

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

**Consolidated financial statements
and independent auditor's report
for the year ended 31 December 2011**

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

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of **Air Arabia P.J.S.C. (Air Arabia) (the "Company") and its Subsidiaries (together the "Group")**, Sharjah, United Arab Emirates which comprise the consolidated statement of financial position as at 31 December 2011, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Cont'd...



INDEPENDENT AUDITOR'S REPORT (continued)

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of **Air Arabia P.J.S.C. (Air Arabia) and its Subsidiaries, Sharjah** as at 31 December 2011, and their financial performance and their 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.

Deloitte & Touche (M.E.)

A blue ink signature, appearing to read "Samir Madbak", written in a cursive style.

Samir Madbak
Registration No. 386
25 February 2012

Consolidated statement of financial position
At 31 December 2011

	Notes	2011 AED'000	2010 AED'000
ASSETS			
Non-current assets			
Property and equipment	5	2,423,132	1,195,499
Advance for new aircraft	6	596,935	593,213
Investment properties	7	164,397	49,352
Intangible assets	8	1,092,347	1,092,347
Goodwill	9	189,474	189,474
Deferred charges	10	11,088	18,042
Aircraft lease deposits	11	28,733	34,216
Available-for-sale investments	12	733,021	756,395
Trade and other receivables	13	2,566	15,395
Total non-current assets		5,241,693	3,943,933
Current assets			
Inventories		9,092	6,437
Due from related parties	14	102,329	28,435
Trade and other receivables	13	416,200	546,630
Bank balances and cash	15	1,344,900	1,844,563
Total current assets		1,872,521	2,426,065
Total assets		7,114,214	6,369,998

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

Consolidated statement of financial position
At 31 December 2011 (continued)

	Notes	2011 AED '000	2010 AED'000
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	16	4,666,700	4,666,700
Statutory reserve	17	180,382	153,475
General reserve	18	180,382	153,475
Cumulative change in fair values		(9,834)	13,800
Retained earnings		223,255	383,259
Equity attributable to owners of the Company		5,240,885	5,370,709
Non-controlling interests		8,552	6,220
Total equity		5,249,437	5,376,929
Non-current liabilities			
Provision for employees' end of service indemnity	19	36,987	29,273
Trade and other payables	20	42,425	30,104
Finance lease liabilities	21	865,165	214,303
Murabaha payable	22	32,285	-
Total non-current liabilities		976,862	273,680
Current liabilities			
Due to related parties	14	22,576	13,348
Deferred income		157,300	148,560
Trade and other payables	20	606,858	541,396
Finance lease liabilities	21	68,896	16,085
Murabaha payable	22	32,285	-
Total current liabilities		887,915	719,389
Total liabilities		1,864,777	993,069
Total equity and liabilities		7,114,214	6,369,998


 Chairman


 Chief Executive Officer


 Director of Finance

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

**Consolidated statement of income
for the year ended 31 December 2011**

	Notes	2011 AED'000	2010 AED'000
Revenue	23	2,434,660	2,090,737
Direct costs	24	(2,104,904)	(1,779,061)
Gross profit		329,756	311,676
Selling and marketing expenses	25	(39,989)	(34,591)
General and administrative expenses	26	(105,561)	(77,403)
Profit on bank deposits		71,553	115,569
Finance costs		(20,941)	(601)
Other income / (expenses)	27	39,035	(5,091)
Profit for the year	29	273,853	309,559
Attributable to:			
Owners of the Company		269,071	305,789
Non-controlling interests		4,782	3,770
		273,853	309,559
Basic earnings per share	30	0.06	0.07

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

**Consolidated statement of comprehensive income
for the year ended 31 December 2011**

	Notes	2011 AED '000	2010 AED'000
Profit for the year		273,853	309,559
Other comprehensive (loss)/income			
(Loss) / gain on revaluation of available-for-sale investments	12	(23,634)	61,370
Reclassification adjustment for losses included in profit and loss		-	3,473
Transfer to statement of income on sale of available-for-sale investments		-	362
Board of Directors' remuneration		(1,925)	(1,925)
Total other comprehensive (loss)/income		(25,559)	63,280
Total comprehensive income for the year		248,294	372,839
Attributable to:			
Owners of the Company		243,512	369,069
Non-controlling interests		4,782	3,770
		248,294	372,839

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

**Consolidated statement of changes in equity
for the year ended 31 December 2011**

	Share capital AED'000	Statutory reserve AED'000	General reserve AED'000	Cumulative change in fair values AED'000	Retained earnings AED'000	Attributable to owners of the company AED'000	Non- controlling interests AED'000	Total AED'000
Balance at 31 December 2009	4,666,700	122,896	122,896	(51,405)	607,223	5,468,310	-	5,468,310
Profit for the year	-	-	-	-	305,789	305,789	3,770	309,559
Other comprehensive income for the year	-	-	-	65,205	(1,925)	63,280	-	63,280
Total comprehensive income for the year	-	-	-	65,205	303,864	369,069	3,770	372,839
Transfer to reserves	-	30,579	30,579	-	(61,158)	-	-	-
Increase in non-controlling interest	-	-	-	-	-	-	2,450	2,450
Dividend paid (Note 39)	-	-	-	-	(466,670)	(466,670)	-	(466,670)
Balance at 31 December 2010	4,666,700	153,475	153,475	13,800	383,259	5,370,709	6,220	5,376,929
Profit for the year	-	-	-	-	269,071	269,071	4,782	273,853
Other comprehensive loss for the year	-	-	-	(23,634)	(1,925)	(25,559)	-	(25,559)
Total comprehensive income for the year	-	-	-	(23,634)	267,146	243,512	4,782	248,294
Transfer to reserves	-	26,907	26,907	-	(53,814)	-	-	-
Dividend paid (Note 39)	-	-	-	-	(373,336)	(373,336)	(2,450)	(375,786)
Balance at 31 December 2011	4,666,700	180,382	180,382	(9,834)	223,255	5,240,885	8,552	5,249,437

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

**Consolidated statement of cash flows
for the year ended 31 December 2011**

	2011 AED '000	2010 AED'000
Cash flows from operating activities		
Profit for the year	273,853	309,559
Adjustment for:		
Depreciation of property and equipment	104,316	44,729
Depreciation of investment property	750	750
Amortisation of deferred charges	7,575	9,969
Provision for employees' end of service indemnity	11,275	8,655
Impairment losses on available-for-sale investments	-	3,473
Unrealised loss on derivative financial instruments	6,621	871
Loss on disposal of property and equipment	-	6
Share of net losses from associates	5,801	37,940
Allowance made during the year	1,078	509
Amounts recovered during the year	(170)	(218)
Profit on bank deposits	(71,553)	(115,569)
Dividend income	-	(214)
Rental income	(5,826)	(3,300)
Gain on disposal of available-for-sale investments	-	(27,898)
Finance costs	20,941	601
Operating cash flow before changes in operating assets and Liabilities	354,661	269,863
Increase in margin deposits	(855)	(596)
(Increase)/decrease in trade and other receivables	(109,993)	32,259
Increase in inventories	(2,655)	(1,386)
Increase in due from related parties	(73,894)	(5,867)
Decrease in aircraft lease deposits	5,483	1,184
Increase in trade and other payables	32,070	121,336
Increase in deferred income	8,740	19,208
Increase in due to related parties	9,228	13,348
Cash generated by operating activities	222,785	449,349
Employees' end of service indemnity paid	(3,561)	(2,493)
Interest paid	(17,297)	(601)
Net cash from operating activities	201,927	446,255
Cash flows from investing activities		
Purchase of property and equipment	(122,000)	(191,181)
Proceeds from disposal of property and equipment	139	676
Increase in advance for new aircraft	(157,231)	(276,863)
Increase in deferred charges	(621)	(1,746)
Payments for investment in associates	(5,801)	(9,150)
Purchase of available-for-sale investments	(260)	(455,247)
Proceeds from maturity of available-for-sale investments	-	993,819
(Increase)/decrease in fixed deposits	(166,849)	257,753
Profit on bank deposits	52,694	115,569
Net cash (used in) / from investing activities	(399,929)	433,630

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

**Consolidated statement of cash flows
for the year ended 31 December 2011 (continued)**

	2011 AED '000	2010 AED'000
Cash flows from financing activities		
Decrease in other payables	(518)	(561)
Dividend paid	(373,336)	(466,670)
Dividend paid to non-controlling interests	(2,450)	-
Dividend received	-	214
Rental income	5,826	3,300
Increase in non-controlling interests	-	2,450
Board of Directors' remuneration	(1,925)	(1,925)
Repayment of finance lease obligations	(32,906)	-
Repayment of Murabaha payable	(64,056)	-
Net cash used in financing activities	(469,365)	(463,192)
Net (decrease)/increase in cash and cash equivalents	(667,367)	416,693
Cash and cash equivalents at the beginning of the year	838,529	421,836
Cash and cash equivalents at the end of the year (Note 15)	171,162	838,529

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

- Advance paid for purchase of aircraft amounting to AED 153,509 thousand (2010: AED 57,456) has been adjusted with the purchase of two aircraft (Note 6).
- Obligations under finance lease against eight (2010: two) aircraft obtained during the year (Note 21).
- Additions to investment properties of AED 115,795 thousand (2010: Nil) and land and building amounting to AED 320,000 thousand (2010: Nil).

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

**Notes to the consolidated financial statements
for the year ended 31 December 2011****1. General information**

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

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

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

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

During the year, the Group acquired a hotel property in the U.A.E. valued at AED 320 million (land of AED 50 million and building of AED 270 million) and to facilitate this transaction, obtained a Murabaha facility (Note 8). The resultant gain arising out of this receivable swapping transaction will be recognised as and when the payments is collected, against receivables which arose on account of the above transaction.

2. Application of new and revised International Financial Reporting Standards (IFRSs)**2.1 New and revised International Financial Reporting Standards (IFRSs) adopted with no material effect on the consolidated financial statements**

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

- Amendments to IAS 24 *Related Party Disclosures* modify the definition of a related party and simplify disclosures for government-related entities.
- Amendments to IAS 32 *Classification of Rights Issues* address the classification of certain rights issues denominated in a foreign currency as either an equity instrument or as a financial liability.
- Amendments to IFRS 1 relating to *Limited Exemption from Comparative IFRS 7 Disclosures for First-time Adopters*.
- Improvements to IFRSs issued in 2010 – Amendments to: IFRS 1; IFRS 3 (2008); IFRS 7; IAS 1; IAS 27 (2008); IAS34; IFRIC 13.
- Amendments to IFRIC 14 *Prepayments of a Minimum Funding Requirement*. The amendments correct an unintended consequence of IFRIC 14 IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction.
- IFRIC 19 *Extinguishing Financial Liabilities with Equity Instruments* provides guidance regarding the accounting for the extinguishment of a financial liability by the issue of equity instruments. In particular equity instruments issued under such arrangements are measured at their fair value, and any difference between the carrying amount of the financial liability extinguished and the fair value of equity instruments issued are recognized in profit or loss.

**Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)**

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

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

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

New and revised IFRSs

- | | Effective for
annual periods
beginning on or after |
|---|---|
| • Amendments to IFRS 7 <i>Financial Instruments</i> : Disclosures relating to disclosures about the initial application of IFRS. | 1 January 2015 (or otherwise when IFRS 9 is first applied) |
| • Amendments to IFRS 7 <i>Disclosures Transfers of Financial Assets</i> increase the disclosure requirements for transactions involving transfers of financial assets. These amendments are intended to provide greater transparency around risk exposures of transactions when a financial asset is transferred but the transferor retains some level of continuing exposure in the asset. The amendments also require disclosures where transfers of financial assets are not evenly distributed throughout the period. | 1 July 2011 |
| • IFRS 9 <i>Financial Instruments</i> issued in November 2009 introduces new requirements for the classification and measurement of financial assets. IFRS 9 amended in October 2010 includes the requirements for the classification and measurement of financial liabilities and for derecognition. | 1 January 2015 |

Key requirements of IFRS 9 are described as follows:

- IFRS 9 requires all recognised financial assets that are within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods.
- The most significant effect of IFRS 9 regarding the classification and measurement of financial liabilities relates to the accounting for changes in the fair value of a financial liability (designated as at fair value through profit or loss) attributable to changes in the credit risk of that liability. Specifically, under IFRS 9, for financial liabilities that are designated as at fair value through profit or loss, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Previously, under IAS 39, the entire amount of the change in the fair value of the financial liability designated as at fair value through profit or loss was presented in profit or loss.

**Notes to the financial statement
for the year ended 31 December 2011 (continued)**

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

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

New and revised IFRSs	Effective for annual periods beginning on or after
IFRS 10 <i>Consolidated Financial Statements</i>* uses control as the single basis for consolidation, irrespective of the nature of the investee. IFRS 10 requires retrospective application subject to certain transitional provisions providing an alternative treatment in certain circumstances. Accordingly IAS 27 <i>Separate Financial Statements</i>* and IAS 28 <i>Investments in Associates and Joint Ventures</i>* have been amended for the issuance of IFRS 10.	1 January 2013
IFRS 11 <i>Joint Arrangements</i>* establishes two types of joint arrangements: Joint operations and joint ventures. The two types of joint arrangements are distinguished by the rights and obligations of those parties to the joint arrangement. Accordingly IAS 28 <i>Investments in Associates and Joint Ventures</i> has been amended for the issuance of IFRS 11.	1 January 2013
IFRS 12 <i>Disclosure of Interests in Other Entities</i>* combines the disclosure requirements for an entity's interests in subsidiaries, joint arrangements, associates and structured entities into one comprehensive disclosure Standard.	1 January 2013
IFRS 13 <i>Fair Value Measurement</i> issued in May 2011 establishes a single framework for measuring fair value and is applicable for both financial and non-financial items.	1 January 2013
Amendments to IAS 1 – <i>Presentation of Other Comprehensive Income</i>. The amendments retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate statements. However, items of other comprehensive income are required to be grouped into those that will and will not subsequently be reclassified to profit or loss with tax on items of other comprehensive income required to be allocated on the same basis.	1 July 2012
Amendments to IAS 12 <i>Income Taxes</i> provide an exception to the general principles of IAS 12 for investment property measured using the fair value model in IAS 40 <i>Investment Property</i> by the introduction of a rebuttable presumption that the carrying amount of the investment property will be recovered entirely through sale.	1 January 2012

**Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)**

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

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

New and revised IFRSs	Effective for annual periods beginning on or after
Amendments to IAS 19 <i>Employee Benefits</i> eliminate the “corridor approach” and therefore require an entity to recognize changes in defined benefit plan obligations and plan assets when they occur.	1 January 2013
IFRIC 20 <i>Stripping Costs in the Production Phase of a Surface Mine</i>	1 January 2013
Amendments to IFRS 7 <i>Financial Instruments: Disclosures</i> enhancing disclosures about offsetting of financial assets and liabilities	1 January 2013
Amendments to IFRS 1 <i>Removal of Fixed Dates for First-Time Adopter</i>	1 July 2011
Amendments to IAS 32 <i>Financial Instruments: Presentation</i> relating to application guidance on the offsetting of financial assets and financial liabilities	1 January 2013

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

Management anticipates that these new standards, interpretations and amendments will be adopted in the Group’s consolidated financial statements for the period beginning 1 January 2012 or as and when they are applicable and adoption of these new standards, interpretations and amendments except for IFRS 9, may have no material impact on the financial statements of the Group in the period of initial application.

**Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)****3. Summary of significant accounting policies****3.1 Statement of compliance**

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

3.2 Basis of preparation

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

The principal accounting policies are set out below.

3.3 Basis of consolidation

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

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

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

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

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

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

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

**Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)**

3. Summary of significant accounting policies (continued)

3.4 Subsidiaries

Details of the Company's subsidiaries at 31 December 2011 were 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 activities</u>
Red Marketing Communications (FZE)	Sharjah Airport International Free Zone, U.A.E.	100%	100%	Providing marketing, advertisement agency and communication services.
COZMO Travel L.L.C.	Sharjah - U.A.E.	51%	51%	Travel, travel and tours, tourism and cargo services
COZMO Travel W.L.L.	Doha – Qatar	51%	100%	Travel, travel and tours, tourism and cargo services

COZMO Travel L.L.C., U.A.E. holds the remaining equity in COZMO Travel W.L.L., Qatar, beneficially through nominee arrangements.

3.5 Business combination

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

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value.

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

**Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)****3. Summary of significant accounting policies (continued)****3.5 Business combination (continued)**

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

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

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

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

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

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

3.6 Goodwill

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

**Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)****3. Summary of significant accounting policies (continued)****3.6 Goodwill (continued)**

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

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

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

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

3.7 Investments in associates

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

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

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

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

**Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)****3. Summary of significant accounting policies (continued)****3.7 Investments in associates (continued)**

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

3.8 Interests in joint ventures

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

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

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

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

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

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

3.9 Revenue recognition

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

3.9.1 Rendering of services

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

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

**Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)**

3. Summary of significant accounting policies (continued)

3.9 Revenue recognition (continued)

3.9.2 Hotel revenue

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

3.9.3 Sale of goods

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

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

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

3.9.3 Dividend and profit on bank deposits

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

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

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

3.9.4 Rental income

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

3.9.5 Service charges and expenses recoverable from tenants

Income arising from expenses recharged to tenants is recognised in the period in which the expense can be contractually recovered. Service charges and other such receipts are included gross of the related costs in revenue as the Group acts as principal in this respect.

**Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)****3. Summary of significant accounting policies (continued)****3.10 Leasing**

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

3.10.1 The Group as lessor

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

3.10.2 The Group as lessee

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

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

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

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

3.11 Foreign currencies

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

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

Exchange rate differences are recognised in profit or loss in the year in which they arise.

**Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)**

3. Summary of significant accounting policies (continued)

3.12 Property and equipment

Land granted by the Government of Sharjah and acquired in the acquisition of Radisson Blu Hotel and Resort is not depreciated, as it is deemed to have an infinite life.

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

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

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

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

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

	Years
Building and apartments	15 - 20
Aircraft	15
Aircraft engines	20
Aircraft rotables and equipment	3 - 10
Airport equipments and vehicles	3 - 15
Other property and equipment	3 - 7

**Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)****3. Summary of significant accounting policies (continued)****3.13 Investment properties**

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

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

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

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

3.14 Government grants

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

3.15 Deferred charges

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

3.16 Intangible assets acquired in a business combination

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

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

3.17 Inventories

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

**Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)****3. Summary of significant accounting policies (continued)****3.18 Impairment of tangible and intangible assets excluding goodwill**

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

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

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

3.19 Deferred income

Deferred income 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.

3.20 Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle 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 end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows, (where the effect of time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

**Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)****3. Summary of significant accounting policies (continued)****3.21 Employee benefits***3.21.1 Defined contribution plan*

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

3.21.2 Annual leave and leave passage

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

3.21.3 Provision for employees' end of service indemnity

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

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

3.22 Aircraft maintenance

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

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

3.23 Financial instruments

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

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

Financial assets are classified into the following specified categories: financial assets ‘at fair value through profit or loss’ (FVTPL), ‘held-to-maturity’ investments, ‘available-for-sale’ (AFS) 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.

**Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)**

3. Summary of significant accounting policies (continued)

3.24 Financial assets

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

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

3.24.1 Bank balances and cash

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

3.24.2 Available-for-sale financial assets (AFS financial assets)

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

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

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

3.24.3 Loans and receivables

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

3.24.4 Impairment of financial assets

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

**Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)**

3. Summary of significant accounting policies (continued)

3.24 Financial assets (continued)

3.24.4 Impairment of financial assets (continued)

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

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

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

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

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

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

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

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

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

**Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)****3. Summary of significant accounting policies (continued)****3.24 Financial assets (continued)***3.24.5 Derecognition of financial assets*

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

3.25 Financial liabilities and equity instruments issued by the group*3.25.1 Classification as debt and equity instruments*

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

3.26 Equity instruments

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

3.27 Financial liabilities

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

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

3.27.1 Derecognition of financial liabilities

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

3.28 Dividend distribution

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

**Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)****3. Summary of significant accounting policies (continued)****3.29 Derivative financial instruments**

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

4. Critical accounting judgements and key sources of estimation uncertainty

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

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

The significant judgements and estimates made by management, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are described below:

4.1 Critical judgments in applying accounting policies

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

4.1.1 Classification of investments

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

**Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)**

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

4.1 Critical judgments in applying accounting policies (continued)

4.1.2 Fair value of derivative financial instruments

At 31 December 2011 the Group has outstanding commodity swap as disclosed in Note 28 to these consolidated financial statements. The fair value has been determined as such in accordance with best market practice and using observable market data.

4.1.3 Valuation of unquoted investments

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

4.1.4 Impairment of financial assets

The Group determines whether AFS financial assets 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.

4.1.5 Impairment of goodwill and intangible assets

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

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

Management has concluded that no impairment of goodwill and intangible assets is required based on independent valuer's report on impairment test performed as of 31 December 2011.

4.1.6 Classification of leases

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

In the process of determining whether these arrangements represent operating leases or finance leases, the Group's management has made various judgements. In making its judgements, the Group's management considered the terms and conditions of the lease agreements and the requirements of IAS 17 Leases, including the Basis for Conclusions on IAS 17 provided by the International Accounting Standards Board and related guidance, to determine whether significant risks and rewards associated with the asset in accordance with each lease term would have been transferred to the lessee at the end of the lease period. The Group evaluated the transfer of risks and rewards before and after entering into the lease arrangements and the management is satisfied that the lease arrangements accounted for in the consolidated financial statements are appropriately classified as financial lease (Note 21) and operating lease (Note 33).

**Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)**

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

4.2 Key sources of estimation uncertainty

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

4.2.1 Leased aircraft maintenance costs

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

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

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

4.2.2 Accrual for aircraft flying costs

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

**Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)**

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

4.2 Key sources of estimation uncertainty (continued)

4.2.3 Property and equipment and investment property

The cost of property and equipment and investment property 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 considered residual values while computing the depreciation for aircraft, aircraft engines and aircraft rotables and equipment.

Apartments include the employees quarters constructed on a plot of land leased from Sharjah Airport Authority, United Arab Emirates. At the reporting date, the Group is in the process of finalising the formal lease agreement with the Sharjah Airport Authority and lease tenure is mutually agreed to be ten years from the date of practical completion of the building.

4.2.4 Deferred charges

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

4.2.5 Inventories

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

4.2.6 Impairment of trade receivables

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

**Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)**

5. Property and equipment

	Land AED '000	Building and apartments AED '000	Aircraft AED '000	Aircraft engines AED '000	Aircraft rotables and equipment AED '000	Airport equipments and vehicles AED '000	EDP equipment AED '000	Office equipment and fixtures AED '000	Capital work- in-progress AED '000	Total AED '000
Cost										
31 December 2009	-	-	478,283	124,689	20,214	30,269	12,670	8,393	165,074	839,592
Additions during the year	-	311	295,675	36,703	1,448	3,776	1,986	3,029	136,097	479,025
Disposals	-	-	-	-	(105)	(184)	(202)	(963)	(226)	(1,680)
Transfers	-	62,528	-	-	-	2,535	1,835	2,302	(69,200)	-
31 December 2010	-	62,839	773,958	161,392	21,557	36,396	16,289	12,761	231,745	1,316,937
Additions during the year	50,000	281,727	942,715	-	2,417	1,693	3,640	1,710	48,186	1,332,088
Disposals	-	-	-	-	-	(135)	-	(111)	-	(246)
Transfers	-	226,891	-	-	-	1,688	54	2,271	(230,904)	-
31 December 2011	50,000	571,457	1,716,673	161,392	23,974	39,642	19,983	16,631	49,027	2,648,779
Accumulated depreciation										
31 December 2009	-	-	47,519	10,916	3,908	4,861	6,072	4,431	-	77,707
Charge for the year	-	774	29,589	5,078	1,633	2,573	2,839	2,243	-	44,729
Eliminated on disposals	-	-	-	-	(16)	(127)	(164)	(691)	-	(998)
31 December 2010	-	774	77,108	15,994	5,525	7,307	8,747	5,983	-	121,438
Charge for the year	-	19,182	67,021	6,457	1,802	3,093	3,475	3,286	-	104,316
Eliminated on disposals	-	-	-	-	-	(61)	-	(46)	-	(107)
31 December 2011	-	19,956	144,129	22,451	7,327	10,339	12,222	9,223	-	225,647
Carrying amount										
31 December 2011	50,000	551,501	1,572,544	138,941	16,647	29,303	7,761	7,408	49,027	2,423,132
31 December 2010	-	62,065	696,850	145,398	16,032	29,089	7,542	6,778	231,745	1,195,499

**Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)**

5. Property and equipment (continued)

Apartments include staff quarters constructed on leasehold land, leased from Sharjah Airport Authority, Sharjah, United Arab Emirates. At 31 December 2011, the Group is in the process of finalising the formal lease agreements with the Sharjah Airport Authority.

At 31 December 2011, 8 (2010: 2) aircrafts with carrying amount of AED 1,197,173 thousand (2010: AED 293,783 thousand) are held under finance lease (Note 21).

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

All of the Group's non-movable assets are located in the U.A.E., except for property and equipment with carrying amount of AED 801 thousand (2010: Nil), located outside U.A.E.

During the year, land amounting to AED 50,000 thousand and buildings amounting to AED 270,000 thousand has been acquired based on the independent valuation report, by the Group in settlement of the deposits with a financial institution. (See Note 1)

Capital work in progress includes advance payment made towards purchase of aircraft engines amounting to AED 13,510 thousand (2010: Nil) and the simulator building under construction amounting to AED 30,491 thousand (2010: AED 11,055 thousand).

6. Advance for new aircraft

Advance for new aircraft represents pre-delivery payments made to suppliers outside U.A.E. for an amount of USD 162.7 million (equivalent to AED 597.0 million) (2010: USD 161.6 million, equivalent to AED 593.2 million) made in respect of 36 (2010: 42) Airbus A320 aircraft.

Movement in the advance for new aircraft were as follows:

	2011	2010
	AED'000	AED'000
Balance, at the beginning of the year	593,213	373,806
Advances paid during the year	340,270	328,585
Adjusted against aircraft purchase	(153,509)	(57,456)
Refund of advance paid	(183,039)	(51,722)
Balance, at the end of the year	596,935	593,213

**Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)**

7. Investment properties

	Investment property AED '000	Investment property under progress AED '000	Total AED '000
Cost			
At 31 December 2009 and 2010	54,040	-	54,040
Transferred during the year	-	115,795	115,795
At 31 December 2011	54,040	115,795	169,835
Accumulated depreciation			
At 31 December 2009	3,938	-	3,938
Charge for the year	750	-	750
At 31 December 2010	4,688	-	4,688
Charge for the year	750	-	750
At 31 December 2011	5,438	-	5,438
Carrying amount			
At 31 December 2011	48,602	115,795	164,397
At 31 December 2010	49,352	-	49,352

Investment property comprises a building constructed by the Group on a plot of land, adjacent to Sharjah International Airport, granted by the Government of Sharjah. The Group has accounted this land at AED 39 million, based on independent valuers' report, engaged for the purpose of applying IFRS3 'Business Combination', at the time of acquisition of Air Arabia L.L.C. (Air Arabia) by the Company.

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

The property rental income earned by the Group during the year amounted to AED 3,300 thousand (2010: AED 3,300 thousand) and direct operating expenses arising on the investment property amounted to AED 750 thousand (2010: AED 750 thousand) (Note 27).

Management anticipates the fair value of investment properties as at 31 December 2011 to be AED 167.8 million (2010: AED 52 million).

Investment property under progress comprise of an apartment building located at Dubai, U.A.E., the construction of which is expected to be completed by 2013.

**Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)**

8. Intangible assets

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

	2011 AED'000	2010 AED'000
Trade name	395,410	395,410
Landing rights	468,273	468,273
Price benefit from related parties	180,281	180,281
Handling licence - Sharjah Aviation Services	48,383	48,383
	1,092,347	1,092,347

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

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

9. Goodwill

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

	2011 AED'000	2010 AED'000
Total fair value of Air Arabia Company L.L.C. (Air Arabia)	1,400,000	1,400,000
Fair value of intangible assets (Note 8)	(1,092,347)	(1,092,347)
Fair value of tangible assets (net)	(118,179)	(118,179)
At 31 December 2010 and 2011	189,474	189,474

During the year, the Group has performed the impairment test on goodwill through an independent valuer. The recoverable amount of cash-generating unit for impairment test has been determined using value in use calculation. For calculation purpose management approved cash flow projections for 5 year period from 2012-2016 and a discount rate of 15.29% per annum has been considered.

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

**Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)**

10. Deferred charges

	Aircraft upgrade costs AED'000	Landing permission charges AED'000	Computer software AED'000	Total AED'000
Cost				
31 December 2009	21,017	51,145	1,193	73,355
Additions during the year	663	600	483	1,746
31 December 2010	21,680	51,745	1,676	75,101
Additions during the year	348	-	273	621
31 December 2011	22,028	51,745	1,949	75,722
Amortisation				
31 December 2009	12,391	34,388	311	47,090
Charge for the year	3,362	6,327	280	9,969
31 December 2010	15,753	40,715	591	57,059
Charge for the year	2,699	4,553	323	7,575
31 December 2011	18,452	45,268	914	64,634
Carrying amount				
31 December 2011	3,576	6,477	1,035	11,088
31 December 2010	5,927	11,030	1,085	18,042

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

11. Aircraft lease deposits

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

**Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)**

12. Available-for-sale investments

	2011	2010
	AED '000	AED '000
Quoted	6,254	11,003
Unquoted	726,767	745,392
	<u>733,021</u>	<u>756,395</u>
	<u>733,021</u>	<u>756,395</u>
In U.A.E.	365,706	389,080
In other G.C.C. countries	367,315	367,315
	<u>733,021</u>	<u>756,395</u>
	<u>733,021</u>	<u>756,395</u>

Movement during the year were as follows:

	2011	2010
	AED '000	AED '000
Fair value, at the beginning of the year	756,395	1,205,337
Purchases during the year	260	455,247
Proceeds on maturity	-	(965,559)
Change in fair value	(23,634)	61,370
	<u>733,021</u>	<u>756,395</u>
Fair value, at the end of the year	<u>733,021</u>	<u>756,395</u>

The market rate as at 31 December 2011, is considered for the calculation of the fair value of the available-for-sale investments that are quoted in the stock exchange. For those that are not quoted in the stock exchange, the fair value measurements are derived from the inputs that are directly observable.

**Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)**

13. Trade and other receivables

	2011 AED '000	2010 AED '000
Current		
Trade receivables	141,088	106,823
Allowance for doubtful debts	(2,028)	(1,162)
	139,060	105,661
Prepaid aircraft lease rentals	22,301	24,036
Prepaid expenses - others	3,669	2,324
Advances and other receivables	224,545	394,192
Derivative financial instruments (Note 28)	26,625	20,417
	416,200	546,630
Non-current		
Derivatives financial instruments (Note 28)	2,566	15,395

13.1 Trade receivables

The average credit period ranges between 29 – 45 days (2010: 29 – 45 days). Trade receivables more than 180 days are provided for based on estimated irrecoverable amounts, determined by reference to past default experience in addition to specific provision made on identified customers. No interest is charged on trade receivables.

Before accepting any new customer the Group assesses the potential customers' credit quality and defines credit limits by customer. There are 4 customers (2010: 5 customers) who represent more than 5% of the total balance of trade receivables.

Trade receivables include receivable from Sales Agents amounting to AED 69.03 million (2010: AED 79.9 million), which is fully secured by bank guarantees.

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

	2011 AED '000	2010 AED '000
Balance, at the beginning of the year	1,162	1,771
Allowance made during the year	1,078	509
Amounts recovered during the year	(170)	(218)
Amounts written off as uncollectible	(42)	(900)
Balance, at end of the year	2,028	1,162

**Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)**

13. Trade and other receivables (continued)

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

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

14. Related party transactions

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

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

	2011 AED '000	2010 AED '000
Due from related parties:		
Alpha Flight Services, Jordan	128	429
Air Arabia Maroc, S.A., Morocco - associate	81,429	22,536
Air Arabia - Egypt Company (S.A.E.), Egypt - associate	20,772	4,370
Sharjah Airport International Free Zone – U.A.E.	-	1,100
	102,329	28,435
Due to related parties:		
Alpha Aviation Group Limited, United Kingdom	-	3,186
Sharjah Airport Authority - U.A.E.	22,576	10,162
	22,576	13,348

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 for bad or doubtful debts in respect of the amount owed by related parties.

**Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)**

14. Related party transactions (continued)

14.2 Transactions:

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

	2011	2010
	AED '000	AED '000
Rental income from investment property (Note 7)	3,300	3,300
Rental income from aircraft operating lease - associates	87,189	64,098
Management fees (Note 27)	6,851	4,266

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

14.3 Compensation of board of directors/key management personnel:

	2011	2010
	AED '000	AED '000
Short term benefits	10,025	12,865
Long term benefits	1,656	1,446
Board of Directors' remuneration	1,925	1,925

15. Bank balances and cash

	2011	2010
	AED '000	AED '000
Bank balances:		
Current accounts	144,516	51,913
Call deposits	25,294	31,242
Fixed deposits	1,171,483	1,758,542
Margin deposits	2,255	1,400
Total bank balances	1,343,548	1,843,097
Cash on hand	1,352	1,466
Total bank balances and cash	1,344,900	1,844,563
Less: Fixed deposits with maturity over 3 months	(1,171,483)	(1,004,634)
Margin deposits	(2,255)	(1,400)
Total cash and cash equivalents	171,162	838,529

**Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)**

15. Bank balances and cash (continued)

	2011 AED '000	2010 AED '000
Bank balances:		
In U.A.E.	1,300,090	1,839,800
In other countries	43,458	3,297
Total bank balances	1,343,548	1,843,097

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

16. Share capital

	2011 AED '000	2010 AED '000
Authorised and issued share capital (of 4,666,700 thousand shares of AED 1 each)	4,666,700	4,666,700

17. Statutory reserve

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

18. General reserve

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

**Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)**

19. Provision for employees' end of service indemnity

Movements in the net liability were as follows:

	2011 AED '000	2010 AED '000
Balance, at the beginning of the year	29,273	23,111
Amounts charged to income during the year	11,275	8,655
Amounts paid during the year	(3,561)	(2,493)
Balance, at the end of the year	36,987	29,273

20. Trade and other payables

	2011 AED '000	2010 AED '000
Trade payables	127,600	110,608
Accrued expenses	314,186	305,738
Lease deposit payables	16,221	23,526
Other payables	191,276	131,628
	649,283	571,500
Less: Amount due for settlement after 12 months (shown under non-current liabilities)	(42,425)	(30,104)
Amount due for settlement within 12 months	606,858	541,396

The average credit period on purchases of goods and services is 45 days (2010: 45 days). The Group has financial risk management policies in place to ensure that all payables are paid within the credit timeframe.

Other payables include an amount of AED 6,059 thousand (2010: AED 6,577 thousand) towards end of service indemnity liability pertaining to the employees who were transferred from Department of Civil Aviation and Sharjah Airport Authority, Sharjah, to the joint venture companies and is payable to them upon discontinuation of employment with the joint venture companies.

**Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)**

21. Finance lease liabilities

The Group has entered into a leasing arrangement with a leasing company registered in the Cayman Islands to finance the purchase of eight aircrafts. The term of the lease is 12 years and payment due under lease agreement are as follows:

	Minimum lease payment		Present value of minimum lease payment	
	2011	2010	2011	2010
	AED '000	AED '000	AED '000	AED '000
Not later than one year	96,451	23,077	68,896	16,085
Later than one year but not later than five year	385,810	92,310	297,729	69,657
Later than five years	627,070	161,542	567,436	144,646
	1,109,331	276,929	934,061	230,388
Less : Future finance costs	(175,270)	(46,541)	-	-
Present value of minimum lease payments	934,061	230,388	934,061	230,388

The finance charges will be calculated based on 3.2% (2010: 3.09%).

Included in the consolidated financial statements as:

Current portion of finance lease liabilities	68,896	16,085
Non-current portion of finance lease liabilities	865,165	214,303
	934,061	230,388

The finance lease liabilities are secured by the eight (2010: two) aircraft leased (Note 5).

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

**Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)**

22. Murabaha payable

The Murabaha payable is repayable as follows:

	2011 AED '000	2010 AED '000
On demand or within one year	32,285	-
In the second year	32,285	-
	64,570	-
Less: Amount due for settlement within 12 months (shown under current liabilities)	(32,285)	-
Less: Amount due for settlement after 12 months (shown under non-current liabilities)	32,285	-

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

23. Revenue

	2011 AED '000	2010 AED '000
Passenger revenue	2,192,788	1,895,724
Baggage revenue	33,607	31,147
Cargo revenue	53,251	45,603
Service revenue	21,669	9,392
Catering revenue	32,366	25,996
Flight handling revenue	34,211	35,876
Cargo handling revenue	31,833	33,430
Passenger services	10,605	11,287
Other operating income	20,292	13,302
Revenue from hotel operations	23,435	-
Sales commission and expenses	(19,397)	(11,020)
	2,434,660	2,090,737

**Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)**

24. Direct costs

	2011 AED '000	2010 AED '000
Staff costs	328,277	319,939
Aircraft lease rentals (Note 33.2.1)	133,232	225,141
Fuel	1,022,278	702,983
Aircraft maintenance expenses	222,534	210,154
Ground and technical handling charges	122,212	108,985
Landing and overflying charges	123,439	114,946
Insurance	19,768	17,273
Service costs	17,151	18,529
Depreciation of property and equipment	94,464	39,159
Other operating costs	21,549	21,952
	<u>2,104,904</u>	<u>1,779,061</u>

25. Selling and marketing expenses

	2011 AED '000	2010 AED '000
Staff costs	17,798	15,920
Advertisement expenses	10,949	9,991
Reservation management expenses	11,242	8,680
	<u>39,989</u>	<u>34,591</u>

26. General and administrative expenses

	2011 AED '000	2010 AED '000
Staff costs	45,477	39,482
Legal and professional fees	9,014	10,093
Travel and accommodation costs	3,309	2,267
Communication costs	3,081	2,775
Printing and stationery	1,713	1,492
Depreciation of property and equipment	9,852	5,570
Bad debts written off	2,533	-
Pre-opening expenses for Hotel	4,857	-
Other expenses	25,725	15,724
	<u>105,561</u>	<u>77,403</u>

**Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)**

27. Other income/(expenses)

	2011	2010
	AED '000	AED '000
Dividend income	-	214
Investment property income, net	5,076	2,550
Exchange rate variance	(2,417)	8,649
Impairment losses on available-for-sale investments	-	(3,473)
Management fees (Note 14)	6,851	4,266
Gain on disposal of available-for-sale investments	-	27,898
Share of net losses in associates	(5,801)	(37,940)
Unrealised loss on fuel derivatives (Note 28)	(6,621)	(871)
Gain on acquisition of investment property under progress	22,440	-
Other income/(expense)	19,507	(6,384)
	39,035	(5,091)

28. Derivative financial instruments

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

At 31 December 2011, the change in fair value of these derivatives amounting to AED 6,621 thousand (2010: AED 871 thousand) which has been taken to the consolidated profit and loss for the year ended 31 December 2011 with a corresponding current asset of AED 26,625 thousand (2010: AED 20,417 thousand) and non-current asset of AED 2,566 thousand (2010: AED 15,395 thousand) where contract expires after 12 months from the end of reporting date.

29. Profit for the year

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

	2011	2010
	AED '000	AED '000
Staff costs	394,052	375,341
Depreciation of property and equipment	104,316	44,729
Depreciation of investment properties	750	750
Amortisation of deferred charges	7,575	9,969

**Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)**

30. Basic earnings per share

	2011	2010
Profit for the year (in AED '000)	<u>269,071</u>	<u>305,789</u>
Number of shares (in thousand)	<u>4,666,700</u>	<u>4,666,700</u>
Basic earnings per share (AED)	<u>0.06</u>	<u>0.07</u>

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

31. Investment in associates

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

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

**Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)**

32. Joint Ventures

32.1 The Group has interest in the following joint ventures:

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

The Group has exited from Yeti Airways International Pvt. Kathmandu, Nepal. The account balances in respect of this joint venture are under settlement as of the reporting date.

The Group has entered into a joint venture agreement with the Jordanian Travel and Tourism Company, Tantash for the formation of Air Arabia Jordan, a low-cost carrier based in Jordan. As of the reporting date, commercial operations of this Company have not started yet.

**Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)**

32. Joint ventures (continued)

32.2 Financial performance of joint ventures

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

	2011 AED '000	2010 AED '000
Current assets	44,775	48,785
Non-current assets	40,024	41,362
Current liabilities	17,650	24,554
Non-current liabilities	11,551	11,138
Income	98,294	106,981
Expenses	71,951	82,988

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

	2011 AED '000	2010 AED '000
Information Systems Associates (FZC), U.A.E	992	299
Sharjah Aviation Services (L.L.C.), U.A.E.	18,758	19,521
Alpha Flight Services U.A.E. L.L.C., U.A.E.	6,593	7,173
Alpha Aviation Academy U.A.E. L.L.C., U.A.E.	-	(3,000)
	26,343	23,993

**Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)**

33. Operating lease arrangements

33.1 Where the Group is a lessee:

	2011 AED '000	2010 AED '000
Minimum lease payment under operating leases (excluding variable lease rental on the basis of flying hours) recognised in profit and loss for the year	215,172	279,814

33.1.1 The fixed lease commitments against 18 (2010: 20) delivered aircraft were as follows:

	2011 AED '000	2010 AED '000
Within one year	248,465	285,271
In the second to fifth years inclusive	354,087	595,509
After five years	-	7,043
	602,552	887,823

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

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

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

**Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)**

33. Operating lease arrangements (continued)

33.2 Where the Group is a lessor:

The Group has leased out 5 (2010: 6) aircraft under non-cancellable operating lease agreements to related parties.

33.2.1 Minimum lease payments:

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

	2011 AED '000	2010 AED '000
Within one year	66,705	83,887
In the second to fifth years inclusive	107,294	164,166
	<u>173,999</u>	<u>248,053</u>

The lease income amounting to AED 87,189 thousand (2010: AED 64,098 thousand) has been setoff with lease expenses in the profit and loss (Note 24).

The Group leased out 2 aircraft (2010: 3 aircraft) owned by the Group under operating leases (where the Group is the lessor) and the details as at reporting date are as follows:

	2011 AED '000	2010 AED '000
Net book value	<u>246,098</u>	<u>403,066</u>
Accumulated depreciation	<u>68,739</u>	<u>75,216</u>
Depreciation charge for the year	<u>18,655</u>	<u>27,696</u>

**Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)**

34. Contingent liabilities

	2011	2010
	AED '000	AED '000
Letters of credit	64,147	74,636
Letters of guarantee	13,944	14,575

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

35. Capital commitments

35.1 The Group has entered into the following capital commitments:

	2011	2010
	AED '000	AED '000
<i>35.1.1 Authorised and contracted:</i>		
Aircraft fleet (Note 35.2)	10,373,714	12,033,882
Investment in an associate	-	34,921
Hotel project	-	7,703
Simulator project	-	42,945
Others	23,638	1,383
	10,397,352	12,120,834

35.1.2 Authorised but not contracted:

Aircraft fleet (Note 35.2)	1,422,807	1,422,807
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35.2 Aircraft fleet

The Group has entered into a contract with Airbus S.A.S. for the purchase of 34 Airbus A320 aircraft and there was an option in the contract to purchase 15 aircraft from Airbus, out of which, the Group has exercised the option of purchasing 10 aircraft. The total value of the 36 aircraft order was approximately USD 2.9 billion (AED: 11 billion) (31 December 2010: 42 aircrafts, USD 3.5 billion (AED 12.6 billion)) at list prices subject to adjustment in accordance with the Airbus price revision formula. As per the contract, 20% of the purchase price of 36 (2010: 42) aircraft is payable over the next four years, with the balance being due on delivery.

**Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)**

36. Capital risk management

36.1 Objectives and management of capital risk

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

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

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

37. Financial instruments

37.1 Significant accounting policies

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

37.2 Categories of financial instruments and others

31 December 2011

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

**Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)**

37. Financial instruments (continued)

37.2 Categories of financial instruments and others (continued)

31 December 2010

Assets	Financial assets		Non-financial assets	Total
	Loans and receivables	Available- for-sale		
	AED '000	AED '000	AED '000	AED '000
Bank balances and cash	1,844,563	-	-	1,844,563
Trade and other receivables	535,665	-	26,360	562,025
Due from related parties	28,435	-	-	28,435
Inventories	-	-	6,437	6,437
Available-for-sale investments	-	756,395	-	756,395
Aircraft lease deposits	34,216	-	-	34,216
Deferred charges	-	-	18,042	18,042
Goodwill	-	-	189,474	189,474
Intangible assets	-	-	1,092,347	1,092,347
Investment properties	-	-	49,352	49,352
Advance for new aircraft	-	-	593,213	593,213
Property and equipment	-	-	1,195,499	1,195,499
Total assets	2,442,879	756,395	3,170,724	6,369,998

31 December 2011

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

**Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)**

37. Financial instruments (continued)

37.2 Categories of financial instruments and others (continued)

31 December 2010

Liabilities and equity	Financial liabilities	Non-financial liabilities	Total
	At amortised cost		
	AED '000	AED '000	AED '000
Finance lease liabilities	230,388	-	230,388
Trade and other payables	571,500	-	571,500
Deferred income	-	148,560	148,560
Due to related parties	13,348	-	13,348
Provision for employees' end of service indemnity	-	29,273	29,273
Capital and reserves	-	5,376,929	5,376,929
Total liabilities and equity	815,236	5,554,762	6,369,998

37.3 Fair values

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

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

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

**Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)**

37. Financial instruments (continued)

37.3 Fair values (continued)

37.3.2 Fair value analysis

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

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

31 December 2011

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

31 December 2010

	<u>Level 1</u> <u>AED '000</u>	<u>Level 2</u> <u>AED '000</u>	<u>Level 3</u> <u>AED '000</u>	<u>Total</u> <u>AED '000</u>
Derivative financial instruments	-	35,812	-	35,812
Available-for-sale investments				
Quoted investments	11,003	-	-	11,003
Unquoted investments	-	745,392	-	745,392
	<u>11,003</u>	<u>781,204</u>	<u>-</u>	<u>792,207</u>

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

**Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)**

37. Financial instruments (continued)

37.4 Financial risk management objectives

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

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

37.4.1 Market risk

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

Market risk exposures are measured using sensitivity analysis.

37.4.2 Foreign currency risk management

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

37.4.2.1 Aircraft lease foreign currency exchange rate risk

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

37.4.3 Bank profit rate risk management

The Group's exposure to profit rate risk relate to its deposits with banks, other unquoted investments, murabaha payable and finance lease liabilities. At 31 December 2011, deposits carried a profit rate of 3.5% to 4% per annum (31 December 2010: 3.5% to 5.75% per annum) and murabaha payable and finance lease liabilities carried profit rate of 3.2% per annum (2010: 3.09% per annum).

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

If profit rates had been 50 basis points higher/lower and all other variables were held constant, the Group's profit for the year ended 31 December 2011 would decrease/increase by AED 452 thousand (31 December 2010: AED 578 thousand).

The Group's sensitivity to interest rate has not changed significantly from the prior year.

37.4.4 Fuel price risk

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

**Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)**

37. Financial instruments (continued)

37.4 Financial risk management objectives (continued)

37.4.5 Equity price risk

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

Equity price sensitivity analysis

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

If equity prices had been 5% higher/lower, equity reserves would increase/decrease by AED 0.3 million (31 December 2010: AED 0.6 million) for the Group as a result of the changes in fair value of available-for-sale investments.

37.4.6 Credit risk management

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

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

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

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

37.4.7 Liquidity risk management

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

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

**Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)**

37. Financial instruments (continued)

37.4 Financial risk management objective (continued)

37.4.7 Liquidity risk management (continued)

37.4.7.1 Financial assets

31 December 2011

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

31 December 2010

	<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 '000	AED '000	AED '000	AED '000	AED '000	AED '000
Bank balances and cash	710,710	129,219	1,004,634	-	-	1,844,563
Trade and other receivables	92,526	60,114	367,630	15,395	-	535,665
Due from related parties	28,435	-	-	-	-	28,435
Available-for-sale investments	-	-	-	756,395	-	756,395
Aircraft lease deposits	-	-	1,985	25,124	7,107	34,216
Total financial assets	831,671	189,333	1,374,249	796,914	7,107	3,199,274

**Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)**

37. Financial instruments (continued)

37.4 Financial risk management objective (continued)

37.4.7 Liquidity risk management (continued)

37.4.7.2 Financial liabilities

31 December 2011

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

31 December 2010

	<u>Upto 1 month</u> AED '000	<u>1 month - 3 months</u> AED '000	<u>3 months 1 year</u> AED '000	<u>1 year - 5 years</u> AED '000	<u>Above 5 years</u> AED '000	<u>Total</u> AED '000
Trade and other payables	88,465	267,267	185,665	30,103	-	571,500
Finance lease liabilities	-	3,956	12,129	69,657	144,646	230,388
Due to related parties	13,348	-	-	-	-	13,348
Total financial liabilities	101,813	271,223	197,794	99,760	144,646	815,236

**Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)**

38. Segment information

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

38.1 Primary reporting format - business segments

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

**Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)**

38. Segment information (continued)

38.1 Primary reporting format – business segments (continued)

Year ended 31 December 2010	<u>Airline</u> AED '000	<u>Other segments</u> AED '000	<u>Eliminations</u> AED '000	<u>Total</u> AED '000
Revenue				
External sales	1,970,084	14,415	-	1,984,499
Inter-segment sales	-	6,946	(6,946)	-
	<u>1,970,084</u>	<u>21,361</u>	<u>(6,946)</u>	<u>1,984,499</u>
Result				
Segment result	169,469	7,608	-	177,077
Share of losses in associates				(37,940)
Share of results in joint ventures				23,993
Finance costs	(601)			(601)
Other income				147,030
				<u>309,559</u>
Profit for the year				
Other information				
Additions to property and equipment	467,139	1,799	-	468,938
Addition to deferred charges	1,263	-	-	1,263
Depreciation	39,095	408	-	39,503
Amortisation	9,689	-	-	9,689
31 December 2010				
Assets				
Segment assets	<u>3,700,403</u>	<u>28,429</u>	<u>(3,819)</u>	<u>3,725,013</u>
Unallocated Group assets				<u>2,644,985</u>
Total assets				<u>6,369,998</u>
Liabilities				
Segment liabilities	<u>944,667</u>	<u>12,710</u>	<u>(3,819)</u>	<u>953,558</u>
Unallocated Group liabilities				<u>39,511</u>
Total liabilities				<u>993,069</u>

**Notes to the consolidated financial statements
for the year ended 31 December 2011 (continued)****38. Segment information (continued)***38.2 Segment accounting policies*

Inter-segment sales are charged at prevailing market prices.

The accounting policies of the reportable segments are the same as the Group's accounting policies described in Note 3 to the consolidated financial statements. Segment revenue does not include the Group's share of external revenue of joint ventures, amounting to AED 98,294 thousand (2010: AED 106,981 thousand), and the revenue from hotel operations amounting to AED 23,435 (2010: Nil) as the share of their revenue have been disclosed separately as unallocated under segment result. Segment result represents the profit earned by each segment without considering unallocated costs, shares of profits in joint ventures, share of losses in associates, profit from bank deposits, loss and other income. Segment assets do not include fixed deposits, available-for-sale investments, buildings, apartments and investment properties and the Group's share of assets in joint ventures and associates. Goodwill and intangible assets have been allocated to Airline segment (Notes 8 and 9). Segment liabilities do not include Group's share of liabilities in joint ventures.

39. Dividend

During 2011, a dividend of AED 8 fils per share (2010: AED 10 fils) was paid to the Shareholders.

The Directors propose that a dividend of AED 210,001,500, AED 4.5 fils per share (2010: AED 373,336,000, AED 8 fils per share) will be paid to the Shareholders in 2012. 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.

40. Approval of consolidated financial statements

The consolidated financial statements were approved by the Board of Directors and authorised for issue on 25 February 2012.