

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

**CONSOLIDATED INTERIM FINANCIAL INFORMATION
AND REVIEW REPORT
FOR THE PERIOD FROM INCEPTION TO
SEPTEMBER 30, 2007**

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

**Consolidated Interim Financial Information and
Review Report
For the Period From Inception to September 30, 2007**

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Report on Review of Consolidated Interim Financial Information

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

Introduction

We have reviewed the accompanying consolidated balance sheet of **Air Arabia P.J.S.C. (Air Arabia) and Subsidiary, Sharjah, United Arab Emirates**, as of September 30, 2007 and the related consolidated statements of income, changes in equity and cash flows for the period from inception to September 30, 2007 and a summary of significant accounting policies and other explanatory notes. Management is responsible for the preparation and fair presentation of this consolidated interim financial information in accordance with International Financial Reporting Standards. Our responsibility is to express a conclusion on this consolidated interim financial information based on our review.

Scope of Review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying consolidated interim financial information does not present fairly, in all material respects, the consolidated financial position of **Air Arabia P.J.S.C. (Air Arabia) and Subsidiary**, as of September 30, 2007 and its financial performance and its cash flows for the period from inception to September 30, 2007 in accordance with International Financial Reporting Standards.

Emphasis of Matter

We draw attention to Note 4 to the consolidated interim financial information. At this stage Air Arabia P.J.S.C. (Air Arabia) has not recognised fair values of investment property, property and equipment and separately identifiable intangible assets. As a result, the remaining value attributable to goodwill cannot be determined in final form and an impairment test on goodwill cannot be performed. Adjustments to the provisional values will be recognised within twelve months of the transfer date as allowed by IFRS 3 "Business Combinations" and an impairment test on the carrying value of goodwill will also be performed at that stage.

Sharjah
October 31, 2007

For Deloitte & Touche



Anis F. Sadek
Partner
(Registration No. 521)

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

**Consolidated Balance Sheet
At September 30, 2007
(In Arab Emirates Dirhams)**

	<u>Notes</u>	<u>September 30, 2007</u> <u>Unaudited</u>
ASSETS		
Current assets		
Cash and cash equivalents	6	3,549,138,103
Trade and other receivables	7	97,244,986
Due from a related party	8	280,649
Total current assets		3,646,663,738
Non-current assets		
Available-for-sale investments		24,686,204
Aircraft lease deposits		23,116,225
Deferred charges	9	18,270,697
Goodwill and other intangible assets	10	1,320,860,299
Investment property	11	12,750,000
Property and equipment	12	105,783,638
Total non-current assets		1,505,467,063
Total Assets		5,152,130,801
LIABILITIES AND EQUITY		
Current liabilities		
Trade and other payables	13	126,047,635
Deferred income		83,822,759
Due to related parties	8	1,329,026
Total current liabilities		211,199,420
Non-current liabilities		
Due to a related party	8	3,000,000
Provision for employees' end of service indemnity	14	7,449,139
Total non-current liabilities		10,449,139
Total Liabilities		221,648,559
Capital and reserves		
Share capital	15	4,666,700,000
Investment revaluation reserve		(572,449)
Retained earnings		264,354,691
Total Equity		4,930,482,242
Total Liabilities and Equity		5,152,130,801

The accompanying notes form an integral part of this consolidated interim financial information.

The consolidated interim financial information on pages 2 to 37 were approved by the Board of Directors and authorised for issue on October 31, 2007.


Chairman


Chief Executive Officer


Director of Finance

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Sharjah - United Arab Emirates

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

**Consolidated Statement of Income
For the period from inception to September 30, 2007
(In Arab Emirates Dirhams)**

	<u>Notes</u>	Period from inception to September 30, 2007 Unaudited
Revenue	16	431,299,659
Cost of sales	17	(277,557,377)
Gross profit		153,742,282
Selling and marketing costs	18	(11,289,794)
General and administrative expenses	19	(15,917,287)
Operating profit		126,535,201
Interest income on bank deposits		52,070,753
Other income	20	<u>9,809,908</u>
Profit for the period	21	188,415,862 =====
Basic earnings per share	22	0.04 =====

The accompanying notes form an integral part of this consolidated interim financial information.

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

**Consolidated Statement of Changes in Equity
For the period from inception to September 30, 2007
(In Arab Emirates Dirhams)**

	<u>Share capital</u>	<u>Investments revaluation reserve</u>	<u>Retained earnings</u>	<u>Total</u>
Share capital introduced	<u>4,666,700,000</u>	<u>-</u>	<u>-</u>	<u>4,666,700,000</u>
Pre-incorporation profit directly recognised in equity (see Note 23)	-	-	75,938,829	75,938,829
Loss on available-for-sale investments directly recognised in equity	-	(572,449)	-	(572,449)
Profit for the period	<u>-</u>	<u>-</u>	<u>188,415,862</u>	<u>188,415,862</u>
Total recognised income and expense for the period	<u>-</u>	<u>(572,449)</u>	<u>264,354,691</u>	<u>263,782,242</u>
Balance at September 30, 2007 (Unaudited)	<u>4,666,700,000</u> =====	<u>(572,449)</u> =====	<u>264,354,691</u> =====	<u>4,930,482,242</u> =====

The accompanying notes form an integral part of this consolidated interim financial information.

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

**Consolidated Statement of Cash Flows
For the period from inception to September 30, 2007
(In Arab Emirates Dirhams)**

	<u>Notes</u>	Period from inception to September 30, 2007 <u>Unaudited</u>
Operating activities		
Profit for the period		188,415,862
Adjustment for:		
Depreciation of property and equipment		1,557,280
Depreciation of investment property		210,417
Amortisation of deferred charges		7,929,225
Provision for employees' end of service indemnity		761,588
Interest income		(52,070,753)
Rental income		(841,667)
Operating cash flows before movements in working capital		145,961,952
Decrease in trade and other receivables		1,846,274
Decrease in due from a related party		3,263,526
Decrease in aircraft lease deposits		2,364,032
Increase in trade and other payables		11,884,915
Decrease in deferred income		(47,157,607)
Decrease in due to related parties		(111,812,040)
Cash generated from operations		6,351,052
Employees' end of service indemnity paid		(197,753)
Net cash from operating activities		<u>6,153,299</u>
Investing activities		
Purchase of property and equipment		(37,484,746)
Increase in deferred charges		(15,159,376)
Interest received		52,070,753
Rental income		841,667
Pre-incorporation profit	23	<u>75,938,829</u>
Net cash from investing activities		<u>76,207,127</u>
Financing activities		
Share capital received in cash	15	<u>3,266,700,000</u>
Cash from financing activities		<u>3,266,700,000</u>
Net increase in cash and cash equivalents		3,349,060,426
Cash and cash equivalents acquired at June 19, 2007	4	<u>200,077,677</u>
Cash and cash equivalents at the end of the period	6	<u>3,549,138,103</u> =====

The accompanying notes form an integral part of this consolidated interim financial information.

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

Notes to the Consolidated Interim Financial Information For the period from inception to September 30, 2007

1. General information

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

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

The assets and the liabilities of Air Arabia Company L.L.C. (Air Arabia) as of June 19, 2007 were transferred to Air Arabia P.J.S.C. (Air Arabia) as an in-kind contribution for 30% interest (see Note 4).

The Company was incorporated on June 19, 2007 and accordingly comparatives are not presented in this interim financial information.

2. Significant accounting policies

Statement of compliance

The consolidated interim financial information is prepared in accordance with the International Financial Reporting Standards.

Basis of preparation

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

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

**Notes to the Consolidated Interim Financial Information (continued)
For the period from inception to September 30, 2007**

2. Significant accounting policies (continued)

Basis of consolidation

The consolidated interim financial information of Air Arabia P.J.S.C. (Air Arabia) and Subsidiary (the "Group") incorporate the interim financial information 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 period are included in the profit or loss from the effective date of acquisition or up to the effective date of disposal, as appropriate.

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

Subsidiary

Details of the Company's subsidiary at September 30, 2007 is as follows:

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

Interests in joint venture

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

Where a group entity undertakes its activities under joint venture arrangements directly, the Group's share of jointly controlled assets and any liabilities incurred jointly with other venturers are recognised in the financial information 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.

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

**Notes to the Consolidated Interim Financial Information (continued)
For the period from inception to September 30, 2007**

2. Significant accounting policies (continued)

Interests in joint venture (continued)

Joint venture arrangements that involve the establishment of a separate entity in which each venturer has an interest are referred to as jointly controlled entities. The Group reports its interests in jointly controlled entities using proportionate consolidation, except when the investment is classified as held for sale, in which case it is accounted for under IFRS 5: Non-current Assets Held for Sale and Discontinued Operations. The Group's share of the assets and liabilities, of jointly controlled entities are combined with the equivalent items in the consolidated interim financial information on a line-by-line basis.

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

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for services provided in the normal course of business, net of discounts.

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.

Dividend and interest revenue

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

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

Rental income

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

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

**Notes to the Consolidated Interim Financial Information (continued)
For the period from inception to September 30, 2007**

2. Significant accounting policies (continued)

Leasing

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

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

Foreign currencies

Transactions in currencies other than the Group's functional currency (foreign currencies) are recorded at the rates of exchange prevailing at the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognised in profit or loss in the period in which they arise except for:

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

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

**Notes to the Consolidated Interim Financial Information (continued)
For the period from inception to September 30, 2007**

2. Significant accounting policies (continued)

Provision for employees' end of service indemnity

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

Defined contribution plan

UAE national employees of the Group are members of the Government-managed retirement pension and social security benefit scheme pursuant to Federal Labor Law No. 7 of 1999. The Group is required to contribute 12.5% of the "contribution calculation salary" of payroll costs to the retirement benefit scheme to fund the benefits. These employees are also required to contribute 5% of the "contribution calculation salary" to the scheme. The only obligation of the Group with respect to the retirement pension and social security scheme is to make the specified contributions. The contributions are charged to the profit or loss.

Statutory reserve

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

Property and equipment

Land granted by the Government of Sharjah is stated at a nominal value of AED 1.

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

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

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

The gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

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

**Notes to the Consolidated Interim Financial Information (continued)
For the period from inception to September 30, 2007**

2. Significant accounting policies (continued)

Investment property

Investment property is accounted under the cost model of IAS 40. Investment property is stated at cost less accumulated depreciation and any identified impairment loss. Depreciation is charged so as to write off the cost of investment property, other than land, over the estimated useful lives of 20 years, using the straight-line method. Land granted by the Government of Sharjah on which investment property is constructed is stated at a nominal value of AED 1.

Government grants

Land granted by the government is recognised at nominal value where there is reasonable assurance that the land will be received and the Group will comply with any attached conditions, where applicable. Grants related to income, which reduce operating costs, are presented as credits in the profit or loss.

Deferred charges

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

Intangible assets acquired in a business combination

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

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

Goodwill

Goodwill is initially measured at cost. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment annually, or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

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

**Notes to the Consolidated Interim Financial Information (continued)
For the period from inception to September 30, 2007**

2. Significant accounting policies (continued)

Impairment of tangible and intangible assets excluding goodwill

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

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

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

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.

Provisions

Provisions are recognised when the Group has a present obligation 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.

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

**Notes to the Consolidated Interim Financial Information (continued)
For the period from inception to September 30, 2007**

2. Significant accounting policies (continued)

Provisions (continued)

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

Aircraft maintenance

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

Financial assets

Trade receivables

Trade receivables are measured at fair value. Appropriate allowances for estimated irrecoverable amounts are recognised in profit or loss when there is an objective evidence that the asset is impaired.

Aircraft lease deposits

Aircraft lease deposits are measured at fair value.

Due from a related party

Balance due from a related party is measured at fair value.

Investments

Investments are recognised and derecognised on a trade date basis where the purchase or sale of an investment is under a contract whose terms require delivery of the investment within the timeframe established by the market concerned, and are initially measured at fair value, plus directly attributable transaction costs.

Investments of the Group are classified as available-for-sale (AFS).

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

**Notes to the Consolidated Interim Financial Information (continued)
For the period from inception to September 30, 2007**

2. Significant accounting policies (continued)

Financial assets (continued)

AFS financial assets

AFS financial assets are stated at fair value. Gains and losses arising from the changes in the fair value are recognised directly in the equity in the investments revaluation reserve with the exception of impairment losses. Where the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously recognised in the investments revaluation reserve is included in profit or loss.

Impairment of financial assets

Financial assets are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted. For financial assets carried at amortised cost, if any, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

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 uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

Fair value of financial instruments

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

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

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

**Notes to the Consolidated Interim Financial Information (continued)
For the period from inception to September 30, 2007**

2. Significant accounting policies (continued)

Financial assets (continued)

Cash and cash equivalents

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

Financial liabilities

Trade payables

Trade payables are measured at fair value.

Deferred income

Deferred income comprising flight seats sold to be flown within a year is measured at fair value.

Due to related parties

Balances due to related parties are measured at fair value.

Derivative financial instruments

Derivative financial instruments are initially recognised at fair value at the date a derivative contract is entered into and subsequently remeasured at their fair value. Derivatives are designated either as a hedge of the fair value of a recognised asset or liability or of a firm commitment (fair value hedge) or a hedge of the exposure to variability in cash flows that is attributable to a particular task associated with a recognised asset or liability or a highly probable forecast transaction (cash flow hedge). Fair values are obtained from quoted market prices, discounted cash flow models and option pricing models as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

The Group's criteria to account for a derivative financial instrument as a hedge include:

- formal documentation of the hedging instruments, hedged items, hedging objective, strategy and basis of measuring effectiveness all of which are prepared prior to applying hedge accounting; and
- documentation showing that the hedge effectiveness is assessed on an ongoing basis and is determined to have been highly effective in offsetting the risk of the hedged item throughout the reporting period.

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

**Notes to the Consolidated Interim Financial Information (continued)
For the period from inception to September 30, 2007**

2. Significant accounting policies (continued)

Derivative financial instruments (continued)

Changes in the fair value of derivatives that are designated and qualify as fair value hedges and that are highly effective, are recorded in the profit or loss, along with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. This accounting treatment is discontinued when the fair value hedging instrument expires or is sold, terminated or exercised, or the hedge no longer meets the criteria for hedge accounting.

Changes in the fair value of derivatives that are designated and qualify as cash flow hedges and that prove to be highly effective in relation to the hedged risk, are recognised in the fair value reserve in equity. When the forecasted transaction results in the recognition of an asset or of a liability, the gains and losses previously deferred in equity are transferred from equity and recognised in profit or loss in the same period during which the asset or liability affects profit or loss. In all other cases, amounts deferred in equity are transferred to the profit or loss in the period during which the forecasted transaction affects the consolidated statement of income.

When a cash flow hedging instrument expires or is sold, terminated or exercised, or when a hedge no longer meets the criteria for hedge accounting under IAS 39, any cumulative gain or loss existing in equity at that time is retained in equity and is ultimately recognised in the profit or loss when the forecasted transaction occurs. If a forecasted transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the profit or loss. The gain or loss on the ineffective portion is recognised in the profit or loss.

3. Standards and Interpretations in issue but not yet effective

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

IFRS 8	Operating Segments (effective January 1, 2009)
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IFRS 8 replaces IAS 14 *Segment Reporting*. It extends the scope of segment reporting to include entities that hold assets in a fiduciary capacity for a broad group of outsiders as well as entities whose equity or debt securities are publicly traded and entities that are in the process of issuing equity or debt securities in public securities markets.

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

**Notes to the Consolidated Interim Financial Information (continued)
For the period from inception to September 30, 2007**

3. Standards and Interpretations in issue but not yet effective (continued)

IFRIC 12	Service Concession Arrangements (effective for annual periods beginning on or after January 1, 2008).
IFRIC 13	Customer Loyalty Programmes (effective for annual periods beginning on or after and July 1, 2008).
IFRIC 14	IAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their interaction (effective for annual periods beginning on or after January 1, 2008).
IAS 1 (Revised)	Presentation of Financial Statements; comprehensive revision including requiring a statement of comprehensive income (effective for annual periods beginning on or after 1 January 2009).
IAS 23 (Revised)	Borrowing Costs; borrowing costs relating to qualifying assets for which the commencement date for capitalisation is on or after January 1, 2009.

The Management anticipates that the adoption of these Standards and Interpretations (where applicable) in future periods will have no material impact on the consolidated interim financial information of the Group.

4. Business combination

At June 19, 2007, assets and liabilities of Air Arabia Company L.L.C. (Air Arabia) and Subsidiary were transferred to the Company as an in-kind contribution for 30% interest in the Company with amount of AED 1,400,000,000 (see Note 15). The Company has provisionally recorded such assets and liabilities at the value they were carried in the books of Air Arabia Company L.L.C. (Air Arabia) at the date of transfer, as summarised below:

	June 19, 2007
	AED
Cash and cash equivalents	200,077,677
Trade and other receivables	99,091,260
Due from related parties	3,544,175
Available-for-sale investments	25,258,653
Deferred charges	11,040,546
Aircraft lease deposits	25,480,257
Investment property	12,960,417
Property and equipment	<u>69,856,172</u>
Total assets	447,309,157
Trade and other payables	(114,162,720)
Deferred income	(130,980,366)
Due to related parties	(116,141,066)
Provision for employees' end of service benefits	<u>(6,885,304)</u>
Book value of net assets acquired (see Note 10)	79,139,701
	=====

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

**Notes to the Consolidated Interim Financial Information (continued)
For the period from inception to September 30, 2007**

4. Business combination (continued)

At this stage Air Arabia P.J.S.C. (Air Arabia) has not recognised fair values of investment property, property and equipment and separately identifiable intangible assets. As a result, the remaining value attributable to goodwill cannot be determined in final form and an impairment test on goodwill cannot be performed. Adjustments to the provisional values will be recognised within twelve months of the transfer date as allowed by IFRS 3 “Business Combinations” and an impairment test on the carrying value of goodwill will also be performed at that stage.

5. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group’s accounting policies, which are described in Note 2, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

Critical judgements in applying accounting policies

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

Classification of investments

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

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

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

**Notes to the Consolidated Interim Financial Information (continued)
For the period from inception to September 30, 2007**

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

Impairment of financial assets

The Group determines whether available-for-sale investments are impaired when there has been a significant or prolonged decline in their fair value below cost. This determination of what is significant or prolonged requires judgment. In making this judgment 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.

Goodwill and other intangible assets

The Company is in the process of arriving at the value of goodwill after recognising the fair values of investment property, property and equipment and separately identifiable intangible assets. Accordingly, impairment test on goodwill is not performed along with the amortisation for separately identifiable intangible assets. Adjustments to the provisional values will be recognised within twelve months of the transfer date as allowed by IFRS 3 “Business Combinations” and an impairment test on the carrying value of goodwill will also be performed at that stage.

Key sources of estimation uncertainty

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

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

**Air Arabia P.J.S.C. (Air Arabia) and Subsidiary
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**Notes to the Consolidated Interim Financial Information (continued)
For the period from inception to September 30, 2007**

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

Key sources of estimation uncertainty (continued)

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

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

Ground handling, landing and parking charges

The value of all ground handling, landing and parking charges in Sharjah International Airport, that have been waived, has been estimated by management based on the number of flights during the period, available rates, and other related data.

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 over flying charges are estimated based on the agreement entered with each country. Actual charges may differ from the charges accrued and the differences are accounted for on a prospective basis.

Property and equipment

The cost of property and equipment is depreciated over the estimated useful life, which is based on expected usage of the asset, expected physical wear and tear, the repair and maintenance program and technological obsolescence arising from changes and the residual value. The management has not considered any residual value as it is deemed immaterial.

Deferred charges

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

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

**Notes to the Consolidated Interim Financial Information (continued)
For the period from inception to September 30, 2007**

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

Impairment of trade receivables

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

6. Cash and cash equivalents

	September 30, 2007
	Unaudited AED
Cash on hand	376,415
Bank balances:	
Current accounts	26,977,828
Call deposits	14,043,892
Short term deposits	<u>3,507,739,968</u>
	3,549,138,103
	=====

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

**Notes to the Consolidated Interim Financial Information (continued)
For the period from inception to September 30, 2007**

7. Trade and other receivables

	September 30, 2007 <u>Unaudited</u> AED
Trade receivables	74,818,622
Prepaid expenses	15,168,643
Advances and other receivables	<u>7,257,721</u>
	 97,244,986 =====

8. Related party transactions

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

	September 30, 2007 <u>Unaudited</u> AED
Due from a related party:	
Sharjah Airport Authority - U.A.E.	280,649 =====
Due to related parties:	
Current	
Sharjah Airport International Free Zone - U.A.E. (see Note 11)	329,851
Alpha Airport Group PLC, United Kingdom	<u>999,175</u>
	 1,329,026 =====
Non - current	
Sharjah Airport International Free Zone - U.A.E. (see Note 11)	3,000,000 =====

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 period for bad or doubtful debts in respect of the amount owed by a related party.

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

**Notes to the Consolidated Interim Financial Information (continued)
For the period from inception to September 30, 2007**

8. Related party transactions (continued)

Transactions:

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

	Period from inception to September 30, 2007
	Unaudited AED
Rental income	841,667

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

The Company has obtained a waiver letter from Sharjah Airport Authority for all ground handling, landing and parking charges due for the period from inception of the Company to December 31, 2007. The waived charges for the period from June 20, 2007 to September 30, 2007 were valued at AED 8,504,017 (see Note 20). The Group's Head Office is located in premises provided free of charge by Sharjah Airport Authority.

Compensation of board of directors/key management personnel:

	Period from inception to September 30, 2007
	Unaudited AED
Short term benefits	489,603
Long term benefits	440,219

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

**Notes to the Consolidated Interim Financial Information (continued)
For the period from inception to September 30, 2007**

9. Deferred charges

	<u>Aircraft upgrade costs</u> AED	<u>Landing permission charges</u> AED	<u>Computer software</u> AED	<u>Total</u> AED
<i>Cost</i>				
Transferred from Air Arabia Company L.L.C. (Air Arabia)	11,962,325	10,444,001	954,567	23,360,893
Additions during the period	<u>275,625</u>	<u>14,883,751</u>	<u>-</u>	<u>15,159,376</u>
At September 30, 2007 (Unaudited)	<u>12,237,950</u>	<u>25,327,752</u>	<u>954,567</u>	<u>38,520,269</u>
<i>Amortisation/Impairment</i>				
Transferred from Air Arabia Company L.L.C. (Air Arabia)	5,011,220	6,936,398	372,729	12,320,347
Charge for the period	<u>625,946</u>	<u>7,228,541</u>	<u>74,738</u>	<u>7,929,225</u>
At September 30, 2007 (Unaudited)	<u>5,637,166</u>	<u>14,164,939</u>	<u>447,467</u>	<u>20,249,572</u>
<i>Carrying amount</i>				
At September 30, 2007 (Unaudited)	<u>6,600,784</u>	<u>11,162,813</u>	<u>507,100</u>	<u>18,270,697</u>

10. Goodwill and other intangible assets

Goodwill and other intangible assets comprise excess of fair value of Air Arabia Company L.L.C. (Air Arabia) and Subsidiary over book value of net assets acquired by the Company as follows:

	<u>September 30, 2007</u> Unaudited AED
Total fair value of Air Arabia Company L.L.C. (Air Arabia)	1,400,000,000
Book value of net assets acquired, as above (see Note 4)	(79,139,701)
Goodwill and other intangible assets	<u>1,320,860,299</u>

The fair value of Air Arabia Company L.L.C. (Air Arabia) was approved by the Ministry of Economy, United Arab Emirates on February 27, 2007 and by the Shareholders of Air Arabia P.J.S.C. (Air Arabia) in the Founding General Meeting held on May 17, 2007.

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

**Notes to the Consolidated Interim Financial Information (continued)
For the period from inception to September 30, 2007**

10. Goodwill and other intangible assets (continued)

As explained in Note 4, adjustments to provisionally recognised value will be finalised within twelve months of the date of business combination and an impairment test on the carrying values of goodwill will also be performed at that stage.

11. Investment property

	<u>Amount</u> Unaudited AED
<i>Cost</i>	
Transferred from Air Arabia Company L.L.C. (Air Arabia)	<u>15,000,000</u>
<i>Accumulated depreciation</i>	
Transferred from Air Arabia Company L.L.C. (Air Arabia)	2,039,583
Charge for the period	<u>210,417</u>
At September 30, 2007	<u>2,250,000</u>
<i>Carrying amount</i>	
At September 30, 2007	<u>12,750,000</u> =====

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 recognised at nominal value of AED 1.

The construction of the building was financed by Sharjah Airport International Free Zone, a related party and later the building was leased to this related party by Air Arabia Company L.L.C. (Air Arabia) for a period of 50 years from October 1, 2004 at an annual rent of AED 3 million for the first five years and at AED 3.3 million annually for the balance of forty five years. The finance obtained from this related party for the building construction amounting to AED 15 million, was bridged with rental receipts of AED 15 million receivable from them for the first five years of the lease by Air Arabia Company L.L.C. (Air Arabia).

The property rental income earned by the Group during the period amounted to AED 841,667 and direct operating expenses arising on the investment property amounted to AED 210,417 (see Note 20).

At September 30, 2007, the fair value of the investment property was estimated by the management at AED 52 million (valuation of building and occupied land AED 20 million and remaining land AED 32 million). This estimate has been arrived at on the basis of a recent valuation carried out by independent valuers not connected with the Group and are members of various professional valuers associations, and have appropriate qualifications and recent experience in the valuation of properties in the relevant locations on the assumption of the title deed of land being converted to freehold without restriction on sale or transfer by permission from the Ruler of Sharjah.

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

**Notes to the Consolidated Interim Financial Information (continued)
For the period from inception to September 30, 2007**

12. Property and equipment

	<u>EDP equipment</u> AED	<u>Office equipment</u> AED	<u>Furniture and fixtures</u> AED	<u>Airport equipments</u> AED	<u>Aircraft rotables and equipment</u> AED	<u>Aircraft engines</u> AED	<u>Motor vehicles</u> AED	<u>Capital work-in progress</u> AED	<u>Total</u> AED
<i>Cost</i>									
Transferred from Air Arabia Company L.L.C. (Air Arabia)	3,759,453	504,764	1,233,410	6,494,309	7,160,936	54,907,116	1,478,002	226,476	75,764,466
Additions during the period	<u>1,344,520</u>	<u>606,384</u>	<u>81,874</u>	<u>-</u>	<u>1,815,528</u>	<u>28,289,841</u>	<u>-</u>	<u>5,346,599</u>	<u>37,484,746</u>
At September 30, 2007 - (Unaudited)	<u>5,103,973</u>	<u>1,111,148</u>	<u>1,315,284</u>	<u>6,494,309</u>	<u>8,976,464</u>	<u>83,196,957</u>	<u>1,478,002</u>	<u>5,573,075</u>	<u>113,249,212</u>
<i>Accumulated depreciation</i>									
Transferred from Air Arabia Company L.L.C. (Air Arabia)	2,677,373	375,327	898,938	-	841,496	953,741	161,419	-	5,908,294
Charge for the period	<u>251,328</u>	<u>116,748</u>	<u>42,836</u>	<u>270,596</u>	<u>209,669</u>	<u>516,917</u>	<u>149,186</u>	<u>-</u>	<u>1,557,280</u>
At September 30, 2007 - (Unaudited)	<u>2,928,701</u>	<u>492,075</u>	<u>941,774</u>	<u>270,596</u>	<u>1,051,165</u>	<u>1,470,658</u>	<u>310,605</u>	<u>-</u>	<u>7,465,574</u>
<i>Carrying amount</i>									
At September 30, 2007 - (Unaudited)	<u>2,175,272</u> =====	<u>619,073</u> =====	<u>373,510</u> =====	<u>6,223,713</u> =====	<u>7,925,299</u> =====	<u>81,726,299</u> =====	<u>1,167,397</u> =====	<u>5,573,075</u> =====	<u>105,783,638</u> =====

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

**Notes to the Consolidated Interim Financial Information (continued)
For the period from inception to September 30, 2007**

12. Property and equipment (continued)

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

The following useful lives are used in calculation of depreciation:

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

13. Trade and other payables

	September 30, 2007
	Unaudited AED
Trade payables	23,318,432
Accrued expenses	71,669,847
Other payables	<u>31,059,356</u>
	126,047,635
	=====

14. Provision for employees end of service indemnity

Movements in the net liability were as follows:

	2007
	Unaudited AED
Liability transferred from Air Arabia Company L.L.C. (Air Arabia)	6,885,304
Amounts charged to income during the period	761,588
Amounts paid during the period	(<u>197,753</u>)
Balance, at the end of the period	7,449,139
	=====

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

**Notes to the Consolidated Interim Financial Information (continued)
For the period from inception to September 30, 2007**

15. Share capital

	September 30, 2007
	Unaudited AED
1,400,000,000 shares of AED 1 each paid in-kind (see Note 4)	<u>1,400,000,000</u>
2,566,700,000 shares of AED 1 each subscribed in cash through IPO	2,566,700,000
700,000,000 share of AED 1 each subscribed in cash by the Founders	<u>700,000,000</u>
	<u>3,266,700,000</u>
	4,666,700,000
	=====

As stated in Note 4, the assets and the liabilities of Air Arabia Company L.L.C. (Air Arabia) and Subsidiary, were transferred to Air Arabia P.J.S.C. (Air Arabia) as an in-kind contribution for 30% interest in Air Arabia P.J.S.C. (Air Arabia).

16. Revenue

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

	Period from inception to September 30, 2007
	Unaudited AED
Passenger revenue	409,483,227
Baggage revenue	7,936,860
Cargo revenue	2,597,754
Service income	18,928,603
Sales commission and expenses	(<u>7,646,785</u>)
	431,299,659
	=====

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

**Notes to the Consolidated Interim Financial Information (continued)
For the period from inception to September 30, 2007**

17. Cost of sales

	Period from inception to September 30, 2007
	<u>Unaudited</u> AED
Staff costs	39,554,760
Lease rentals	38,250,423
Fuel	107,347,882
Maintenance expenses	34,642,595
Ground and technical handling charges	24,226,834
Landing and overflying charges	24,018,937
Insurance	2,219,051
Other operating costs	<u>7,296,895</u>
	<u>277,557,377</u> =====

18. Selling and marketing costs

	Period from inception to September 30, 2007
	<u>Unaudited</u> AED
Staff costs	3,819,502
Advertisement expenses	6,533,974
Reservation management expenses	<u>936,318</u>
	<u>11,289,794</u> =====

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

**Notes to the Consolidated Interim Financial Information (continued)
For the period from inception to September 30, 2007**

19. General and administrative expenses

	Period from inception to September 30, 2007
	<u>Unaudited</u> AED
Staff costs	7,597,928
Legal and professional fees	3,752,881
Travel and accommodation costs	716,033
Communication costs	511,356
Printing and stationary	387,610
Depreciation of property and equipment	483,733
Other expenses	<u>2,467,746</u>
	<u>15,917,287</u> =====

20. Other income

	Period from inception to September 30, 2007
	<u>Unaudited</u> AED
Government grant - waiver of parking charges (see Note 8)	8,504,017
Investment property income, net (see Note 11)	631,250
Others	<u>674,641</u>
	<u>9,809,908</u> =====

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

**Notes to the Consolidated Interim Financial Information (continued)
For the period from inception to September 30, 2007**

21. Profit for the period

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

	Period from inception to September 30, 2007
	Unaudited AED
Staff costs	50,972,190
Depreciation of property and equipment	1,557,280
Depreciation of investment property	210,417
Amortisation of deferred charges	7,929,225

22. Basic earnings per share

	Period from inception to September 30, 2007
	Unaudited
Profit for the period (in AED)	188,415,862
Number of shares	4,666,700,000
Basic earnings per share (in AED)	0.04

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

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

**Notes to the Consolidated Interim Financial Information (continued)
For the period from inception to September 30, 2007**

23. Pre-incorporation profit

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

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

24. Joint venture

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 Company LLC	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.

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

**Notes to the Consolidated Interim Financial Information (continued)
For the period from inception to September 30, 2007**

24. Joint venture (continued)

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

	September 30, 2007 Unaudited AED
Current assets	18,911,018
Non-current assets	8,994,438
Current liabilities	10,859,074
Non - current liabilities	26,978
	Period from inception to September 30, 2007 Unaudited AED
Income	18,172,648
Expenses	17,131,230

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

**Notes to the Consolidated Interim Financial Information (continued)
For the period from inception to September 30, 2007**

25. Operating lease arrangements

	Period from inception to September 30, 2007 Unaudited AED
Minimum lease payment under operating leases (excluding variable lease rental on the basis of flying hours) recognised in profit or loss for the period	35,622,088 =====

Details of aircraft lease agreements are as follows:

	Number of aircraft September 30, 2007 Unaudited
Lease agreements signed for	15
Aircraft delivered against the above lease agreements	(10)
Aircraft to be delivered in future periods	5
	=====

The fixed lease commitments against delivered aircraft are as follows:

	September 30, 2007 Unaudited AED
Within one year	138,460,417
In the second to fifth years inclusive	450,296,214
After five years	23,308,195
	612,064,826 =====

**Air Arabia P.J.S.C. (Air Arabia) and Subsidiary
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**Notes to the Consolidated Interim Financial Information (continued)
For the period from inception to September 30, 2007**

25. Operating lease arrangements (continued)

The fixed lease commitments against aircraft to be delivered in future periods are as follows:

	September 30, 2007
	Unaudited AED
Within one year	15,443,842
In the second to fifth years inclusive	286,108,863
After five years	<u>149,252,665</u>
	450,805,370
	=====

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

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

26. Contingent liabilities

	September 30, 2007
	Unaudited AED
Letters of credit	40,315,490
Letters of guarantee	<u>7,292,865</u>
	47,608,355
	=====

**Air Arabia P.J.S.C. (Air Arabia) and Subsidiary
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**Notes to the Consolidated Interim Financial Information (continued)
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27. Management of financial risk

Interest rate risk

The Group's exposure to interest rate risk relates to its time deposits and call deposits with banks. At September 30, 2007, time deposits carried an interest rate of 4% to 5.5% per annum.

Exchange rate risk

There are no significant exchange rate risks as substantially all financial assets and financial liabilities are denominated in Arab Emirates Dirhams or US Dollars to which the UAE Dirhams is fixed.

Fuel price risk

The airline industry is exposed to fluctuations in the price of jet fuel. The Group closely monitors the actual cost of fuel against forecasted cost. Significant changes in jet fuel and other fuel product prices may have a substantial effect on the Group's results. The Group has entered into hedging contracts to cover the jet fuel price risk.

Aircraft lease foreign currency exchange rate risk

There are no significant exchange rate risks as all aircraft lease rental agreements are made in US Dollars to which the UAE Dirham is fixed.

Credit risk

The Group's principal financial assets are banks' current and deposit accounts, trade and other receivables and due from a related party.

The credit risk on liquid funds is limited because the counter parties are banks with high credit ratings assigned by international credit-rating agencies. All the fixed deposits mature within different periods not exceeding three months from the balance sheet date.

The Group's credit risk is primarily attributable to its trade receivables. The amounts presented in the balance sheet are net of allowances for doubtful receivables required if any. An allowance for impairment is made where there is an identified loss event which, based on previous experience, is evidence of a reduction in the recoverability of the cash flows.

The Group has no significant concentration of credit risk, with exposure spread over a large number of counter-parties, agents and customers.

There is no concentration of credit risk to debtors outside the industry in which the Group operates.

**Air Arabia P.J.S.C. (Air Arabia) and Subsidiary
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Notes to the Consolidated Interim Financial Information (continued)
For the period from inception to September 30, 2007

27. Management of financial risk (continued)

Market risk

Market risk is the risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual security, or its issuer, or factors affecting all securities traded in the market. The Group is exposed to market risk with respect to its investments in financial instruments.