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ANNUAL REPORT 2007



His Highness Sheikh
Khalifa bin Zayed Al Nahyan
President of the United Arab Emirates



His Highness Dr Sheikh

Sultan Bin Mohammad Al Qasimi

Member of the Supreme Council Ruler of Sharjah

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Air travel is a means of transportation that every one should be able to afford. Opening up travel to the masses has given people the freedom to travel more often, and thus, making what was once a luxury for the few, available to all.

Through successfully introducing the low cost business model in the Middle East, we have managed to revolutionize air travel in this part of the world. In just four years, over five million passengers have made us their airline of choice and we have helped them reach over 37 destinations in the safest, most convenient and affordable way possible, and this is just the beginning!

TRULY, THE PEOPLE'S AIRLINE





OUR VISION ...

“To be one of the world’s leading budget airlines”

In terms of:

- Profit Margin
- Innovation
- Reputation
- Operational Excellence

OUR MISSION ...

“To revolutionise air travel in the region through an innovative business approach offering superb value for money and a safe, reliable operation”

To achieve this we will:

- Be known for our low fares
- Grow our business profitably
- Build motivated multi-functional teams
- Demonstrate the highest operational standards
- Manage our costs ruthlessly



CHAIRMAN & CEO's LETTER



“While we stand proud of what we have achieved to date, we are more excited by what the future holds”

Dear Shareholders,

The first few months since Air Arabia became a publicly listed company have been extremely gratifying and successful. In Accordance with the vision of His Highness Dr Sheikh Sultan Bin Mohammad Al Qasimi, Member of the Supreme Council and Ruler of Sharjah, we launched Air Arabia four years ago. Since then, not only have we seen massive growth and extremely profitable business, but we also have been supported by a huge customer base who believed we can bring change to the aviation industry in this region.

In the first year of operations, not only have we introduced the concept of low cost travel to the Middle East market, we also have managed to achieve financial break even and become profitable. Since then, the company growth has been at a very fast pace supported by a series of strategic moves.

While we stand proud of what we have achieved to date, we are more excited by what the future holds. Supported by a strong Board of Directors and a very experienced Management Team, we believe that Air Arabia has a great future ahead.



TAKING OFF

Our Initial Public Offering (IPO) in March 2007 established Air Arabia PJSC, as the first publicly owned airline in the Arab world. The successful IPO attracted over 40,000 local and International investors providing us with a strong and diversified base of shareholders. The AED 2.5 billion in capital raised has provided us with a unique platform through which we can drive Air Arabia into the international level. Proceeds from the IPO have enabled us to invest in fleet growth by signing an agreement with Airbus to acquire up to 49 A320 aircraft to support the company's expansion strategy. We have also been able to create a series of joint ventures to support the operational needs of the business and to grow ancillary revenues.

From the current operating fleet of 11 aircraft, we aim to grow our fleet to over 50 by 2015, serving further destinations in the region and expanding to international markets through opening additional hubs. We are focused on driving Air Arabia towards the company's vision of becoming a world's leading low cost carrier.

STRONG FINANCIAL RESULTS

Air Arabia results for the year ended December 31, 2007 were outstanding. Net profits reached AED 376 million with 272% increase compared to same period of 2006. Revenue generated was AED 1283.4 million, a 71.3 increase compared to AED 749.16 million of the year 2006. We have carried over 2.7 million passengers, a 53.2 increase compared to the number of passengers carried in 2006. As we grow our business, we aim to maintain the highest possible levels of profitability. This value is among the essence of our business model, which is flexible and efficient enough to maintain the lowest levels of operational costs and continuously maximize profits.

NEW ERA

Over the last six months of 2007, we forged ahead with an aggressive expansion plan in line with our growth strategy. We have introduced a series of local and international joint ventures that will benefit our business, reduce the operational costs and increase revenues. We have signed an agreement with Airbus to increase our existing fleet to cater for the company's growth needs as well as announcing our intention to open a new hub in the Moroccan Capital, Rabat.

At the same time, we have had the good fortune to be supported by the magnificent management of Sharjah International Airport, our main base. Sharjah Airport has provided us with a supportive and unique platform since the inception of Air Arabia in October 2003. Since then, the airport has gone into a massive development project that has supported us in our continuous growth.

PROMISING FUTURE

Indeed, these are wonderful times for us – we believe we have established the right foundation to grow our business internationally, and with your support, we can continue to fly Air Arabia throughout the world.

The Air Arabia team is the one who makes all the difference to the business and our customers by ensuring the highest safety standards, best service and affordable air travel. To them, we always say thank you for the continuous hard work.

Yours Sincerely,

Abdulla Bin Mohammed Al Thani
Chairman

Adel Abdullah Ali
Board Member and CEO



BOARD OF DIRECTORS

MEMBERS OF THE BOARD OF DIRECTORS ARE:

Sheikh Abdullah Bin Mohamed Al Thani	Chairman
Mr. Adel Abdulla Ali	Member & CEO
Dr. Ghanem Mohammed Al Hajri	Member
Mr. Taryam Matar Taryam	Member
Mr. Abdulwahab Mohammed Al Roomi	Member
Mr. Arif Naqvi	Member
Mr. Mustafa Abdel-Wadood	Member



HH Sheikh Abdullah Bin Mohamed Al Thani
Chairman, Air Arabia

HH Sheikh Abdullah Bin Mohammed Al Thani holds several prominent positions in the UAE. HH Sheikh Abdullah is also the chairman of Sharjah Airport Authority and is renowned for his contributions in the development of the Aviation Industry in UAE.



Mr. Adel Abdullah Ali
Chief Executive Officer, Air Arabia

Mr. Adel Ali has been given credit for setting up the Middle East and North Africa's first low-cost carrier (LCC), Air Arabia. Mr. Ali enjoys over 25 years of strategic aviation experience and had previously served as Vice President (Commercial and Customer Service) for Gulf Air, where he played a central role in the airline's recovery. Before that, he spent over 20 years with British Airways where he also held senior management positions, including General Manager (Middle East and Africa).

Mr. Ali has served as a Director and a Senior Board Member for a number of companies in the Middle East and Europe and currently is the Chairman of Information Systems Associates (ISA) and Alpha Sharjah catering. He has been recognized within the industry as a Middle East airline expert and has been awarded the Airline CEO of the Year 2007 as well as ranked among 100 most influential Arabs by Arabian Business magazine.

Mr. Ali's innovative achievements have been globally recognized through driving Air Arabia's growth to become the largest low cost carrier in the Middle East as well as the first publicly owned airline and among the top 50 most admired companies in the Arab World, all within a span of only four years.



Dr. Ghanem Mohammed Al Hajiri
Director General of
Sharjah Airport Authority

Dr. Ghanem Mohammed Al Hajiri is currently the Director General of Sharjah Airport Authority. Dr. Ghanem has served in numerous regional and international senior aviation posts including Secretary General for Gulf Airports Services Association (GASA) and Secretary General of Arab Airport's council.

Dr. Ghanem has been a Member of the Board of Directors of the Airport Council International (ACI) since 1991, through his career he was elected President ACI Asia Region, then elected as Vice Chairman and second Deputy Chairman ACI, and finally was elected as Chairman ACI.

Dr. Ghanem Holds a Doctorate Degree in Air Transport from Cranfield College of Aeronautics, United Kingdom.



Mr. Taryam Mattar Taryam
Director General of Sharjah Airport
International Free Zone

Mr. Taryam Mattar Taryam enjoys wide and long years of experience in the telecom industry where he spent 17 years with Emirates Telecommunications Company (ETISALAT) where he held the position of General Manager.

Mr. Taryam and for the last eight years has been the Director General of Sharjah Airport International Free Zone (SAIF-Zone) and along with Air Arabia, Mr. Taryam is a member of Board of Directors for Sharjah International Airport.



Mr. AbdulWahab Mohammad Al Roomi
Director General of Civil Aviation,
Sharjah

Mr. AbdulWahab Mohammad Al Roomi is the Director of Civil Aviation, Sharjah.

Mr. AbdulWahab sits on various boards along with Air Arabia's board, such as Board Member Sharjah Commerce & Tourism Development Authority, Board Member Sharjah International Free Zone, and Board Member Sharjah International Airport.

He is an Engineer, holding a Degree in Chemical and Petroleum Engineering from Al Ain University in UAE.



Mr. Arif Masood Naqvi
Executive Vice Chairman and Chief Executive Officer,
Abraaj Capital Limited

Mr. Arif Naqvi is the Executive Vice Chairman and Chief Executive Officer of Abraaj Capital, the largest private equity firm in the MENASA region, based in Dubai. Mr. Arif Naqvi is a member of the Young Presidents Organization, Arab Business Council of World Economic Forum and is a board member of the Pakistan Human Development Fund, the King Abdullah II Award for Youth Innovation and Achievement in Jordan, the Dubai Government Education Endowment Fund in the UAE and a member of the EMPEA Advisory Council.

Mr. Naqvi has been recognized as one of the 50 most influential people in the Private Equity Industry and received the highest civil honor in Pakistan, Sitari-e-Imtiaz, by the Republic's President in 2006.



Mr. Mustafa Abdel-Wadood
Managing Director,
Abraaj Capital

Mr. Mustafa Abdel-Wadood is the Managing Director of Abraaj Capital, the leading private equity firm in the MENASA region based out of Dubai. Besides the Board of Air Arabia, Mr. Mustafa sits on Board of Directors of Abraaj Capital, Egyptian Fertilizers Company, EFG-Hermes, Jordan National Bank, BMA Capital, Jordan Aircraft Maintenance Company and other various boards.

Earlier, Mr. Mustafa played a huge role with EFG as CEO of EFG-Hermes (UAE), was Co-founder and Managing Director of Sigma Capital, and was Director of Development and Investments at Orascom and Board Member of Orascom Telecom.

Mr. Mustafa was selected by the World Economic Forum as one of the 100 Global Leaders for Tomorrow for the Year 2002 and as a Young Global Leader (YGL) for 2007.

BOARD OF DIRECTORS REPORT



The Board of Directors of Air Arabia PJSC are pleased to share the company's trading results for the period from inception to 31st December 2007.

During this time Air Arabia produced an operating profit of AED 154m from Sales revenues of AED 804m, with a Net profit after Finance receipts and other income of AED 282m. The company carried a total of 2.7 million passengers during the year, an increase of 53% over 2006, achieving an average load factor of 86% which was a 7.5% above the previous year.

This was an excellent performance and evidence of the continuing strong demand in our region for the Air Arabia business model and for Low cost air travel in general

During the Dubai air show Air Arabia also announced an order for 34 Airbus A320 aircraft with a further 15 options. The airline now operates to 37 destinations in 21 countries having recently started flights to Bangalore and Coimbatore. Further expansion to the route network will continue throughout 2008.

In November 2007 Air Arabia announced its second hub will be in the Moroccan capital of Rabat providing a base from which to fly to the European, Middle Eastern and African markets. A third hub in Katmandu Nepal opened early in January 2008, extending the airlines reach to markets in South east Asia as well the Indian sub-continent and the MiddleEast. These new joint venture companies are a further extension of Air Arabia's Low cost model bringing the prospect of low cost air travel to millions of people around the world.

The most important part of our business though are our people. During 2007 the Air Arabia family reached 719 employees an increase of 160 on 2006. The Chairman and Board of Directors are proud of the part played by each one of them in the company's success, and they would like to thank all of Air Arabia's staff for their hard work, professionalism and dedication during 2007.

The strength of Air Arabia's business model, the dedication of its employees, and the millions of passengers who have enjoyed its excellent service over the last four years give the business a strong foundation with which to move forward into the future, we look forward to the next phase in the company's development, and the many challenges this will bring, and we would like to thank all our shareholders, staff and customers for their ongoing support during 2007.

MILESTONES & ACHIEVEMENTS OF 2007

INITIAL PUBLIC OFFERING

After four years of running profitable and successful operations, we have decided to convert Air Arabia into a publicly listed company to share our success with the public and support our expansion plans. Air Arabia opened its initial public offering (IPO) on March 18, 2007 offering 2.5 billion shares at AED 1 per share. The IPO, biggest in UAE at the time, achieved tremendous success and marked Air Arabia as the first publicly owned airline in the Arab world.

The total size of the offering was AED2,566,700,000 consisting of 2,566,700,000 shares, representing 55 per cent of the company's share capital. The company is listed on the Dubai Financial Market since July 2007 with the share achieving strong results and notable appreciation.

FLEET EXPANSION

In 2007, we increased the airline's operating fleet to 11 leased Airbus A320 aircraft by adding 3 more aircraft to the existing fleet. In November 2007, we signed an agreement with Airbus to acquire up to 49 Airbus A320 aircraft, a firm contract to purchase 34 aircraft with an option for 15 more. The deal, whose total book value approaches US\$3.5 billion at list prices, will more than triple the size of Air Arabia's fleet, and underlines our stated ambition to increase the airline's total operating fleet to over 50 aircraft by 2015 and become a world-leading airline.

PLANS FOR NEW HUBS

In November 2007, we have announced plans to open another hub in Rabat, Morocco. The new hub is part of a management agreement between Air Arabia and Regional airlines, leading domestic airlines in Morocco, and will provide us with a wider platform from which to fly to Europe, the Middle East and North African (EMEA) markets.

NEW DESTINATIONS. INNOVATIVE SERVICES

Through 2007, we have added 6 new destinations to the company's route map. Flights to Ahmedabad began in April, and services to Coimbatore and Bangalore began in September and October respectively. We currently serve nine destinations in India, the highest connectivity in the region.

In March 2007, we started operations to Pakistan by launching services to the cities of Karachi and Peshawar. In June, we started services to Bangladesh with flights to the country's second largest city, Chittagong. We currently serve 37 destinations in the Middle East, North Africa, Central Asia, South Asia and Eastern Europe.

Offering our customers more support and convenient service across the region and the world, we extended the timings of our call centre to 24 hours a day, seven days a week. In August 2007, we inaugurated the first dedicated sales shop in Jordan, reflecting that country's importance as a destination to Air Arabia travelers.



JOINT VENTURES

To cater to the company's growth needs and increasing profitability, we have introduced a series of valiant initiatives that adds to the company's ancillary revenues and at the same time man the growth pace witnessed. We have set the basic infrastructure behind the company's expansion strategy by entering into a series of innovative joint venture agreements.

Sharjah Aviation Services (SAS), a joint venture between Sharjah International Airport and Air Arabia, was launched in January 2007, in order to support the ongoing expansion of Sharjah Airport. Sharjah Aviation Services will deliver a comprehensive range of passenger, ramp and cargo handling services for airline operators and their customers at the airport.

We have also signed a joint venture agreement with Hong Kong Aircraft Engineering Company on March 2007. The agreement meets the airline's engineering and maintenance requirements. The new company, 51% owned by Air Arabia, is known as HAECO Sharjah Aircraft Maintenance Company Limited (HS-AECO) and is based in Sharjah.

Another joint venture was accomplished in November 2007 with Alpha Aviation Group, a specialist global aviation training provider to launch a new multi-million dollar International Aviation Training Academy based in Sharjah. The agreement will help Air Arabia meet its own internal needs for pilots to man its expanding aviation fleet.

Focusing more on the quality of our on-board product, we have signed a joint venture agreement with Alpha Catering to support on-board catering needs and add to the airline's ancillary revenues.



In 2007, we increased the airline's operating fleet to 11 leased Airbus A320 aircraft by adding 3 more aircraft to the existing fleet. In November 2007, we signed an agreement with Airbus to acquire up to 49 Airbus A320 aircraft, a firm contract to purchase 34 aircraft with an option for 15 more.



OVER FIVE MILLION PASSENGERS

In October 2007, we passed the five million passenger mark since Air Arabia launch in October 2003. Over a four year period, the airline has expanded very rapidly. Passenger traffic through 2007 saw 2.7 million passengers flying on Air Arabia, a 53.2 per cent increase from the same period in 2006.

AIR ARABIA BUDGET HOTEL

To enhance the value for money services we are offering, we decided to construct a 300-room hotel at Sharjah Airport. We have signed a management agreement with Rotana Hotels to manage this property under their innovative 'Centro by Rotana' brand, offering affordable, superior-class accommodation and hospitality.

Centro by Rotana, Sharjah Airport, will be highly distinctive, expressed through its contemporary architecture and unique living spaces. While dramatic exteriors will reflect Centro's modern style, its crisp interiors will provide the essentials for today's traveler, including advanced technologies.

FINANCIAL STABILITY

Air Arabia has achieved strong and consistent financial results since inception. We were able to break even from the first year of operations, which is considered a milestone achievement for any airline, at the same time achieving a double digit profit growth.

For the year 2007, the company posted a net profit of AED 376 million, up 272 per cent compared to AED 101 million compared to last year. For the same period, the company posted a turnover of AED 1283.4 million, up 71.3 per cent compared to AED 749.16 million in 2006. In 2007, the airline served a total of 2.7 million passengers, an increase of 53.2 per cent compared to 1.76 passengers in 2006.

The year 2007 saw Air Arabia receive several notable accolades for its successful business and growth.



AWARDS

The year 2007 saw Air Arabia receive several notable accolades for its successful business and growth. In June 2007, Air Arabia won the Airbus Operational Excellence Award. This prestigious award recognised Air Arabia's high level of aircraft utilization from 2005-2007 and the high level of operational reliability the airline practiced. The award was given to Air Arabia over all other Low Cost Carriers operating from around the world with fleet of less than 50 aircraft.

In August, Air Arabia won the World Airline Award for best low-cost carrier in the Middle East. The award, based on global, independent passenger surveys of airline standards carried out by Skytrax Research, were the outcome of the measurement of more than 35 different aspects of customer satisfaction levels of an airline's product and service standards. As part of the World Airline Awards selection process, in excess of 14.8 million passengers, of more than 90 nationalities, were polled.

In November, Air Arabia was named low-cost carrier of the year at the Aviation Business Awards. Adel Ali, Air Arabia's CEO, was named "Airline CEO of the Year" at the same ceremony. The awards are the premier airline award ceremony of the Middle East region.

CORPORATE SOCIAL RESPONSIBILITY

Since the establishment of Air Arabia, society has been a core part of the company's business behavior. Taking responsibility and lead on social needs of local and international communities has been part of our success.

Air Arabia was among the first to introduce a sustainable CSR initiative by launching 'Suhab Al Khair' project in collaboration with Sharjah Charity International. The program aims on raising funds through certain initiatives such as on-board donations. The fund is raised and collected annually and re-invested in medical care establishments in needed countries. In 2007, Air Arabia and Sharjah Charity International inaugurated 'Air Arabia Medical Centre', the first free medical clinic in the needed area of Jallas in Sudan, a desert area with a population of over 20,000 and 450 km away from the Capital, Khartoum. The clinic, which is constantly developed, included an operation and examination room, maternity room as well as a laboratory and pharmacy.

In 2007, we introduced the "Air Arabia World Endurance Sailing Challenge", an attempt from Air Arabia to help individual athletes achieve their sports dreams. Air Arabia helped one of its pilots to cross 550-kilometre laser sailing solo voyage from Bahrain to Dubai, setting a new world record for laser Endurance Sailing. The aim of this ocean voyage, which lasted three days and nights, was to raise funds for local charities in both the UAE and Bahrain.



ABOUT AIR ARABIA



Air Arabia is the Middle East and North Africa's first and leading low-cost carrier (LCC). The company commenced operations in October 2003 and currently operates a fleet of 11 new Airbus A320 aircraft, serving over 37 destinations across Middle East, North Africa, Indian Subcontinent and Central Asia through its main hub in Sharjah, United Arab Emirates.

Air Arabia is modeled after leading American and European Low Cost Carriers and its business model is customized to accommodate local preferences. The company was able to re-define the concept of air travel in this part of the world through offering a superb value for money travel along with a safe, consistent and reliable operation.

In March 2007, Air Arabia offered 55% of its capital for initial public offering, biggest IPO in UAE history at the time. The AED2.5 Billion successful initial public offering (IPO) included over 40,000 local and international investors and marked Air Arabia as the first publicly owned airline in the Arab world. Air Arabia shares are listed and traded in the Dubai Financial Market since July 2007.

Air Arabia started its expansion plan that aims on driving the company to become a world leading low cost carrier (LCC). The company has announced its plans to open a new hub in the Moroccan Capital, Rabat to enter new niche markets spreading accross Europe, the Middle East and North Africa and also declared its intention to operate another new hub in 2008. The company aims to grow its current fleet to over 50 aircraft by 2015 and has signed a \$3.5 Billion worth deal with Airbus for the acquisition of up to 49 A320 aircraft.

HISTORY AND DEVELOPMENT OF AIR ARABIA

Air Arabia is the first low cost carrier (LCC) in the Middle East and North Africa region. We are the international airline of the Emirate of Sharjah and one of the officially approved national carriers of the United Arab Emirates.

The company commenced operations in October 2003 and is modelled after leading American and European low-cost airlines. Our business model is customized to accommodate local preferences. The low cost model has been warmly welcomed across the region since Air Arabia introduced it and continues to go from strength to strength. In just four years time, low cost travel have become the preferred choice of travel to wide audience and we have been able to carry over 5 million passengers.

Initially operating with two new Airbus A320 aircraft, Air Arabia's fleet has increased to 11 leased Airbus A320 aircraft flying to over 37 destinations with more significant growth planned. Based at Sharjah International Airport, Air Arabia customers enjoy the benefits of quick access to Sharjah, Dubai and other Emirates, fast check-in processes, low congestion, friendly airport staff, as well as access to other commercial carriers served at the airport.

Air Arabia enjoys an enviable reputation for the many milestone achievements earned in the airline's first four years. Our financial break even result in our first year of operation is a ground breaking feat for any airline.

The reliable and profitable record the company has achieved since inception, allowed us to take a solid and pioneer step in converting the company into a public joint stock company (PJSC) in 2007. This step not only marked Air Arabia as the first airline in the Arab world to be publicly owned, furthermore, it allowed us to set the proper basis needed to implement our expansion strategy and ambition to become a world leading low cost carrier. The airline that started with a limited budget of few millions is now worth over AED4.6 Billion.

BUSINESS OVERVIEW



In 2007, we have celebrated Air Arabia's fourth year anniversary accompanied by massive developments with in the airline business growth. We have accomplished the formation of Air Arabia PJSC, listed in the Dubai Financial Market and continued with ambition progress that has pioneered us as the regions leading low cost carrier.

INNOVATION - significantly expand complimentary operations to control costs and enhance profitability

January	2007	Established Sharjah Aviation Services (SAS), Joint venture with Sharjah International Airport
March	2007	HAECO Sharjah, joint venture with Hong Kong Aircraft Engineering Company (HAECO)
April	2007	Centro Rotana, Air Arabia 300 room budget hotel at Sharjah Airport
June	2007	Sharjah Alpha Catering, joint venture agreement with Alpha Catering
June	2007	Air Arabia Holidays, budget holiday offerings integrated in an internal portal
November	2007	Sharjah Aviation Training Academy, a joint venture with Alpha Aviation Group

RELIABILITY - backed by sustained expansion strategy

October	2007	Operating fleet reached 11 new leased Airbus A320 aircraft
November	2007	Signing an agreement with Airbus to acquire up to 49 A320 aircraft
November	2007	Announced plans to open another hub in Moroccan Capital, Rabat to enter markets in Europe, Middle East and North Africa

GROWTH - 25 % growth per Annum

March	2007	Started services to Pakistan with flights to Karachi and Peshawar
September	2007	Began services to Bangladesh with flights to Chittagong
September	2007	Increased operations to nine destinations in India by adding Ahmedabad, Coimbatore and Bangalore
December	2007	Sales figures increased by 18% compared to 2006 and number of destinations reaches 37 across route network
December	2007	Net profits for 2007 triples, a 272% increase compared to 2006
December	2007	Carried 2.7 million passenger in 2007 and crossing 5 million passenger mark since inception



OPERATIONAL EXCELLENCE

Operational Excellence has been one of the core objectives that we were determined to accomplish since the inception of Air Arabia. Through our four years of growth and progress, we have managed to keep ahead and compete internationally on the operational level. Our operational performance has been globally recognized among industry pioneers making Air Arabia a benchmark example of running a successful low cost business model in a region renowned for its conservative aviation culture.

For three consecutive years, we have maintained the highest level of aircraft utilization as well as the highest level of operational reliability among all other low cost carriers operating from around the world with a fleet of less than 50 aircraft. This accomplishment has been recognized by Air Arabia winning the Airbus Operational Excellence Award 2005 – 2007.

We have managed to breakeven from the first year of operations and by far, we enjoy the second lowest operational cost among all other airlines in the world by achieving a 16.6 Fils Cost / ASK (Cost per Available Seat Kilometer) recording an EBTIDAR figure of 36%.

We have set the target to maintain our operational excellence and profitability. We believe, our efficient low cost base, our flexible business model and low infrastructure and distribution cost will help us sustain it all.

INTERNATIONAL AMBITION

Derived from our vision to be one of the world's leading budget airlines, we have now set the proper infrastructure that allows us to enter international markets.

In four years time, we have created an efficient and reliable base at Sharjah airport that permitted us to serve over 37 destinations across the region, and we are aiming to double this figure in the coming years.

In 2007, we have strengthened our business model further. In November 2007, we announced our plans to open new hub in Rabat, Morocco. The new hub is part of a management agreement between Air Arabia and Regional Air Lines, leading domestic airline in Morocco, and will provide us with a wider platform from which to enter into the wider Europe, Middle East and North Africa (EMEA) market.

In 2008, we are planning to open another hub from which to enter further destinations in South Asia, Middle East as well as the Far East. This step will offer a unique platform to link our route network spreading from GCC and Levant markets to reach into wider Asia and Far East.

These new hubs will help Air Arabia expand its route network, frequency and connectivity, and hence, offer our customers more options for value for money air travel and increase the airline's profitability, securing a highest return on investment for our investors.



CUSTOMERS

Our value proposition is "Pay Less. Fly More." Simply put, this means that our business model has cleared the way for a greater number of business and leisure customers to be able to travel more often, to more places.

Whether families, students or individuals, we have set the target to offer you value for money services, providing an opportunity to change the air travel perception in this part of the world by allowing travelling to be more of a frequent experience. Further more, we are keen to make our customers part of our growth story by offering a unique investment opportunity, and having them among our shareholders.

Over the last four years, our customers have been our key incentive to grow our business further and further, and now, for all of you who have made us your airline of choice, we tell you, this is just the beginning!



FINANCIAL RESULTS

Consolidated Balance Sheet At December 31, 2007

INDEPENDENT AUDITOR'S REPORT

To the Directors of Air Arabia P.J.S.C (Air Arabia)

The accompanying summarised consolidated financial statements have been derived from the consolidated financial statements of Air Arabi P.J.S.C. (Air Arabia) (the 'Company') and Subsidiary (together the 'Group'), Sharjah, United Arab Emirates for the period from inception to December 31, 2007. These summarised financial statements are the responsibility of the Group's management. Our responsibility is to express our opinion on whether these summarised financial statements are consistent, in all material respects, with the consolidated financial statements from which they were derived.

We have audited the consolidated financial statements of the Group for the period from inception to December 31, 2007, from which the summarised financial statements were derived, in accordance with International Standards on Auditing. In our report dated February 13, 2008 we expressed an unqualified opinion on the consolidated financial statements from which the summarised financial statements were derived.

In our opinion, the accompanying summarised financial statements are consistent, in all material respects, with the consolidated financial statements from which they were derived.

For a better understanding of the Group's financial position and the results of its operations for the period and of the scope of our audit, the summarised financial statements should be read in conjunction with the consolidated financial statements from which the summarised financial statements were derived and our audit report thereon.

Sharjah
February 13, 2008

December 31, 2007

ASSETS

Current assets

Cash and cash equivalents	2,969,905,739
Trade and other receivables	134,009,886
Due from a related party	1,710,251
Inventories	747,707

Total current assets **3,106,373,583**

Non-current assets

Available-for-sale investments	581,215,288
Aircraft lease deposits	37,669,225
Deferred charges	6,457,738
Goodwill and other intangible assets	1,320,860,299
Investment property	12,562,500
Advance for new aircraft	160,181,266
Property and equipment	112,239,533

Total non-current assets **2,231,185,849**

Total assets **5,337,559,432**

LIABILITIES AND EQUITY

Current liabilities

Trade and other payables	182,028,689
Deferred income	104,303,403
Due to related parties	11,761,752

Total current liabilities **298,093,844**

Non-current liabilities

Due to a related party	2,250,000
Provision for employees' end of service indemnity	7,738,209

Total non-current liabilities **9,988,209**

Total liabilities **308,082,053**

Capital and reserves

Share capital	4,666,700,000
Statutory reserve	27,665,734
Investments revaluation reserve	4,866,635
Retained earnings	330,245,010

Total equity **5,029,477,379**

Total liabilities and equity **5,337,559,432**

All the figures are in UAE Dirhams

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Consolidated Income Statement For the period from inception to December 31, 2007

Period from inception to December 31, 2007

Revenue	803,669,430
Cost of sales	(591,704,084)
Gross profit	211,965,346
Selling and marketing costs	(21,340,403)
General and administrative expenses	(36,508,000)
Operating profit	154,116,943
Profit on bank deposits	100,682,948
Other income	27,172,024
Profit for the period	281,971,915
Basic earnings per share	0.06

Consolidated Statement of Changes in Equity For the period from inception to December 31, 2007

	Share Capital	Statutory Reserve	Investments Revaluation Reserve	Retained Earnings	Total
Share capital introduced	4,666,700,000	-	-	-	4,666,700,000
Pre-incorporation profit directly recognised in equity	-	-	-	75,938,829	75,938,829
Gain on available-for-sale investments directly recognised in equity	-	-	4,866,635	-	4,866,635
Profit for the period	-	-	-	281,971,915	281,971,915
Total recognised income and expense for the period	-	-	4,866,635	357,910,744	362,777,379
Transfer to statutory reserve	-	27,665,734	-	(27,665,734)	-
Balance at December 31, 2007	4,666,700,000	27,665,734	4,866,635	330,245,010	5,029,477,379

Consolidated Cash Flow Statement For the period from inception to December 31, 2007

Period from inception to December 31, 2007

Operating activities

Profit for the period	281,971,915
Adjustment for:	
Depreciation of property and equipment	3,411,453
Depreciation of investment property	397,917
Amortisation of deferred charges	19,742,184
Provision for employees' end of service indemnity	1,425,015
Loss on disposal of property and equipment	426,577
Profit on bank deposits	(100,682,948)
Rental income	(1,193,750)

Operating cash flows before movements in working capital 205,498,363

Increase in trade and other receivables	(34,918,626)
Increase in inventories	(747,707)
Decrease in due from a related party	1,833,924
Increase in aircraft lease deposits	(12,188,968)
Increase in trade and other payables	67,865,969
Decrease in deferred income	(26,676,963)
Decrease in due to related parties	(102,129,314)

Cash generated from operations 98,536,678

Employees' end of service indemnity paid	(572,110)
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Net cash from operating activities 97,964,568

Investing activities

Purchase of property and equipment	(46,221,391)
Advance for new aircraft	(160,181,266)
Increase in deferred charges	(15,159,376)
Profit on bank deposits	100,682,948
Rental income	1,193,750
Pre-incorporation profit	75,938,829
Purchase of available-for-sale investments	(551,090,000)

Net cash used in investing activities (594,836,506)

Financing activities

Share capital received in cash	3,266,700,000
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Cash from financing activities 3,266,700,000

Net increase in cash and cash equivalents	2,769,828,062
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Cash and cash equivalents acquired at June 19, 2007	200,077,677
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Cash and cash equivalents at the end of the period 2,969,905,739

Notes to the Summarised Consolidated Financial Statements For the period from inception to December 31, 2007

1. GENERAL INFORMATION

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

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

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

The Company was incorporated on June 19, 2007 and accordingly comparatives are not presented in these consolidated financial statements.

2. ACCOUNTING POLICIES

The accounting policies followed by the Group are included in the consolidated financial statements in Note 2. These summarised financial statements should be read in conjunction with the Group's audited consolidated financial statements for the period from inception to December 31, 2007.

3. BUSINESS COMBINATION

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

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

The Company is in the process of determining the fair values of investment property, property and equipment and separately identifiable intangible assets acquired from Air Arabia Company L.L.C. (Air Arabia) to determine the remaining value attributable to goodwill within the twelve months of the transfer date as allowed by IFRS 3 "Business Combinations". Accordingly, adjustments to the provisional values will be recognised and an impairment test on the carrying value of goodwill will also be performed upon completion of the valuation process.

4. GOODWILL AND OTHER INTANGIBLE ASSETS

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

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

	December 31, 2007
Total fair value of Air Arabia Company L.L.C. (Air Arabia)	1,400,000,000
Book value of net assets acquired, as above	(79,139,701)
Goodwill and other intangible assets	1,320,860,299

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

Adjustments to provisionally recognised value will be finalised within twelve months of the date of business combination and an impairment test on the carrying values of goodwill will also be performed at that stage.

5. SHARE CAPITAL

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

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

6. REVENUE

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

	Period from inception to December 31, 2007
Passenger revenue	765,629,680
Baggage revenue	15,207,089
Cargo revenue	5,432,392
Service income	2,535,584
Catering revenue	10,746,592
Airport handling revenue	21,997,261
Sales commission and expenses	(17,879,168)
	803,669,430

7. BASIC EARNINGS PER SHARE

	Period from inception to December 31, 2007
Profit for the period (in AED)	281,971,915
Number of shares	4,666,700,000
Basic earnings per share (in AED)	0.06

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

8. PRE-INCORPORATION PROFIT

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

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

9. OPERATING LEASE COMMITMENTS

Details of aircraft lease agreements are as follows:

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

The fixed lease commitments against 11 delivered aircraft are as follows:

	December 31, 2007
Within one year	145,028,455
In the second to fifth years inclusive	427,675,191
After five years	11,075,208
	583,778,854

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

	December 31, 2007
Within one year	26,305,945
In the second to fifth years inclusive	498,251,089
After five years	323,744,824
	848,301,858

Notes to the Summarised Consolidated Financial Statements For the period from inception to December 31, 2007

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10. CONTINGENT LIABILITIES

	December 31, 2007
Letters of credit	50,921,134
Letters of guarantee	8,470,248

11. CAPITAL COMMITMENTS

The Group has entered into the following capital commitments as of December 31, 2007:

	December 31, 2007
Authorised and contracted:	
Aircraft fleet	10,244,169,824
Non-aircraft	6,155,625
Joint ventures	36,750,000
	10,287,075,449
Authorised but not contracted:	
Aircraft fleet	3,858,750,000
Joint ventures	18,375,000
	3,877,125,000