u>	<u>124,689,329</u>	<u>18,164,398</u>	<u>21,152,543</u>	<u>10,644,240</u>	<u>3,369,516</u>	<u>2,274,072</u>	<u>1,898,048</u>	<u>41,498,023</u>	<u>701,973,044</u>
<i>Accumulated depreciation</i>										
Balance resulting from the acquisition of Air Arabia Company L.L.C. (Air Arabia)	-	953,741	841,496	-	2,677,373	375,327	898,938	161,419	-	5,908,294
Charge for the period	-	1,337,577	391,805	501,821	471,959	370,454	139,437	198,400	-	3,411,453
Eliminated on disposals	-	-	(58,155)	-	-	-	-	-	-	(58,155)
At December 31, 2007	-	2,291,318	1,175,146	501,821	3,149,332	745,781	1,038,375	359,819	-	9,261,592
Charge for the year	19,822,100	3,635,831	1,282,528	1,828,673	1,236,107	788,550	239,916	202,786	-	29,036,491
Eliminated on disposals	-	-	(10,671)	(33,694)	-	(2,225)	-	(39,244)	-	(85,834)
At December 31, 2008	<u>19,822,100</u>	<u>5,927,149</u>	<u>2,447,003</u>	<u>2,296,800</u>	<u>4,385,439</u>	<u>1,532,106</u>	<u>1,278,291</u>	<u>523,361</u>	<u>-</u>	<u>38,212,249</u>
<i>Carrying amount</i>										
At December 31, 2008	<u>458,460,775</u>	<u>118,762,180</u>	<u>15,717,395</u>	<u>18,855,743</u>	<u>6,258,801</u>	<u>1,837,410</u>	<u>995,781</u>	<u>1,374,687</u>	<u>41,498,023</u>	<u>663,760,795</u>
At December 31, 2007	-	80,905,551	8,560,806	10,457,940	2,668,422	532,866	562,869	1,394,329	7,156,750	112,239,533

**Air Arabia P.J.S.C. (Air Arabia) and Subsidiary
Sharjah - United Arab Emirates**

**Notes to the Consolidated Financial Statements (continued)
For the Year Ended December 31, 2008**

15. Property and equipment (continued)

Capital work-in-progress includes projects related to the construction of a hotel amounting to AED 24.6 million (2007: 6.6 million) and construction of two employee quarters amounting to AED 15.7 million (2007: Nil).

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

The following useful lives are used in calculation of depreciation:

	<u>Years</u>
Aircraft	15
Aircraft engines	20
Aircraft rotables and equipment	3 – 10
Airport equipments	10
Other property and equipment	3

16. Trade and other payables

	<u>December 31,</u>	
	<u>2008</u>	<u>2007</u>
	<u>AED</u>	<u>AED</u>
Trade payables	73,913,291	31,105,806
Accrued expenses	194,736,008	115,844,792
Other payables	53,903,420	35,078,091
	322,552,719	182,028,689
	=====	=====

The average credit period on purchases of goods and services is 45 days (2007: 45 days). The Group has financial risk management policies in place to ensure that all payables are paid within the credit timeframe.

17. Provision for employees' end of service indemnity

Movements in the net liability were as follows:

	<u>2008</u>	<u>2007</u>
	<u>AED</u>	<u>AED</u>
Balance, at the beginning of the year/ balance resulting from the acquisition of Air Arabia Company L.L.C. (Air Arabia)	7,738,209	6,885,304
Amounts charged to income during the year/period	7,289,555	1,425,015
Amounts paid during the year/period	(786,450)	(572,110)
Balance, at the end of the year/period	14,241,314	7,738,209
	=====	=====

**Air Arabia P.J.S.C. (Air Arabia) and Subsidiary
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**Notes to the Consolidated Financial Statements (continued)
For the Year Ended December 31, 2008**

17. Provision for employees' end of service indemnity (continued)

An actuarial valuation has not been performed as the impact of discount rates and future increases in benefits are not likely to be material.

18. Share capital

	December 31,	
	2008	2007
	AED	AED
1,400,000,000 shares of AED 1 each paid in-kind	<u>1,400,000,000</u>	<u>1,400,000,000</u>
2,566,700,000 shares of AED 1 each subscribed in cash through IPO	2,566,700,000	2,566,700,000
700,000,000 share of AED 1 each subscribed in cash by the Founders	<u>700,000,000</u>	<u>700,000,000</u>
Share capital received in cash	<u>3,266,700,000</u>	<u>3,266,700,000</u>
Authorised and issued share capital	<u>4,666,700,000</u>	<u>4,666,700,000</u>
	=====	=====

The assets and liabilities of Air Arabia Company L.L.C. (Air Arabia) and Subsidiary, were transferred to Air Arabia P.J.S.C. (Air Arabia) as in kind contribution for 30% interest in Air Arabia P.J.S.C. (Air Arabia).

19. Revenue

An analysis of the Group's revenue is as follows:

	Year ended December 31, 2008	Period from inception to December 31, 2007
	AED	AED
Passenger revenue	1,936,905,462	765,629,680
Baggage revenue	31,393,984	15,207,089
Cargo revenue	17,358,199	5,432,392
Charter revenue	11,506,910	-
Service revenue	9,264,772	2,535,584
Catering revenue	20,768,594	10,746,592
Airport handling revenue	54,453,036	21,997,261
Sales commission and expenses	(15,864,760)	(17,879,168)
	<u>2,065,786,197</u>	<u>803,669,430</u>
	=====	=====

**Air Arabia P.J.S.C. (Air Arabia) and Subsidiary
Sharjah - United Arab Emirates**

**Notes to the Consolidated Financial Statements (continued)
For the Year Ended December 31, 2008**

20. Cost of sales

	Year ended December 31, 2008 <u>AED</u>	Period from inception to December 31, 2007 <u>AED</u>
Staff costs	240,411,885	78,750,754
Aircraft lease rentals	194,936,444	82,859,957
Fuel	813,552,026	238,518,836
Aircraft maintenance expenses	146,245,997	68,071,999
Ground and technical handling charges	97,102,640	47,695,539
Landing and overflying charges	91,731,077	53,139,484
Insurance	11,677,731	4,122,050
Service costs	15,614,606	9,131,082
Depreciation of property and equipment	27,096,362	2,248,465
Other operating costs	<u>33,202,980</u>	<u>7,165,918</u>
	<u>1,671,571,748</u>	<u>591,704,084</u>

21. Selling and marketing costs

	Year ended December 31, 2008 <u>AED</u>	Period from inception to December 31, 2007 <u>AED</u>
Staff costs	16,255,816	6,738,699
Advertisement expenses	16,730,775	12,961,945
Reservation management expenses	<u>4,080,607</u>	<u>1,639,759</u>
	<u>37,067,198</u>	<u>21,340,403</u>

**Air Arabia P.J.S.C. (Air Arabia) and Subsidiary
Sharjah - United Arab Emirates**

**Notes to the Consolidated Financial Statements (continued)
For the Year Ended December 31, 2008**

22. General and administrative expenses

	Year ended December 31, 2008	Period from inception to December 31, 2007
	<u>AED</u>	<u>AED</u>
Staff costs	24,900,369	9,451,060
Legal and professional fees	9,826,370	18,119,931
Travel and accommodation costs	3,905,335	771,190
Communication costs	2,146,088	1,016,821
Printing and stationary	1,528,608	572,962
Depreciation of property and equipment	1,940,129	1,162,988
Other expenses	22,673,200	5,413,048
	<u>66,920,099</u>	<u>36,508,000</u>
	=====	=====

23. Other (expense)/income

	Year ended December 31, 2008	Period from inception to December 31, 2007
	<u>AED</u>	<u>AED</u>
Government grant - waiver of parking charges	-	16,869,029
Dividend income	56,435,700	47,522
Investment property income, net (see Note 13)	2,250,000	1,193,750
Exchange rate variance	689,236	4,634,523
Impairment losses on available-for-sale investments	(6,808,088)	-
Others	3,030,965	4,427,200
	<u>55,597,813</u>	<u>27,172,024</u>
	=====	=====

24. Profit for the year/ period

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

	Year ended December 31, 2008	Period from inception to December 31, 2007
	<u>AED</u>	<u>AED</u>
Staff costs	281,568,070	94,940,513
Depreciation of property and equipment	29,036,491	3,411,453
Depreciation of investment property	750,000	397,917
Amortisation of deferred charges	6,710,800	19,742,184

**Air Arabia P.J.S.C. (Air Arabia) and Subsidiary
Sharjah - United Arab Emirates**

**Notes to the Consolidated Financial Statements (continued)
For the Year Ended December 31, 2008**

25. Basic earnings per share

	Year ended December 31, 2008	Period from inception to December 31, 2007
Profit for the year/period (in AED)	509,725,323	281,971,915
	=====	=====
Weighted average number of shares	4,662,919,516	4,666,700,000
	=====	=====
Basic earnings per share (in AED)	0.11	0.06
	=====	=====

Basic earnings per share is calculated by dividing the profit for the year/period by the weighted average number of shares outstanding as at the balance sheet date.

Treasury shares have been considered for calculating weighted average number of shares outstanding as at the balance sheet date.

26. Pre-incorporation profit

Pre-incorporation profit in 2007 comprises share offering costs received (AED 2 fils collected from shares subscribed in cash) less expenses relating to incorporation and profit earned on investing the money received from initial public offering subscriptions between the first day of public subscription (March 18, 2007) and the date of incorporation of the Company (June 19, 2007).

	Amount AED
Share offering costs received	65,334,000
Less: IPO expenses	(30,765,271)
	34,568,729
Profit received on subscription funds till date of incorporation	41,370,100
	75,938,829
	=====

**Air Arabia P.J.S.C. (Air Arabia) and Subsidiary
Sharjah - United Arab Emirates**

**Notes to the Consolidated Financial Statements (continued)
For the Year Ended December 31, 2008**

27. Cash and cash equivalents

	December 31, 2008	December 31,
	AED	2007
		AED
Bank balances and cash	1,767,125,257	2,969,905,739
Fixed deposits with maturity over 3 months	(1,266,988,475)	-
Murabaha deposits	(312,350,000)	-
Margin deposits	(417,500)	-
	187,369,282	2,969,905,739
	=====	=====

28. Joint ventures

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.
Sharjah Airport Travel Agency - SATA	Sharjah, U.A.E.	50%	Travel and tourist agencies, travel office and air cargo.
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.

The ownership interest of 50% in Sharjah Airport Travel Agency – SATA, is being held by Sharjah Airport Authority, Government of Sharjah in trust and for the benefit of the Group.

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**Notes to the Consolidated Financial Statements (continued)
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28. Joint ventures (continued)

The Group has interest in the following joint ventures which are under liquidation:

<u>Name of joint venture</u>	<u>Place of incorporation and operation</u>	<u>Proportion of ownership interest</u>	<u>Principal activity</u>
HAECO Sharjah Aircraft Engg. Co. L.L.C. (no commercial activity carried out till date)	Sharjah, U.A.E.	51%	Trading in aircraft tools and equipments, trading in aircraft spare parts, managing aircrafts, maintenance of aircraft, cleaning service of aircraft.
Yeti Airways International Pvt.	Kathmandu, Nepal	51%	International commercial air transportation.

During the year, the Company has suspended the operations in Nepal carried out through Yeti Airways International Pvt. - Joint Venture.

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

	December 31,	
	<u>2008</u>	<u>2007</u>
	AED	AED
Current assets	47,433,491	34,084,973
	=====	=====
Non-current assets	27,964,815	13,639,345
	=====	=====
Current liabilities	44,354,430	26,497,803
	=====	=====
Non - current liabilities	1,972,102	622,140
	=====	=====

**Air Arabia P.J.S.C. (Air Arabia) and Subsidiary
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**Notes to the Consolidated Financial Statements (continued)
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28. Joint ventures (continued)

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

	Year ended December 31, 2008	Period from inception to December 31, 2007
	AED	AED
Income	106,558,201	31,321,405
	=====	=====
Expenses	106,672,136	26,645,325
	=====	=====

An analysis of the joint venture (loss)/ profit is as follows:

	Year ended December 31, 2008	Period from inception to December 31, 2007
	AED	AED
Information Systems Associates (FZC)	179,434	(120,733)
Sharjah Aviation Services (L.L.C.)	8,606,105	107,389
Sharjah Airport Travel Agency - SATA	3,579,372	1,142,969
Alpha Flight Services U.A.E. L.L.C.	7,006,954	3,546,455
Yeti Airways International Pvt.	(19,485,800)	-
	(113,935)	4,676,080
	=====	=====

29. Operating lease arrangements

	Year ended December 31, 2008	Period from inception to December 31, 2007
	AED	AED
Minimum lease payment under operating leases (excluding variable lease rental on the basis of flying hours) recognised in profit or loss for the year/period	194,301,881	76,786,237
	=====	=====

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**Notes to the Consolidated Financial Statements (continued)
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29. Operating lease arrangements (continued)

Details of aircraft lease agreements are as follows:

	Number of aircraft December 31,	
	2008	2007
Lease agreements signed for	19	20
Aircraft delivered against the above lease agreements	(13)	(11)
Aircraft to be delivered in future periods	6	9
	=====	=====

The fixed lease commitments against 13 (2007: 11) delivered aircraft are as follows:

	December 31,	
	2008	2007
	AED	AED
Within one year	174,252,462	145,028,455
In the second to fifth years inclusive	446,317,541	427,675,191
After five years	17,905,626	11,075,208
	638,475,629	583,778,854
	=====	=====

The fixed lease commitments against 6 (2007: 9) aircraft to be delivered in future periods are as follows:

	December 31,	
	2008	2007
	AED	AED
Within one year	38,925,600	26,305,945
In the second to fifth years inclusive	383,528,880	498,251,089
After five years	165,275,040	323,744,824
	587,729,520	848,301,858
	=====	=====

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 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.

**Air Arabia P.J.S.C. (Air Arabia) and Subsidiary
Sharjah - United Arab Emirates**

**Notes to the Consolidated Financial Statements (continued)
For the Year Ended December 31, 2008**

30. Contingent liabilities

	December 31,	
	2008	2007
	AED	AED
Letters of credit	51,398,363	50,921,134
Letters of guarantee	14,878,520	8,470,248

31. Capital commitments

The Group has entered into the following capital commitments:

	December 31,	
	2008	2007
	AED	AED
Authorised and contracted:		
Aircraft fleet	12,983,698,777	10,244,169,824
Non-aircraft	-	6,155,625
Joint ventures	-	36,750,000
Hotel project	186,509,880	-
Employee accommodation	42,934,602	-
	13,213,143,259	10,287,075,449
	=====	=====
Authorised but not contracted:		
Aircraft fleet	1,422,807,191	3,858,750,000
	=====	=====

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 during the year, the Group has exercised the option of purchasing 10 aircrafts. The total value of the 44 aircraft order was approximately USD 3.6 billion (AED: 13 billion) (December 31, 2007: 34 aircrafts, USD 2.8 billion (AED 10.2 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 44 aircraft is payable over the next five years, with the balance being due on delivery.

The Group has entered into a joint venture agreement for an airline which will operate from Casablanca in Morocco. On December 31, 2008 this venture was still in the early stages of development and a launch date had not been announced.

**Air Arabia P.J.S.C. (Air Arabia) and Subsidiary
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**Notes to the Consolidated Financial Statements (continued)
For the Year Ended December 31, 2008**

32. Capital risk management

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 debt, which includes the borrowings disclosed in Note 7, cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings.

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.

33. Financial instruments

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 financial statements.

Categories of financial instruments and others

December 31, 2008

Assets	Financial instruments		Non-financial instrument	Total
	Loans and receivables	Available-for-sale		
	AED	AED	AED	AED
Bank balances and cash	1,767,125,257	-	-	1,767,125,257
Trade and other receivables	224,058,759	-	17,636,794	241,695,553
Due from a related party	103,191	-	-	103,191
Inventories	-	-	1,562,249	1,562,249
Available-for-sale investments	-	1,522,810,487	-	1,522,810,487
Aircraft lease deposits	42,438,716	-	-	42,438,716
Deferred charges	-	-	31,694,171	31,694,171
Goodwill	-	-	189,474,216	189,474,216
Intangible assets	-	-	1,092,346,500	1,092,346,500
Investment property	-	-	50,852,083	50,852,083
Advance for new aircraft	-	-	257,709,990	257,709,990
Property and equipment	-	-	663,760,795	663,760,795
Total assets	2,033,725,923	1,522,810,487	2,305,036,798	5,861,573,208

**Air Arabia P.J.S.C. (Air Arabia) and Subsidiary
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**Notes to the Consolidated Financial Statements (continued)
For the Year Ended December 31, 2008**

33. Financial instruments (continued)

Categories of financial instruments and others (continued)

December 31, 2007

Assets	Financial instruments		Non-financial instrument	Total
	Loans and receivables	Available- for-sale		
	AED	AED	AED	AED
Bank balances and cash	2,969,905,739	-	-	2,969,905,739
Trade and other receivables	118,470,440	-	15,539,446	134,009,886
Inventories	-	-	747,707	747,707
Available-for-sale investments	-	581,215,288	-	581,215,288
Aircraft lease deposits	37,669,225	-	-	37,669,225
Deferred charges	-	-	6,457,738	6,457,738
Goodwill	-	-	189,474,216	189,474,216
Intangible assets	-	-	1,092,346,500	1,092,346,500
Investment property	-	-	51,602,083	51,602,083
Advance for new aircraft	-	-	160,181,266	160,181,266
Property and equipment	-	-	112,239,533	112,239,533
Total assets	3,126,045,404	581,215,288	1,628,588,489	5,335,849,181
	=====	=====	=====	=====

December 31, 2008

Liabilities and equity	Financial instruments	Non-financial instrument	Total
	At amortised cost		
	AED	AED	AED
Trade and other payables	322,552,719	-	322,552,719
Deferred income	-	132,803,072	132,803,072
Due to related parties	8,370,662	-	8,370,662
Provision for employees' end of service indemnity	14,241,314	-	14,241,314
Capital and reserves	-	5,383,605,441	5,383,605,441
Total liabilities and equity	345,164,695	5,516,408,513	5,861,573,208
	=====	=====	=====

**Air Arabia P.J.S.C. (Air Arabia) and Subsidiary
Sharjah - United Arab Emirates**

**Notes to the Consolidated Financial Statements (continued)
For the Year Ended December 31, 2008**

33. Financial instruments (continued)

Categories of financial instruments and others (continued)

December 31, 2007

	Financial instruments		
	At amortised	Non-financial	Total
	cost	instrument	
	AED	AED	AED
Liabilities and equity			
Trade and other payables	133,511,770	48,516,919	182,028,689
Deferred income	-	104,303,403	104,303,403
Due to related parties	12,301,501	-	12,301,501
Provision for employees' end of service indemnity	7,738,209	-	7,738,209
Capital and reserves	-	5,029,477,379	5,029,477,379
Total liabilities and equity	153,551,480	5,182,297,701	5,335,849,181

The Directors consider that the carrying amounts of financial assets and financial liabilities recorded in the consolidated financial statements approximate their fair values.

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.

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.

**Air Arabia P.J.S.C. (Air Arabia) and Subsidiary
Sharjah - United Arab Emirates**

**Notes to the Consolidated Financial Statements (continued)
For the Year Ended December 31, 2008**

33. Financial instruments (continued)

Foreign currency risk management

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

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 fixed.

Bank deposit profit rate risk management

The Group's exposure to profit rate risk relate to its deposits with banks and other unquoted investments. At December 31, 2008, deposits carried a profit rate of 3% to 10% per annum (December 31, 2007: 5% to 5.9% per annum).

The sensitivity analysis below, have been determined based on the exposure to profit rates on Group's deposits with banks at the balance sheet 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 December 31, 2008 would decrease/increase by AED 12.6 million (period from inception to December 31, 2007: AED 8.4 million).

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.

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 (December 31, 2007: AED 1.5 million) for the Group as a result of the changes in fair value of available-for-sale shares.

**Air Arabia P.J.S.C. (Air Arabia) and Subsidiary
Sharjah - United Arab Emirates**

**Notes to the Consolidated Financial Statements (continued)
For the Year Ended December 31, 2008**

33. Financial instruments (continued)

Credit risk management

Credit risk refers to the risk that a 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 credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

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

Liquidity risk management

Ultimate responsibility for liquidity risk management rests with the board of directors, which has built an appropriate liquidity risk management framework for the management of the Group's short, medium and long-term funding and liquidity management requirements. The Group manages liquidity risk by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

The table below includes the maturity profile of the Group's financial instruments. The contractual maturities of the financial instruments have been determined on the basis of the remaining period at the balance sheet date to the contractual maturity date. The maturity profile is monitored by management to ensure adequate liquidity is maintained. The maturity profile of the assets and liabilities at the balance sheet date based on contractual repayment arrangements was as follows:

**Air Arabia P.J.S.C. (Air Arabia) and Subsidiary
Sharjah - United Arab Emirates**

**Notes to the Consolidated Financial Statements (continued)
For the Year Ended December 31, 2008**

33. Financial instruments (continued)

Liquidity risk management (continued)

Assets

December 31, 2008

	<u>Upto 1 month</u>	<u>1 month - 3 months</u>	<u>3 months - 1 year</u>	<u>1 year - 5 years</u>	<u>Above 5 years</u>	<u>Total</u>
	AED	AED	AED	AED	AED	AED
Bank balances and cash	112,109,629	75,259,653	1,579,755,975	-	-	1,767,125,257
Trade and other receivables	94,555,733	45,309,319	101,830,501	-	-	241,695,553
Due from a related party	103,191	-	-	-	-	103,191
Inventories	1,562,249	-	-	-	-	1,562,249
Available-for-sale investments	-	508,052,246	367,400,000	637,880,250	9,477,991	1,522,810,487
Aircraft lease deposits	-	6,615,000	-	14,097,116	21,726,600	42,438,716
Deferred charges	-	-	8,795,273	22,898,898	-	31,694,171
Goodwill	-	-	-	-	189,474,216	189,474,216
Intangible assets	-	-	-	-	1,092,346,500	1,092,346,500
Investment property	-	-	-	-	50,852,083	50,852,083
Advance for new aircraft	-	-	-	38,160,998	219,548,992	257,709,990
Property and equipment	-	-	-	-	663,760,795	663,760,795
Total	208,330,802	635,236,218	2,057,781,749	713,037,262	2,247,187,177	5,861,573,208

December 31, 2007

	<u>Upto 1 month</u>	<u>1 month - 3 months</u>	<u>3 months - 1 year</u>	<u>1 year - 5 years</u>	<u>Above 5 years</u>	<u>Total</u>
	AED	AED	AED	AED	AED	AED
Bank balances and cash	2,965,061,198	4,844,541	-	-	-	2,969,905,739
Trade and other receivables	125,905,533	5,583,102	2,508,251	13,000	-	134,009,886
Inventories	34,211	713,496	-	-	-	747,707
Available-for-sale investments	-	-	-	581,215,288	-	581,215,288
Aircraft lease deposits	-	-	-	-	37,669,225	37,669,225
Deferred charges	-	-	-	6,457,738	-	6,457,738
Goodwill	-	-	-	-	189,474,216	189,474,216
Intangible assets	-	-	-	-	1,092,346,500	1,092,346,500
Investment property	-	-	-	-	51,602,083	51,602,083
Advance for new aircraft	-	-	-	-	160,181,266	160,181,266
Property and equipment	-	-	66,988	2,308,331	109,864,214	112,239,533
Total	3,091,000,942	11,141,139	2,575,239	589,994,357	1,641,137,504	5,335,849,181

**Air Arabia P.J.S.C. (Air Arabia) and Subsidiary
Sharjah - United Arab Emirates**

**Notes to the Consolidated Financial Statements (continued)
For the Year Ended December 31, 2008**

33. Financial instruments (continued)

Liquidity risk management (continued)

Liabilities and equity

December 31, 2008

	<u>Upto 1 month</u>	<u>1 month - 3 months</u>	<u>3 months 1 year</u>	<u>1 year - 5 years</u>	<u>Above 5 years</u>	<u>Total</u>
	<u>AED</u>	<u>AED</u>	<u>AED</u>	<u>AED</u>	<u>AED</u>	<u>AED</u>
Trade and other payables	-	318,857,066	3,695,653	-	-	322,552,719
Deferred income	-	132,803,072	-	-	-	132,803,072
Due to related parties	-	8,370,662	-	-	-	8,370,662
Provision for employees' end of service indemnity	-	-	1,226,921	7,361,527	5,652,866	14,241,314
Capital and reserves	-	-	-	-	5,383,605,441	5,383,605,441
Total	-	460,030,800	4,922,574	7,361,527	5,389,258,307	5,861,573,208
	=====	=====	=====	=====	=====	=====

December 31, 2007

	<u>Upto 1 month</u>	<u>1 month - 3 months</u>	<u>3 months 1 year</u>	<u>1 year - 5 years</u>	<u>Above 5 years</u>	<u>Total</u>
	<u>AED</u>	<u>AED</u>	<u>AED</u>	<u>AED</u>	<u>AED</u>	<u>AED</u>
Trade and other payables	2,517,882	169,370,801	6,292,608	3,847,398	-	182,028,689
Deferred income	-	104,303,403	-	-	-	104,303,403
Due to related parties	3,199,891	2,129,111	546,428	6,426,071	-	12,301,501
Provision for employees' end of service indemnity	-	-	-	-	7,738,209	7,738,209
Capital and reserves	-	-	-	-	5,029,477,379	5,029,477,379
Total	5,717,773	275,803,315	6,839,036	10,273,469	5,037,215,588	5,335,849,181
	=====	=====	=====	=====	=====	=====

**Air Arabia P.J.S.C. (Air Arabia) and Subsidiary
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**Notes to the Consolidated Financial Statements (continued)
For the Year Ended December 31, 2008**

34. Segment information

Primary reporting format - business segments

Year ended December 31, 2008	Airline	Other	Eliminations	Total
	AED	segments	AED	AED
		AED	AED	
Revenue				
External sales	1,957,931,643	2,724,967	-	1,960,656,610
Inter-segment sales	-	35,100	(35,100)	-
Total revenue	1,957,931,643	2,760,067	(35,100)	1,960,656,610
	=====	=====	=====	=====
Result				
Segment result	286,422,443	693,071	-	287,115,514
Share of loss in joint ventures				(113,935)
Profit from bank deposits and other income				222,723,744
Profit for the year				509,725,323
				=====
Other information				
Additions to property and equipment	564,039,776	-	-	564,039,776
Addition to deferred charges	31,463,973	-	-	31,463,973
Depreciation	32,144,350	155,650	-	32,300,000
Amortisation	6,587,009	-	-	6,587,009
December 31, 2008				
Assets				
Segment assets	2,640,696,849	1,756,158	(64,585,053)	2,577,867,954
Unallocated Group assets				3,283,705,254
Total assets				5,861,573,208
				=====
Liabilities				
Segment liabilities	443,775,280	34,204,006	(46,338,051)	431,641,235
Unallocated Group liabilities				46,326,532
Total liabilities				477,967,767
				=====

**Air Arabia P.J.S.C. (Air Arabia) and Subsidiary
Sharjah - United Arab Emirates**

**Notes to the Consolidated Financial Statements (continued)
For the Year Ended December 31, 2008**

34. Segment information (continued)

Period from inception to December 31, 2007	<u>Airline</u> AED	<u>Other segments</u> AED	<u>Eliminations</u> AED	<u>Total</u> AED
Revenue				
External sales	768,389,993	1,273,574	-	769,663,567
Inter-segment sales	-	<u>7,467,601</u>	<u>(7,467,601)</u>	-
Total revenue	<u>768,389,993</u>	<u>8,741,175</u>	<u>(7,467,601)</u>	<u>769,663,567</u>
	=====	=====	=====	=====
Result				
Segment result	<u>174,495,464</u>	<u>1,120,884</u>	-	175,616,348
Share of profits in joint ventures				4,676,080
Profit from bank deposits and other income				<u>101,679,487</u>
Profit for the period				<u>281,971,915</u>
				=====
Other information				
Additions to property and equipment	39,696,380	82,800	-	39,779,180
Addition to deferred charges	15,159,375	-	-	15,159,375
Depreciation	2,199,281	85,475	-	2,284,756
Amortisation	19,583,142	-	-	19,583,142
December 31, 2007				
Assets				
Segment assets	<u>2,175,476,780</u>	<u>4,480,836</u>	<u>(25,239,310)</u>	2,154,718,306
Unallocated Group assets				<u>3,181,130,875</u>
Total assets				<u>5,335,849,181</u>
				=====
Liabilities				
Segment liabilities	<u>284,186,786</u>	<u>2,057,382</u>	<u>(6,992,309)</u>	279,251,859
Unallocated Group liabilities				<u>27,119,943</u>
Total liabilities				<u>306,371,802</u>
				=====

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. Segment revenue does not include the Group's share of external revenue of joint ventures, amounting to AED 106,558,201 (period from inception December 31, 2007: AED 31,321,405), as the share of their results have been disclosed separately as unallocated under segment result. Segment result represents the profit earned by each segment without considering unallocated costs, shares of profits in joint ventures, profit from bank deposits and other income. Segment assets do not include fixed deposits, Murabaha deposits, available-for-sale investments and the Group's share of assets in joint ventures. Goodwill and intangible assets have been allocated to Airline segment (see Note 11 and 12). Segment liabilities do not include Group's share of liabilities in joint ventures.

**Air Arabia P.J.S.C. (Air Arabia) and Subsidiary
Sharjah - United Arab Emirates**

**Notes to the Consolidated Financial Statements (continued)
For the Year Ended December 31, 2008**

35. Proposed dividends

The directors propose that a dividend of AED 466,670,000, AED 10 fils per share will be paid to the Shareholders in 2009. 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.

It has also been proposed that the board of directors remuneration for the year be AED 1,800,000. The remuneration of directors is subject to approval by the Shareholders and as per limits set by the Commercial Companies Law No. 8 of 1984, as amended.

36. Approval of consolidated financial statements

The consolidated financial statements were approved by the Board of Directors and authorised for issue on February 15, 2009.

37. Comparative amounts

Certain amounts for the prior period were reclassified to conform to current year presentation. The consolidated financial statements for prior period were for the period from inception on June 19, 2007 to December 31, 2007 and accordingly the comparative amounts for the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement and related notes are not directly comparable.