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

Consolidated financial statements
and independent auditor's report
for the year ended 31 December 2010

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

Contents **Pages**

Independent auditor's report	**1 - 2**
Consolidated statement of financial position	**3 - 4**
Consolidated statement of income	**5**
Consolidated statement of comprehensive income	**6**
Consolidated statement of changes in equity	**7**
Consolidated statement of cash flows	**8 - 9**
Notes to the consolidated financial statements	**10 - 61**

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

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

Ref: 10341F10

INDEPENDENT AUDITOR'S REPORT

The Shareholders
Air Arabia P.J.S.C. (Air Arabia) and Subsidiaries
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 2010, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Cont'd...

Deloitte.

INDEPENDENT AUDITOR'S REPORT (continued)

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of **Air Arabia P.J.S.C. (Air Arabia) and its Subsidiaries, Sharjah** as at 31 December 2010, 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

Samir Madbak
Registration No. 386
Sharjah
21 February 2011

Consolidated statement of financial position
At 31 December 2010

	Notes	2010 AED'000	2009 AED'000
ASSETS			
Non-current assets			
Property and equipment	5	1,195,499	761,885
Advance for new aircraft	6	593,213	373,806
Investment property	7	49,352	50,102
Intangible assets	8	1,092,347	1,092,347
Goodwill	9	189,474	189,474
Investment in associates	10	-	28,790
Deferred charges	11	18,042	26,265
Aircraft lease deposits	12	34,216	35,400
Available-for-sale investments	13	756,395	1,205,337
Trade and other receivables	14	15,395	14,579
Total non-current assets		3,943,933	3,777,985
Current assets			
Inventories		6,437	5,051
Due from related parties	15	28,435	22,568
Trade and other receivables	14	546,630	269,643
Bank balances and cash	16	1,844,563	1,996,251
Total current assets		2,426,065	2,293,513
Total assets		6,369,998	6,071,498

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

Consolidated statement of financial position
At 31 December 2010 (continued)

	Notes	2010 AED'000	2009 AED'000
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	17	4,666,700	4,666,700
Statutory reserve	18	153,475	122,896
General reserve	19	153,475	122,896
Cumulative change in fair values		13,800	(51,405)
Retained earnings		383,259	607,223
Attributable to equity holders of the parent company		5,370,709	5,468,310
Non-controlling interests		6,220	-
Total equity		5,376,929	5,468,310
Non-current liabilities			
Provision for employees' end of service indemnity	20	29,273	23,111
Trade and other payables	21	30,104	23,124
Finance lease liabilities	22	214,303	-
Total non-current liabilities		273,680	46,235
Current liabilities			
Due to related parties	15	13,348	-
Deferred income		148,560	129,352
Trade and other payables	21	541,396	427,601
Finance lease liabilities	22	16,085	-
Total current liabilities		719,389	556,953
Total liabilities		993,069	603,188
Total equity and liabilities		6,369,998	6,071,498

Chairman Chief Executive Officer Director of Finance

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

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

Consolidated statement of income
for the year ended 31 December 2010

	Notes	2010 AED'000	2009 AED'000
Revenue	**23**	**2,080,313**	1,971,965
Direct costs	**24**	**(1,768,637)**	(1,578,747)
Gross profit		**311,676**	393,218
Selling and marketing expenses	**25**	**(34,591)**	(43,928)
General and administrative expenses	**26**	**(77,403)**	(72,626)
Profit on bank deposits		**115,569**	156,266
Other (expenses)/income	**27**	**(5,692)**	19,304
Profit for the year	**29**	**309,559**	452,234
Attributable to:			
Equity holders of the parent company		**305,789**	452,234
Non-controlling interests		**3,770**	-
		309,559	452,234
Basic earnings per share	**30**	**0.07**	0.10

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

Consolidated statement of comprehensive income
for the year ended 31 December 2010

	Notes	2010 AED'000	2009 AED'000
Profit for the year		**309,559**	452,234
Other comprehensive income			
Gain on revaluation of available-for-sale investments	**13**	**61,370**	49,926
Reclassification adjustment for losses included in profit and loss	**27**	**3,473**	4,551
Transfer to statement of income on sale of available-for-sale investments		**362**	-
Board of Directors' remuneration – joint venture		**-**	(300)
Board of Directors' remuneration		**(1,925)**	(1,800)
Total other comprehensive income		**63,280**	52,377
Total comprehensive income for the year		**372,839**	504,611
Attributable to:			
Equity holders of the parent company		**369,069**	504,611
Non-controlling interest		**3,770**	-
		372,839	504,611

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

Consolidated statement of changes in equity
for the year ended 31 December 2010

	Share capital AED'000	Treasury shares AED'000	Statutory reserve AED'000	General reserve AED'000	Cumulative change in fair values AED'000	Retained earnings AED'000	Attributable to equity holders of the parent AED'000	Non-controlling interests AED'000	Total AED'000
Balance at 31 December 2008	4,666,700	(42,582)	77,672	77,672	(105,882)	710,025	5,383,605	-	5,383,605
Profit for the year	-	-	-	-	-	452,234	452,234	-	452,234
Other comprehensive income for the year	-	-	-	-	54,477	(2,100)	52,377	-	52,377
Total comprehensive income for the year	-	-	-	-	54,477	450,134	504,611	-	504,611
Transfer to reserves	-	-	45,224	45,224	-	(90,448)	-	-	-
Dividend paid (Note 38)	-	-	-	-	-	(466,670)	(466,670)	-	(466,670)
Treasury shares sold	-	42,582	-	-	-	4,182	46,764	-	46,764
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 38)	-		-	-	-	(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**

.

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

Consolidated statement of cash flows for the year ended 31 December 2010

	2010 AED'000	2009 AED'000
Cash flows from operating activities		
Profit for the year	**309,559**	452,234
Adjustment for:		
Depreciation of property and equipment	**44,729**	40,618
Depreciation of investment property	**750**	750
Amortisation/impairment of deferred charges	**9,969**	8,849
Provision for employees' end of service indemnity	**8,655**	9,699
Impairment losses on available-for-sale investments	**3,473**	4,551
Unrealised loss/(gain) on derivative financial instruments	**871**	(36,683)
Loss on disposal of property and equipment	**6**	909
Share of net losses from associates	**37,940**	31,654
Allowance for doubtful debts – net	**(609)**	1,025
Profit on bank deposits	**(115,569)**	(156,266)
Dividend income	**(214)**	(1,197)
Rental income	**(3,300)**	(3,075)
Gain on disposal of available-for-sale investments	**(27,898)**	-
Finance costs – finance lease	**601**	-
Operating cash flow before changes in operating assets and liabilities	**268,963**	353,068
Increase in margin deposits	**(596)**	(387)
Decrease/(increase) in trade and other receivables	**33,159**	(6,868)
Increase in inventories	**(1,386)**	(3,489)
Increase in due from related parties	**(5,867)**	(20,676)
Decrease in aircraft lease deposits	**1,184**	7,039
Increase in trade and other payables	**121,336**	121,035
Increase/(decrease) in deferred income	**19,208**	(3,451)
Increase/(decrease) in due to related parties	**13,348**	(8,371)
Cash generated by operating activities	**449,349**	437,900
Employees' end of service benefit paid	**(2,493)**	(829)
Interest paid	**(601)**	-
Net cash from operating activities	**446,255**	437,071
Cash flows from investing activities		
Purchase of property and equipment	**(191,181)**	(140,936)
Proceeds from disposal of property and equipment	**676**	1,285
Increase in advance for new aircraft	**(276,863)**	(116,096)
Increase in deferred charges	**(1,746)**	(3,419)
Payments for investment in associates	**(9,150)**	(60,445)
Purchase of available-for-sale investments	**(455,247)**	-
Proceeds from maturity of available-for-sale investments	**993,819**	367,399
Decrease in fixed deposits	**257,753**	5,727
Profit on bank deposits	**115,569**	156,266
Net cash from investing activities	**433,630**	209,781

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

Consolidated statement of cash flows
for the year ended 31 December 2010 (continued)

	2010 AED'000	2009 AED'000
Cash flows from financing activities		
Decrease in due from a related party	-	(1,789)
(Decrease)/increase in other payables	(561)	7,138
Dividend paid	(466,670)	(466,670)
Dividend received	214	1,197
Rental income	3,300	3,075
Increase in non-controlling interest	2,450	-
Board of Directors' remuneration	(1,925)	(1,800)
Board of Directors' remuneration- joint venture	-	(300)
Treasury shares sold	-	46,764
Net cash used in financing activities	(463,192)	(412,385)
Net increase in cash and cash equivalents	416,693	234,467
Cash and cash equivalents at the beginning of the year	421,836	187,369
Cash and cash equivalents at the end of the year (Note 16)	838,529	421,836

*Following transactions for 2010 are not reflected in the consolidated statement of cash flows as those are non-cash transactions.

- Advance paid for purchase of aircraft amounting to AED 57,456 thousand has been adjusted with the purchase of two aircraft (Note 6).
- Obligations under finance lease against two aircraft obtained during the year (Note 22).

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

Notes to the consolidated financial statements
for the year ended 31 December 2010

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, airlines companies representative office, passengers transport, cargo services, air cargo agents, documents transfer services, telecommunications devices trading, aviation training and aircraft repairs and maintenance.

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

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

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

New and revised IFRSs	**Summary of requirement**
Amendments to IFRS 1 *First-Time Adoption of International Financial Reporting Standards – Additional Exemptions for First-Time Adopters*	The amendments provide two exemptions when adopting IFRSs for the first time relating to oil and gas assets, and the determination as to whether an arrangement contains a lease.
Amendments to IFRS 2 *Share-Based Payment – Group Cash-Settled Share-Based Payment Transactions*	The amendments clarify the scope of IFRS 2, as well as the accounting for group cash-settled share-based payment transactions in the separate financial statements of an entity receiving the goods or services when another group entity or shareholder has the obligation to settle the award.
Amendment to IFRS 3 (revised) *Business Combinations* and consequential amendments to IAS 27 (revised) *Consolidated and Separate Financial Statements*, IAS 28 (revised) *Investments in Associates* and IAS 31 (revised) *Interests in Joint Ventures*	Comprehensive revision on applying the acquisition method.

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

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

New and revised IFRSs	Summary of requirement
Amendments to IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* (as part of *Improvements to IFRSs* issued in 2008)	The amendments clarify that all the assets and liabilities of a subsidiary should be classified as held for sale when the Group is committed to a sale plan involving loss of control of that subsidiary, regardless of whether the Group will retain a non-controlling interest in the subsidiary after the sale.
Amendments to IAS 39 *Financial Instruments: Recognition and Measurement – Eligible Hedged Items*	The amendments provide clarification on two aspects of hedge accounting: identifying inflation as a hedged risk or portion, and hedging with options.
IFRIC 17 *Distributions of Non-Cash Assets to Owners*	The Interpretation provides guidance on the appropriate accounting treatment when an entity distributes assets other than cash as dividends to its shareholders.
IFRIC 18 *Transfers of Assets from Customers*	The Interpretation addresses the accounting by recipients for transfers of property, plant and equipment from 'customers' and concludes that when the item of property, plant and equipment transferred meets the definition of an asset from the perspective of the recipient, the recipient should recognise the asset at its fair value on the date of the transfer, with the credit being recognised as revenue in accordance with IAS 18 *Revenue*.
Improvements to IFRSs issued in 2009	The application of Improvements to IFRSs issued in 2009 which amended IFRS 2, IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 18, IAS 36, IAS 38, IAS 39, IFRIC 9 and IFRIC 16 has not had any material effect on amounts reported in the consolidated financial statements.

2.2 New and revised IFRSs in issue but not yet effective and not early adopted

The Group has not applied the following new and revised IFRSs that have been issued but are not yet effective:

New and revised IFRSs	Effective for annual periods beginning on or after
Amendments to IFRS 1 relating to *Limited Exemption from Comparative IFRS 7 Disclosures for First-Time Adopters*	1 July 2010
Amendments to IFRS 7 *Financial Instruments: Disclosures*, relating to Disclosures on Transfers of Financial Assets	1 July 2011
IFRS 9 *Financial Instruments* (as amended in 2010)	1 January 2013
IAS 24 *Related Party Disclosures* (revised in 2009)	1 January 2011

Notes to the consolidated financial statements
for the year ended 31 December 2010 (continued)

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

2.2 New and revised 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 32 Financial Instruments: Presentation, relating to Classification of Rights Issues	1 February 2010
Amendments to IFRIC 14 relating to Prepayments of a Minimum Funding Requirement	1 January 2011
IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments	1 July 2010
Improvements to IFRSs issued in 2010 covering amendments to IFRS 1, IFRS 3, IFRS 7, IAS 1, IAS 27, IAS 34 and IFRIC 13	1 January 2011, except IFRS 3 and IAS 27 which are effective 1 July 2010
Deferred Tax: Recovery of Underlying Assets – *Amendments to* IAS 12: *Income Taxes*	1 January 2012
Amendments to IFRS 1: *Removal of Fixed Dates for First-time Adopter*	1 July 2011
Amendments to IFRS 1 : Severe Hyperinflation	1 July 2011

Management anticipates that these amendments will be adopted in the Group's consolidated financial statements for the period beginning 1 January 2011 or as and when they are applicable and adoption of these standards and interpretations may have no material impact on the consolidated financial statements of the Group in the period of initial application.

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.

Notes to the consolidated financial statements
for the year ended 31 December 2010 (continued)

3. Summary of significant accounting policies (continued)

3.3 Basis of consolidation

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

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of income 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.

3.4 Subsidiaries

Details of the Company's subsidiaries at 31 December 2010 were as follows:

Name of subsidiary	Place of incorporation and operation	Proportion of ownership interest	Proportion of voting power held	Principal activities
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

3. Summary of significant accounting policies (continued)

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 statement of income.

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

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with IAS 12 *Income Taxes* and IAS 19 *Employee Benefits* respectively;

- liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 *Share-based Payment* at the acquisition date and

- assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that Standard.

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

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

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

.

3. Summary of significant accounting policies (continued)

3.5 Business combination (continued)

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

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

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

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

3.6 Goodwill

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

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

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

3. Summary of significant accounting policies (continued)

3.6 Goodwill (continued)

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss in the consolidated statement of income. 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 consolidated statement of income 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.

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. Summary of significant accounting policies (continued)

3.8 Interests in joint ventures

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

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

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

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

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

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

3.9 Revenue recognition

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

3.9.1 Rendering of services

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

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

3. Summary of significant accounting policies (continued)

3.9 Revenue recognition (continued)

3.9.2 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.

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.

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. Summary of significant accounting policies (continued)

3.10 Leasing (continued)

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.

3. Summary of significant accounting policies (continued)

3.11 Foreign currencies (continued)

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

- 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;
- Exchange differences on transactions entered into in order to hedge certain foreign currency risks; and
- 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 initially in other comprehensive income and reclassified from equity to profit or loss on repayment of monetary items.

3.12 Property and equipment

Land granted by the Government of Sharjah 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
Aircraft	15
Aircraft engines	20
Aircraft rotables and equipment	3 - 10
Airport equipments and vehicles	3 - 15
Apartments	10 - 20
Other property and equipment	3 - 7

Notes to the consolidated financial statements
for the year ended 31 December 2010 (continued)

3. Summary of significant accounting policies (continued)

3.13 Investment property

Investment property is accounted under the cost model of IAS 40. Investment properties, which is property 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.

Depreciation is charged so as to write off the cost of investment property, other than land, over the estimated useful lives of 20 years, using the straight line method. Value of land granted by the Government of Sharjah on which investment property is constructed 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 statement of income 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.

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.

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 statement of income.

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.

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 2010 (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 debt instrument 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 debt instrument, 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, 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 2010 (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 statement of income.

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to statement of income 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 2010 (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 Treasury shares

Repurchase of the Group's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in statement of income on the purchase, sale, issue or cancellation of the Group's own equity instruments.

3.28 Financial liabilities

The Group has classified the following financial liabilities as ‘other financial liabilities’: finance lease liabilities, trade and other payables 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.

3.28.1 Derecognition of financial liabilities

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

3.29 Dividend distribution

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

3. Summary of significant accounting policies (continued)

3.30 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 statement of income immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in statement of income 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.

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 2010 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.

Management has considered an amount of AED 3,473 thousand (2009: AED 4,551 thousand) as impairment loss on AFS financial assets for the year, based on the analysis of impairment test performed on available-for-sale financial assets based on conditions prevailing in U.A.E.

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 2010.

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 22) and operating lease (Note 32).

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

4.2 Key sources of estimation uncertainty

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

4.2.1 Leased aircraft maintenance costs

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

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

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

4.2.2 Accrual for aircraft flying costs

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

4. 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 2010 (continued)

5. Property and equipment

	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 AED '000	Furniture and fixtures AED '000	Apartments AED '000	Capital work-in-progress AED '000	Total AED '000
Cost										
31 December 2008	478,283	124,689	18,164	23,051	10,644	3,370	2,274	-	41,498	701,973
Additions during the year	-	-	2,344	9,944	2,040	2,358	674	-	123,576	140,936
Disposals	-	-	(294)	(2,726)	(14)	(267)	(16)	-	-	(3,317)
31 December 2009	478,283	124,689	20,214	30,269	12,670	5,461	2,932	-	165,074	839,592
Additions during the year	295,675	36,703	1,448	3,776	1,986	1,403	1,626	311	136,097	479,025
Disposals	-	-	(105)	(184)	(202)	(521)	(442)	-	(226)	(1,680)
Transfers	-	-	-	2,535	1,835	305	1,997	62,528	(69,200)	-
31 December 2010	**773,958**	**161,392**	**21,557**	**36,396**	**16,289**	**6,648**	**6,113**	**62,839**	**231,745**	**1,316,937**
Accumulated depreciation										
31 December 2008	19,822	5,927	2,447	2,820	4,386	1,532	1,278	-	-	38,212
Charge for the year	27,697	4,989	1,525	2,882	1,694	1,335	496	-	-	40,618
Eliminated on disposals	-	-	(64)	(841)	(8)	(210)	-	-	-	(1,123)
31 December 2009	47,519	10,916	3,908	4,861	6,072	2,657	1,774	-	-	77,707
Charge for the year	29,589	5,078	1,633	2,573	2,839	1,453	790	774	-	44,729
Eliminated on disposals	-	-	(16)	(127)	(164)	(491)	(200)	-	-	(998)
31 December 2010	**77,108**	**15,994**	**5,525**	**7,307**	**8,747**	**3,619**	**2,364**	**774**	**-**	**121,438**
Carrying amount										
31 December 2010	**696,850**	**145,398**	**16,032**	**29,089**	**7,542**	**3,029**	**3,749**	**62,065**	**231,745**	**1,195,499**
31 December 2009	430,764	113,773	16,306	25,408	6,598	2,804	1,158	-	165,074	761,885

.

Notes to the consolidated financial statements
for the year ended 31 December 2010 (continued)

5. Property and equipment (continued)

Capital work-in-progress includes projects related to the construction of a hotel amounting to AED 216.6 million (2009: AED 116.2 million).

Apartments include staff quarters constructed on leasehold land, leased from Sharjah Airport Authority, Sharjah, United Arab Emirates. At 31 December 2010, the Group is in the process of finalising the formal lease agreements with the Sharjah Airport Authority.

At 31 December 2010, two aircraft with carrying amount of AED 293,783 thousand (2009: Nil) are held under finance lease (Note 22).

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.

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 161.6 million (equivalent to AED 593.2 million) (2009: USD 101.8 million, equivalent to AED 373.8 million) made in respect of 42 (2009: 44) Airbus A320 aircraft.

Movement in the advance for new aircraft were as follows:

	2010 AED'000	2009 AED'000
Balance, at the beginning of the year	**373,806**	257,710
Advances made during the year	**328,585**	116,096
Adjusted against aircraft purchased	**(57,456)**	-
Refund of advance made	**(51,722)**	-
Balance at the end of the year	**593,213**	373,806

Notes to the consolidated financial statements
for the year ended 31 December 2010 (continued)

7. Investment property

	AED '000
Cost	
At 31 December 2008, 2009 and 2010	**54,040**
Accumulated depreciation	
At 31 December 2008	3,188
Charge for the year	750
At 31 December 2009	3,938
Charge for the year	750
At 31 December 2010	**4,688**
Carrying amount	
At 31 December 2010	**49,352**
At 31 December 2009	50,102

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 IFRS-3 '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 (2009: AED 3,075 thousand) and direct operating expenses arising on the investment property amounted to AED 750 thousand (2009: AED 750 thousand) (Note 27).

Management anticipates the fair value of investment property as at 31 December 2010 to be AED 52 million (2009: AED 52 million).

Notes to the consolidated financial statements
for the year ended 31 December 2010 (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:

	2010 **AED'000**	2009 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
Fair value, at the end of the year	**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 also 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:

	2010 **AED'000**	2009 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 2009 and 2010	**189,474**	189,474

During the year 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 2011-2015 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 2010 (continued)

10. Investment in associates

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

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

11. Deferred charges

	Aircraft upgrade costs AED'000	**Landing permission charges AED'000**	**Computer software AED'000**	**Total AED'000**
Cost				
31 December 2008	17,885	51,145	906	69,936
Additions during the year	3,132	-	287	3,419
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**
Amortisation/impairment				
31 December 2008	9,457	28,661	123	38,241
Charge for the year	2,934	5,727	188	8,849
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**
Carrying amount				
31 December 2010	**5,927**	**11,030**	**1,085**	**18,042**
31 December 2009	8,626	16,757	882	26,265

Notes to the consolidated financial statements
for the year ended 31 December 2010 (continued)

12. Aircraft lease deposits

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

13. Available-for-sale investments

	2010 AED '000	2009 AED '000
Quoted	**11,003**	14,717
Unquoted	**745,392**	1,190,620
	756,395	1,205,337
In U.A.E.	**389,080**	329,945
In other G.C.C. countries	**367,315**	875,392
	756,395	1,205,337

Movement during the year were as follows:

	2010 AED '000	2009 AED '000
Fair value, at the beginning of the year	**1,205,337**	1,522,810
Purchases during the year	**455,247**	-
Proceeds on maturity	**(965,559)**	(367,399)
Change in fair value	**61,370**	49,926
Fair value, at the end of the year	**756,395**	1,205,337

The market rate as at 31 December 2010, is considered for the calculation of the fair value of the AFS 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.

During the year, gain on disposal of available-for-sale investments amounted to AED 27,898 thousand (2009: Nil) and dividend income received amounted to AED 214 thousand (2009: AED 1,197 thousand).

Notes to the consolidated financial statements
for the year ended 31 December 2010 (continued)

14. Trade and other receivables

	2010 AED '000	2009 AED '000
Current		
Trade receivables	**106,823**	95,479
Allowance for doubtful debts	**(1,162)**	(1,771)
	105,661	93,708
Prepaid aircraft lease rentals	**24,036**	21,645
Prepaid expenses - others	**2,324**	2,227
Advances and other receivables	**394,192**	129,959
Derivative financial instruments (Note 28)	**20,417**	22,104
	546,630	269,643
Non-current		
Derivatives financial instruments (Note 28)	**15,395**	14,579

14.1 Trade receivables

The average credit period ranges between 29 – 45days (2009: 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 5 customers (2009: 2 customers) who represent more than 5% of the total balance of trade receivables.

Trade receivables include receivable from Sales Agents amounting to AED 79.9 million (2009: AED 71.2 million), which is fully secured by bank guarantees.

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

	2010 AED '000	2009 AED '000
Balance, at the beginning of the year	**1,771**	746
Allowance made during the year	**509**	1,102
Amounts recovered during the year	**(218)**	(77)
Amounts written off as uncollectible	**(900)**	-
Balance, at end of the year	**1,162**	1,771

Notes to the consolidated financial statements
for the year ended 31 December 2010 (continued)

14. Trade and other receivables (continued)

14.2 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. Accordingly, the management believes that there is no further credit provision required in excess of the allowance for doubtful debts.

15. 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.

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

	2010 **AED '000**	2009 AED '000
Due from related parties:		
Sharjah Airport Authority - U.A.E.	**-**	4,026
Alpha Flight Services, Jordon	**429**	-
Air Arabia Maroc, S.A., Morocco - associate	**22,536**	16,753
Air Arabia - Egypt Company (S.A.E.), Egypt - associate	**4,370**	1,789
Sharjah Airport International Free Zone – U.A.E.	**1,100**	-
	28,435	22,568
Due to related parties:		
Alpha Aviation Group Limited, United Kingdom	**3,186**	-
Sharjah Airport Authority - U.A.E.	**10,162**	-
	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 2010 (continued)

15. Related party transactions (continued)

15.2 Transactions:

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

	2010	2009
	AED '000	AED '000
Rental income from investment property (Note 7)	**3,300**	3,075
Rental income from operating lease	**64,098**	27,536
Management fees (Note 27)	**4,266**	2,481

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

15.3 Compensation of board of directors/key management personnel:

	2010	2009
	AED '000	AED '000
Short term benefits	**12,865**	14,133
Long term benefits	**1,446**	1,336
Board of Directors' remuneration	**1,925**	1,800

Notes to the consolidated financial statements
for the year ended 31 December 2010 (continued)

16. Bank balances and cash

	2010 AED '000	2009 AED '000
Bank balances:		
Current accounts	**51,913**	49,063
Call deposits	**31,242**	27,108
Fixed deposits	**1,758,542**	1,918,160
Margin deposits	**1,400**	804
Total bank balances	**1,843,097**	1,995,135
Cash on hand	**1,466**	1,116
Total bank balances and cash	**1,844,563**	1,996,251
Less: Fixed deposits with maturity over 3 months	**(1,004,634)**	(1,573,611)
Margin deposits	**(1,400)**	(804)
Total cash and cash equivalents	**838,529**	421,836
Bank balances:		
In U.A.E.	**1,839,800**	1,683,530
In other G.C.C. countries	**3,297**	311,605
Total bank balances	**1,843,097**	1,995,135

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

17. Share capital

	2010 AED '000	2009 AED '000
Authorised and issued share capital (of 4,666,700 thousand shares of AED 1 each)	**4,666,700**	4,666,700

18. 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.

Notes to the consolidated financial statements
for the year ended 31 December 2010 (continued)

19. 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.

20. Provision for employees' end of service indemnity

Movements in the net liability were as follows:

	2010 **AED '000**	2009 AED '000
Balance, at the beginning of the year	**23,111**	14,241
Amounts charged to income during the year	**8,655**	9,699
Amounts paid during the year	**(2,493)**	(829)
Balance, at the end of the year	**29,273**	23,111

21. Trade and other payables

	2010 **AED '000**	2009 AED '000
Trade payables	**110,608**	76,160
Accrued expenses	**305,738**	247,794
Lease deposit payables	**23,526**	15,986
Other payables	**131,628**	110,785
	571,500	450,725
Less: Amount due for settlement after 12 months (shown under non-current liabilities)	**(30,104)**	(23,124)
Amount due for settlement before 12 months	**541,396**	427,601

The average credit period on purchases of goods and services is 45 days (2009: 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 6,577 thousand (2009: AED 7,138 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 upon discontinuation of employment with the joint venture companies.

Notes to the consolidated financial statements
for the year ended 31 December 2010 (continued)

22. 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 two aircraft. 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	
	2010	2009	**2010**	2009
	AED '000	AED '000	**AED '000**	AED '000
Not later than one year	**23,077**	-	**16,085**	-
Later than one year but not later than five year	**92,310**	-	**69,657**	-
Later than five years	**161,542**	-	**144,646**	-
	276,929	-	**230,388**	-
Less : Future finance costs	**(46,541)**	-	**-**	
Present value of minimum lease payments	**230,388**	-	**230,388**	-

The finance charges will be calculated based on 3.09%.

Included in the consolidated financial statements as:

Current portion of finance lease liabilities	**16,085**	-
Non-current portion of finance lease liabilities	**214,303**	-
	230,388	-

The finance lease liabilities are secured by the 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 2010 (continued)

23. Revenue

	2010	2009
	AED '000	AED '000
Passenger revenue	**1,888,778**	1,804,464
Baggage revenue	**31,147**	33,308
Cargo revenue	**45,603**	37,386
Service revenue	**5,914**	6,298
Catering revenue	**25,996**	22,656
Flight handling revenue	**35,876**	34,496
Cargo handling revenue	**33,430**	29,002
Passenger services	**11,287**	10,670
Training revenue	**1,314**	1,690
Other operating income	**11,988**	7,501
Sales commission and expenses	**(11,020)**	(15,506)
	2,080,313	1,971,965

24. Direct costs

	2010	2009
	AED '000	AED '000
Staff costs	**319,939**	303,191
Aircraft lease rentals	**225,141**	211,942
Fuel	**702,983**	569,557
Aircraft maintenance expenses	**210,154**	184,710
Ground and technical handling charges	**108,985**	111,797
Landing and overflying charges	**114,946**	106,432
Insurance	**17,273**	13,010
Service costs	**12,645**	17,781
Depreciation of property and equipment	**39,159**	37,240
Other operating costs	**17,412**	23,087
	1,768,637	1,578,747

Notes to the consolidated financial statements
for the year ended 31 December 2010 (continued)

25. Selling and marketing expenses

	2010 AED '000	2009 AED '000
Staff costs	**15,920**	19,253
Advertisement expenses	**9,991**	18,315
Reservation management expenses	**8,680**	6,360
	34,591	43,928

26. General and administrative expenses

	2010 AED '000	2009 AED '000
Staff costs	**39,482**	38,466
Legal and professional fees	**10,093**	10,595
Travel and accommodation costs	**2,267**	2,605
Communication costs	**2,775**	3,098
Printing and stationary	**1,492**	1,528
Depreciation of property and equipment	**5,570**	3,378
Other expenses	**15,724**	12,956
	77,403	72,626

27. Other (expenses)/income

	2010 AED '000	2009 AED '000
Dividend income (Note 13)	**214**	1,197
Investment property income, net (Note 7)	**2,550**	2,325
Exchange rate variance	**8,649**	7,386
Impairment losses on available-for-sale investments	**(3,473)**	(4,551)
Management fees (Note 15)	**4,266**	2,481
Gain on disposal of available-for-sale investments (Note 13)	**27,898**	-
Share of net losses in associates (Note 10)	**(37,940)**	(31,654)
Unrealised (loss)/gain on fuel derivatives (Note 28)	**(871)**	36,683
Other (expense)/income	**(6,985)**	5,437
	(5,692)	19,304

Notes to the consolidated financial statements
for the year ended 31 December 2010 (continued)

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 2010, the change in fair value of these derivatives amounting to AED 871 thousand (2009: AED 36,683 thousand) which has been taken to the consolidated statement of income for the year ended 31 December 2010 with a corresponding current asset of AED 20,417 thousand (2009: AED 22,104 thousand) and non-current asset of AED 15,395 thousand (2009: AED 14,579 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:

	2010 AED '000	2009 AED '000
Staff costs	**375,341**	360,910
Depreciation of property and equipment	**44,729**	40,618
Depreciation of investment property	**750**	750
Amortisation of deferred charges	**9,969**	8,849

30. Basic earnings per share

	2010	2009
Profit for the year (in AED '000)	**305,789**	452,234
Number of shares (in thousand)	**4,666,700**	4,666,700
Basic earnings per share (AED)	**0.07**	0.10

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.

Notes to the consolidated financial statements
for the year ended 31 December 2010 (continued)

31. Joint ventures

31.1 The Group has interest in the following joint ventures:

Name of joint venture	Place of incorporation and operation	Proportion of ownership interest	Principal activity
Information Systems Associates (FZC)	Sharjah Airport International Free Zone, U.A.E.	51%	Trading in IT products and providing IT services.
Sharjah Aviation Services (L.L.C.)	Sharjah, U.A.E.	50%	Providing aircraft handling services and passenger services.
Alpha Flight Services U.A.E. L.L.C.	Sharjah, U.A.E.	51%	Providing in-flight and retail catering and ancillary services for airports and airlines.
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 has not started yet.

During the year, Management of the Group has transferred the ownership interest of 50% in Sharjah Airport Travel Agency – SATA, to the favour of Sharjah Airport Authority.

Notes to the consolidated financial statements
for the year ended 31 December 2010 (continued)

31. Joint ventures (continued)

31.2 Financial performance of joint ventures

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

	2010 AED '000	2009 AED '000
Current assets	**48,785**	65,193
Non-current assets	**19,917**	15,446
Current liabilities	**24,554**	24,149
Non - current liabilities	**11,138**	10,504
Income	**106,981**	103,359
Expenses	**82,988**	75,963

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

	2010 AED '000	2009 AED '000
Information Systems Associates (FZC), U.A.E	**299**	234
Sharjah Aviation Services (L.L.C.), U.A.E.	**19,521**	15,551
Sharjah Airport Travel Agency – SATA, U.A.E.	**-**	7,022
Alpha Flight Services U.A.E. L.L.C., U.A.E.	**7,173**	6,678
Alpha Aviation Academy U.A.E. L.L.C., U.A.E.	**(3,000)**	(2,209)
Yeti Airways International Pvt., Nepal	**-**	120
	23,993	27,396

Notes to the consolidated financial statements
for the year ended 31 December 2010 (continued)

32. Operating lease arrangements

32.1 Where the Group is a lessee:

	2010 AED '000	2009 AED '000
Minimum lease payment under operating leases (excluding variable lease rental on the basis of flying hours) recognised in statement of income for the year	**279,814**	230,270

32.1.1 Details of aircraft lease agreements were as follows:

	Number of aircraft 2010	2009
Lease agreements signed for	**20**	20
Aircraft delivered against the above lease agreements	**(20)**	(18)
Aircraft to be delivered in future periods	**-**	2

32.1.2 The fixed lease commitments against 20 (2009: 18) delivered aircraft were as follows:

	2010 AED '000	2009 AED '000
Within one year	**285,271**	260,173
In the second to fifth years inclusive	**595,509**	680,389
After five years	**7,043**	24,002
	887,823	964,564

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 2010 (continued)

32. Operating lease arrangements (continued)

32.2 Where the Group is a lessor:

The Group has leased out three aircraft under non-cancellable operating lease agreements to related parties.

32.2.1 Minimum lease payments:

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

	2010	2009
	AED '000	AED '000
Within one year	**83,887**	44,184
In the second to fifth years inclusive	**164,166**	145,629
	248,053	189,813

The lease income amounting to AED 64,098 thousand (2009: AED 27,536 thousand) has been setoff with lease expenses in the statement of income.

The details of the Group's aircraft leased out under operating leases (where the Group is the lessor) as at reporting date are as follows:

	2010	2009
	AED '000	AED '000
Net book value	**403,066**	147,336
Accumulated depreciation	**75,216**	16,109
Depreciation charge for the year	**27,696**	9,032

Notes to the consolidated financial statements
for the year ended 31 December 2010 (continued)

33. Contingent liabilities

	2010 AED '000	2009 AED '000
Letters of credit	**74,636**	60,570
Letters of guarantee	**14,575**	15,506

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

34. Capital commitments

34.1 The Group has entered into the following capital commitments:

	2010 AED '000	2009 AED '000
34.1.1 Authorised and contracted:		
Aircraft fleet (Note 34.2)	**12,033,882**	12,627,095
Investment in an associate	**34,921**	44,071
Hotel project	**7,703**	114,824
Simulator project	**42,945**	-
Others	**1,383**	24,197
	12,120,834	12,810,187
34.1.2 Authorised but not contracted:		
Simulator project	**-**	30,803
Aircraft fleet (Note 34.2)	**1,422,807**	1,422,807
	1,422,807	1,453,610

34.2 Aircraft fleet

The Group has entered into a contract with Airbus S.A.S. for the purchase of 34 Airbus A320 aircraft and there was an option in the contract to purchase 15 aircraft from Airbus, out of which, the Group has exercised the option of purchasing 10 aircraft. The total value of the 42 aircraft order was approximately USD 3.5 billion (AED: 12.6 billion) (31 December 2009: 44 aircrafts, USD 3.6 billion (AED 13 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 42 (2009: 44) 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 2010 (continued)

35. Capital risk management

35.1 Objectives and management of capital risk

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

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

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

36. Financial instruments

36.1 Significant accounting policies

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

36.2 Categories of financial instruments and others

31 December 2010

Assets	Financial assets			
	Loans and receivables AED '000	Available-for-sale AED '000	Non-financial assets AED '000	Total 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 property	-	-	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**

Notes to the consolidated financial statements
for the year ended 31 December 2010 (continued)

36. Financial instruments (continued)

36.2 Categories of financial instruments and others (continued)

31 December 2009

Assets	Financial assets: Loans and receivables	Financial assets: Available-for-sale	Non-financial assets	Total
	AED '000	AED '000	AED '000	AED '000
Bank balances and cash	1,996,251	-	-	1,996,251
Trade and other receivables	260,350	-	23,872	284,222
Due from related parties	22,568	-	-	22,568
Inventories	-	-	5,051	5,051
Available-for-sale investments	-	1,205,337	-	1,205,337
Aircraft lease deposits	35,400	-	-	35,400
Deferred charges	-	-	26,265	26,265
Investment in associates	-	-	28,790	28,790
Goodwill	-	-	189,474	189,474
Intangible assets	-	-	1,092,347	1,092,347
Investment property	-	-	50,102	50,102
Advance for new aircraft	-	-	373,806	373,806
Property and equipment	-	-	761,885	761,885
Total assets	2,314,569	1,205,337	2,551,592	6,071,498

31 December 2010

Liabilities and equity	**Financial liabilities: At amortised cost**	**Non-financial liabilities**	**Total**
	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**

Notes to the consolidated financial statements
for the year ended 31 December 2010 (continued)

36. Financial instruments (continued)

36.2 Categories of financial instruments and others (continued)

31 December 2009

Liabilities and equity	Financial liabilities At amortised cost	Non-financial liabilities	Total
	AED ’000	AED ’000	AED ’000
Trade and other payables	450,725	-	450,725
Deferred income	-	129,352	129,352
Provision for employees’ end of service indemnity	-	23,111	23,111
Capital and reserves	-	5,468,310	5,468,310
Total liabilities and equity	450,725	5,620,773	6,071,498

36.3 Fair values

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

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

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

Notes to the consolidated financial statements
for the year ended 31 December 2010 (continued)

36. Financial instruments (continued)

36.3.2 Fair value analysis

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

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

31 December 2010

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

31 December 2009

	Level 1 AED '000	Level 2 AED '000	Level 3 AED '000	Total AED '000
Derivative financial instruments	-	36,683	-	36,683
Available-for-sale investments				
Quoted investments	14,717	-	-	14,717
Unquoted investments	-	1,190,620	-	1,190,620
	14,717	1,227,303	-	1,242,020

There were no transfers between each of level during the year. There are no financial liabilities which should be measured at faire 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 2010 (continued)

36. Financial instruments (continued)

36.4 Financial risk management objectives

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

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

36.4.1 Market risk

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

Market risk exposures are measured using sensitivity analysis.

36.4.2 Foreign currency risk management

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

36.4.2.1Aircraft lease foreign currency exchange rate risk

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

36.4.3 Bank deposit profit rate risk management

The Group's exposure to profit rate risk relate to its deposits with banks, other unquoted investments and finance lease liabilities. At 31 December 2010, deposits carried a profit rate of 3.5% to 5.75% per annum (31 December 2009: 3% to 10% per annum) and finance lease liabilities carried profit rate of 3.09% per annum (2009: Nil).

The sensitivity analysis below, have been determined based on the exposure to profit rates on Group's deposits with banks 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 2010 would decrease/increase by AED 8.8 million (31 December 2009: AED 13.6 million).

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

36.4.4 Fuel price risk

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

36. Financial instruments (continued)

36.4.5 Equity price risk

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

Equity price sensitivity analysis

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

If equity prices had been 5% higher/lower, equity reserves would increase/decrease by AED 0.6 million (31 December 2009: AED 0.7 million) for the Group as a result of the changes in fair value of available-for-sale investments.

36.4.6 Credit risk management

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

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

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

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

36.7 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 2010 (continued)

36. Financial instruments (continued)

36.7 Liquidity risk management (continued)

36.7.1 Financial assets

31 December 2010

	Upto 1 month AED '000	1 month – 3 months AED '000	3 months - 1 year AED '000	1 year – 5 years AED '000	Above 5 years AED '000	Total AED '000
Bank balances and cash	**710,710**	**129,219**	**1,004,634**	**-**	**-**	**1,844,563**
Trade and other receivables	**92,526**	**60,114**	**352,172**	**15,395**	**15,458**	**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**	**1,358,791**	**796,914**	**22,565**	**3,199,274**

31 December 2009

	Upto 1 month AED '000	1 month – 3 months AED '000	3 months - 1 year AED '000	1 year – 5 years AED '000	Above 5 years AED '000	Total AED '000
Bank balances and cash	77,287	656,577	1,262,387	-	-	1,996,251
Trade and other receivables	64,093	49,406	132,271	14,580	-	260,350
Due from related parties	22,568	-	-	-	-	22,568
Available-for-sale investments	-	-	-	1,205,337	-	1,205,337
Aircraft lease deposits	-	-	-	27,110	8,290	35,400
Total financial assets	163,948	705,983	1,394,658	1,247,027	8,290	3,519,906

Notes to the consolidated financial statements
for the year ended 31 December 2010 (continued)

36. Financial instruments (continued)

36.7 Liquidity risk management (continued)

36.7.2 Financial liabilities

31 December 2010

	Upto 1 month AED '000	1 month - 3 months AED '000	3 months 1 year AED '000	1 year - 5 years AED '000	Above 5 years AED '000	Total AED '000
Trade and other payables	**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**

31 December, 2009

	Upto 1 month AED '000	1 month - 3 months AED '000	3 months 1 year AED '000	1 year - 5 years AED '000	Above 5 years AED '000	Total AED '000
Trade and other payables	-	214,406	158,322	77,997	-	450,725

Notes to the consolidated financial statements
for the year ended 31 December 2010 (continued)

37. Segment information

The new standard which replaced IAS 14 'Segment reporting' requires a 'management approach' under which segment information is presented on the same basis as that used for internal reporting purposes. This has not resulted in any significant change to the reportable segments presented by the Group as the segments reported by the Group were consistent with the internal reporting provided to the chief operating decision maker.

37.1 Primary reporting format - business segments

Year ended 31 December 2010	Airline	Other segments	Eliminations	Total
	AED '000	AED '000	AED '000	AED '000
Revenue				
External sales	1,970,084	3,992	-	1,974,076
Inter-segment sales	-	10,424	(10,424)	-
	1,970,084	14,416	(10,424)	1,974,076
Result				
Segment result	181,017	7,606	-	188,623
Share of losses in associates				(37,940)
Share of results in joint ventures				23,993
Unrealised loss on fuel derivatives				(871)
Profit from bank deposits and other income				135,754
Profit for the year				309,559
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	8,823,615	28,430	(4,192)	8,847,853
Unallocated Group assets				(2,477,855)
Total assets				6,369,998
Liabilities				
Segment liabilities	944,667	12,710	(4,192)	953,185
Unallocated Group liabilities				39,884
Total liabilities				993,069

Notes to the consolidated financial statements
for the year ended 31 December 2010 (continued)

37. Segment information (continued)

37.1 Primary reporting format – business segment (continued)

Year ended 31 December 2009	Airline	Other segments	Eliminations	Total
	AED ’000	AED ’000	AED ’000	AED ’000
Revenue				
External sales	1,868,039	-	-	1,868,039
Result				
Segment result	237,671	(6)	-	237,665
Share of losses in associates				(31,654)
Share of results in joint ventures				27,396
Unrealised gain on fuel derivatives				36,683
Profit from bank deposits and other income				182,144
Profit for the year				452,234
Other information				
Additions to property and equipment	124,925	-	-	124,925
Addition to deferred charges	3,132	-	-	3,132
Depreciation	36,155	61	-	36,216
Amortisation	8,661	-	-	8,661
31 December 2009				
Assets				
Segment assets	2,797,800	3,285	(3,109)	2,797,976
Unallocated Group assets				3,273,522
Total assets				6,071,498
Liabilities				
Segment liabilities	568,362	173	(3,109)	565,426
Unallocated Group liabilities				37,762
Total liabilities				603,188

Notes to the consolidated financial statements
for the year ended 31 December 2010 (continued)

37. Segment information (continued)

37.2 Segment accounting policies

Inter-segment sales are charged at prevailing market prices.

The accounting policies of the reportable segments are the same as the Group's accounting policies described in Note 3. Segment revenue does not include the Group's share of external revenue of joint ventures, amounting to AED 106,981 thousand (31 December 2009: AED 103,359 thousand), as the share of their results have been disclosed separately as unallocated under segment result. Segment result represents the profit earned by each segment without considering unallocated costs, shares of profits in joint ventures, share of losses in associates, profit from bank deposits unrealised gain on fuel derivatives and other income. Segment assets do not include fixed deposits, available-for-sale investments, derivative financial instruments and the Group's share of assets in joint ventures and associates. Goodwill and intangible assets have been allocated to Airline segment (Note 8 and 9). Segment liabilities do not include Group's share of liabilities in joint ventures.

38. Dividend

During 2010, a dividend of AED 10 fils per share (2009: 10 fils) was paid to the Shareholders.

The Directors propose that a dividend of AED 373,336,000, AED 8 fils per share (2009: AED 466,670,000, AED 10 fils per share) will be paid to the Shareholders in 2011. This dividend is subject to approval by the Shareholders at the Annual General Meeting and has not been included as a liability in these consolidated financial statements.

It has also been proposed that the Board of Directors' remuneration for the year be AED 1,925,000 (2009: AED 1,925,000). The remuneration of directors is subject to approval by the Shareholders and as per limits set by the Commercial Companies Law No. 8 of 1984, as amended.

39. Approval of consolidated financial statements

The consolidated financial statements were approved by the Board of Directors and authorised for issue on 21 February 2011.