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

CONSOLIDATED FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT FOR THE YEAR ENDED DECEMBER 31, 2009

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

Consolidated Financial Statements and Independent Auditor's Report For the Year Ended December 31, 2009

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Deloitte.

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

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

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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 Subsidiaries (together the "Group"), Sharjah, United Arab Emirates** which comprise the consolidated statement of financial position as at December 31, 2009, 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 notes.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Deloitte.

Independent Auditor's Report (continued)

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of **Air Arabia P.J.S.C. (Air Arabia) and Subsidiaries, Sharjah** as of December 31, 2009, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on Other Legal and Regulatory Requirements

Also, in our opinion, the Group has maintained proper books of account and the physical inventory was properly conducted. The information contained in the directors' report relating to the consolidated financial statements is in agreement with the books. We obtained all the information which we considered necessary for our audit. According to the information available to us, there were no contraventions during the year of the U.A.E. Federal Commercial Companies Law No. 8 of 1984, as amended, or the Articles of Association of the group companies which might have materially affected the financial position of the Group or its financial performance.

For Deloitte & Touche

Saba Y. Sindaha
Partner
(Registration No. 410)

Sharjah
February 17, 2010

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

Consolidated Statement of Financial Position
At December 31, 2009
(In Arab Emirates Dirhams)

	Notes	December 31, 2009	December 31, 2008
ASSETS			
Current assets			
Bank balances and cash	5	**1,996,251,116**	1,767,125,257
Trade and other receivables	6	**269,642,795**	241,695,553
Due from related parties	7	**22,568,191**	103,191
Inventories		**5,050,932**	1,562,249
Total current assets		**2,293,513,034**	2,010,486,250
Non-current assets			
Trade and other receivables	6	**14,578,675**	-
Available-for-sale investments	8	**1,205,336,758**	1,522,810,487
Aircraft lease deposits	9	**35,399,653**	42,438,716
Deferred charges	10	**26,264,724**	31,694,171
Investment in associates	11	**28,790,018**	-
Goodwill	12	**189,474,216**	189,474,216
Intangible assets	13	**1,092,346,500**	1,092,346,500
Investment property	14	**50,102,083**	50,852,083
Advance for new aircraft	15	**373,805,962**	257,709,990
Property and equipment	16	**761,885,111**	663,760,795
Total non-current assets		**3,777,983,700**	3,851,086,958
Total Assets		**6,071,496,734**	5,861,573,208
LIABILITIES AND EQUITY			
Current liabilities			
Trade and other payables	17	**427,601,489**	322,552,719
Deferred income		**129,351,603**	132,803,072
Due to related parties	7	**-**	8,370,662
Total current liabilities		**556,953,092**	463,726,453
Non-current liabilities			
Trade and other payables	17	**23,124,241**	-
Provision for employees' end of service indemnity	18	**23,110,690**	14,241,314
Total non-current liabilities		**46,234,931**	14,241,314
Total Liabilities		**603,188,023**	477,967,767
Capital and reserves			
Share capital	19	**4,666,700,000**	4,666,700,000
Treasury shares		**-**	(42,582,203)
Statutory reserve		**122,895,506**	77,672,380
General reserve		**122,895,506**	77,672,380
Cumulative change in fair values		**(51,404,954)**	(105,882,324)
Retained earnings		**607,222,653**	710,025,208
Total Equity		**5,468,308,711**	5,383,605,441
Total Liabilities and Equity		**6,071,496,734**	5,861,573,208

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

Chairman | Chief Executive Officer | Director of Finance

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

Consolidated Statement of Income
For the Year Ended December 31, 2009
(In Arab Emirates Dirhams)

	Notes	**Year ended December 31, 2009**	Year ended December 31, 2008
Revenue	20	**1,971,964,782**	2,065,786,197
Cost of sales	21	**(1,613,616,514)**	(1,671,571,748)
Gross profit		**358,348,268**	394,214,449
Selling and marketing costs	22	**(34,727,508)**	(37,067,198)
General and administrative expenses	23	**(74,496,310)**	(66,920,099)
Operating profit		**249,124,450**	290,227,152
Profit on bank deposits		**156,266,357**	163,900,358
Other income	24	**46,840,450**	55,597,813
Profit for the year	26	**452,231,257**	509,725,323
Basic earnings per share	27	**0.10**	0.11

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

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

Consolidated Statement of Comprehensive Income
For the Year Ended December 31, 2009
(In Arab Emirates Dirhams)

	Year ended December 31, 2009	Year ended December 31, 2008
Profit for the year	**452,231,257**	509,725,323
Other comprehensive income		
Gain/(loss) on revaluation of available-for-sale investments	**49,926,271**	(117,557,047)
Reclassification adjustment for losses included in profit and loss	**4,551,099**	6,808,088
Board of Director's remuneration – joint venture	**(300,000)**	-
Board of Directors' remuneration	**(1,800,000)**	-
Total comprehensive income for the year	**504,608,627**	398,976,364

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

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

Consolidated Statement of Changes in Equity
For the Year Ended December 31, 2009
(In Arab Emirates Dirhams)

	Share capital	Treasury shares	Statutory reserve	General reserve	Cumulative change in fair values	Retained earnings	Total
Balance at December 31, 2007	4,666,700,000	-	27,665,734	27,665,734	4,866,635	302,579,276	5,029,477,379
Profit for the year	-	-	-	-	-	509,725,323	509,725,323
Other comprehensive income for the year	-	-	-	-	(110,748,959)	-	(110,748,959)
Total comprehensive income for the year	-	-	-	-	(110,748,959)	509,725,323	398,976,364
Transfer to reserves	-	-	50,006,646	50,006,646	-	(100,013,292)	-
Other movements	-	-	-	-	-	(1,754,477)	(1,754,477)
Treasury shares purchased	-	(42,582,203)	-	-	-	(511,622)	(43,093,825)
	-	(42,582,203)	50,006,646	50,006,646	-	(102,279,391)	(44,848,302)
Balance at December 31, 2008	4,666,700,000	(42,582,203)	77,672,380	77,672,380	(105,882,324)	710,025,208	5,383,605,441
Profit for the year	-	-	-	-	-	452,231,257	452,231,257
Other comprehensive income for the year	-	-	-	-	54,477,370	(2,100,000)	52,377,370
Total comprehensive income for the year	-	-	-	-	54,477,370	450,131,257	504,608,627
Transfer to reserves	-	-	45,223,126	45,223,126	-	(90,446,252)	-
Dividend paid (see Note 36)	-	-	-	-	-	(466,670,000)	(466,670,000)
Treasury shares sold	-	42,582,203	-	-	-	4,182,440	46,764,643
	-	42,582,203	45,223,126	45,223,126	-	(552,933,812)	(419,905,357)
Balance at December 31, 2009	**4,666,700,000**	-	**122,895,506**	**122,895,506**	**(51,404,954)**	**607,222,653**	**5,468,308,711**
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The accompanying notes form an integral part of these consolidated financial statements.

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

Consolidated Statement of Cash Flows
For the Year Ended December 31, 2009
(In Arab Emirates Dirhams)

	Year ended December 31, 2009	Year ended December 31, 2008
Operating activities		
Profit for the year	**452,231,257**	509,725,323
Adjustment for:		
Depreciation of property and equipment	**40,615,254**	29,036,491
Depreciation of investment property	**750,000**	750,000
Amortisation/impairment of deferred charges	**8,848,635**	6,710,800
Provision for employees' end of service indemnity	**9,699,444**	7,289,555
Impairment losses on available-for-sale investments	**4,551,099**	6,808,088
Unrealised gain on derivative financial instruments	**(36,683,178)**	-
Loss/(gain) on disposal of property and equipment	**908,574**	(76,714)
Share of net losses in associates	**31,654,552**	-
Allowance for doubtful debts	**1,101,721**	542,562
Profit on bank deposits	**(156,266,357)**	(163,900,358)
Dividend income	**(1,197,014)**	(56,435,700)
Lease income	**(29,860,551)**	(2,250,000)
Operating cash flows before movements in working capital	**326,353,436**	338,200,047
Increase in margin deposits	**(386,897)**	(417,500)
Increase in trade and other receivables	**(6,944,460)**	(108,228,229)
Increase in inventories	**(3,488,683)**	(814,542)
Increase in due from related parties	**(20,675,667)**	(103,191)
Decrease/(increase) in aircraft lease deposits	**7,039,063**	(4,769,491)
Increase in trade and other payables	**121,035,020**	140,524,030
(Decrease)/increase in deferred income	**(3,451,469)**	28,499,669
Decrease in due to related parties	**(8,370,662)**	(3,930,839)
Cash generated from operations	**411,109,681**	388,959,954
Employees' end of service indemnity paid	**(830,068)**	(786,450)
Net cash from operating activities	**410,279,613**	388,173,504
Investing activities		
Purchase of property and equipment	**(140,934,051)**	(580,624,368)
Proceeds from sale of property and equipment	**1,285,907**	143,329
Advance for new aircraft	**(116,095,972)**	(97,528,724)
Increase in deferred charges	**(3,419,188)**	(31,947,233)
Increase in investment in associates	**(60,444,570)**	-
Purchase of available-for-sale investments	**-**	(1,059,152,246)
Proceeds on maturity of available-for-sale investments	**367,400,000**	-
Decrease/(increase) in Murabaha deposits	**1,126,023**	(312,350,000)
Decrease/(increase) in fixed deposits	**4,601,392**	(1,266,988,475)
Profit on bank deposits	**156,266,357**	163,900,358
Lease income	**29,860,551**	2,250,000
Net cash from/(used in) investing activities	**239,646,449**	(3,182,297,359)

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

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

Consolidated Statement of Cash Flows (continued)
For the Year Ended December 31, 2009
(In Arab Emirates Dirhams)

	Year ended December 31, 2009	Year ended December 31, 2008
Financing activities		
Increase in due from a related party	**(1,789,333)**	-
Increase in other payables	**7,137,991**	-
Dividend paid by a joint venture	**-**	(1,754,477)
Dividend paid	**(466,670,000)**	-
Dividend received	**1,197,014**	56,435,700
Board of Directors' remuneration	**(1,800,000)**	-
Board of Directors' remuneration- joint venture	**(300,000)**	-
Treasury shares purchased	**-**	(43,093,825)
Treasury shares sold	**46,764,643**	-
Cash (used in)/from financing activities	**(415,459,685)**	11,587,398
Net increase/(decrease) in cash and cash equivalents	**234,466,377**	(2,782,536,457)
Cash and cash equivalents at the beginning of the year	**187,369,282**	2,969,905,739
Cash and cash equivalents at the end of the year (Note 28)	**421,835,659**	187,369,282
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The accompanying notes form an integral part of these consolidated financial statements.

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

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

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

2.1 Standards affecting presentation and disclosure

The following new and revised Standards have been adopted in the current period in these consolidated financial statements. Details of other Standards and Interpretations adopted but that have had no effect on these consolidated financial statements are set out in section 2.2.

• IAS 1 (as revised in 2007) *Presentation of Financial Statements*	IAS 1 (2007) has introduced terminology changes (including revised titles for the financial statements) and changes in the format and content of the financial statements.
• *Improving disclosures about Financial Instruments (Amendments to IFRS 7 Financial Instruments: Disclosures)*	The amendments to IFRS 7 expand the disclosures required in respect of fair value measurements and liquidity risk. The Group has elected not to provide comparative information for these expanded disclosures in the current year in accordance with the transitional relief offered in these amendments.
• *IFRS 8 Operating Segments*	IFRS 8 is a disclosure standard that has resulted in re-designation of the Group's reportable segments (see Note 35).

2.2 Standards and Interpretations adopted with no effect on the consolidated financial statements

The following new and revised Standards and Interpretations have also been adopted in these consolidated financial statements. Their adoption has not had any significant impact on the amounts reported in these consolidated financial statements but may affect the accounting for future transactions or arrangements.

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

2.2 Standards and Interpretations adopted with no effect on the consolidated financial statements (continued)

• Amendments to IFRS 2 *Share-Based Payment - Vesting Conditions and Cancellations*	The amendments clarify the definition of vesting conditions for the purposes of IFRS 2, introduce the concept of "non-vesting" conditions, and clarify the accounting treatment for cancellations.
• IAS 23 (as revised in 2007) *Borrowing Costs*	The principal change to the Standard was to eliminate the option to expense all borrowing costs when incurred.
• Amendments to IAS 32 *Financial Instruments: Presentation* and IAS 1 *Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation*	The revisions to IAS 32 amend the criteria for debt/equity classification by permitting certain puttable financial instruments and instruments (or components of instruments) that impose on an entity an obligation to deliver to another party a pro-rata share of the net assets of the entity only on liquidation, to be classified as equity, subject to specified criteria being met.
• IFRIC 13 *Customer Loyalty Programmes*	The Interpretation provides guidance on how entities should account for customer loyalty programmes by allocating revenue on sale to possible future award attached to the sale.
• IFRIC 15 *Agreement for the Construction of Real Estate*	The Interpretation addresses how entities should determine whether an agreement for the construction of real estate is within the scope of IAS 11 *Construction Contracts* or IAS 18 *Revenue* and when revenue from the construction of real estate should be recognised.
• IFRIC 16 *Hedges of a Net Investment in a Foreign Operation*	The Interpretation provides guidance on the detailed requirements for net investment hedging for certain hedge accounting designations.
• Improvements to IFRSs (2008)	Amendments to IFRS 5, IAS 1, IAS 16, IAS 19, IAS 20, IAS 23, IAS 27, IAS 28, IAS 29, IAS 31, IAS 36, IAS 38, IAS 39, IAS 40 and IAS 41 resulting from May and October 2008 *Annual Improvements to IFRSs majority of which are* effective for annual periods beginning on or after January 1, 2009.

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

2.3 Standards and Interpretations in issue not yet effective and not early adopted

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

New Standards and amendments to Standards:

	Effective for annual periods beginning on or after
• IFRS 1 (revised) *First Time Adoption of IFRS* and IAS 27 (revised) *Consolidated and Separate Financial Statements* – Amendment relating to Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate	July 1, 2009
• IFRS 1 (revised) *First Time Adoption of IFRS* – Amendment on additional exemptions for First-time Adopters	January 1, 2010
• IFRS 2 (revised) *Share-Based Payment* – Amendment relating to Group cash-settled Share-based payments	January 1, 2010
• IFRS 3 (revised) *Business Combinations* – Comprehensive revision on applying the acquisition method 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*	July 1, 2009
• IFRS 9 Financial Instruments: Classification and Measurement (intended as complete replacement for IAS 39 and IFRS 7)	January 1, 2013
• IAS 24 Related Party Disclosures – Amendment on disclosure requirements for entities that are controlled, jointly controlled or significantly influenced by a Government	January 1, 2011
• IAS 32 (revised) Financial Instruments: Presentation – Amendments relating to classification of Rights Issue	February 1, 2010
• IAS 39 (revised) Financial Instruments: Recognition and Measurement – Amendments relating to Eligible Hedged Items (such as hedging Inflation risk and Hedging with options)	July 1, 2009

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

2.3 Standards and Interpretations in issue not yet effective and not early adopted (continued)

New Standards and amendments to Standards: (continued)

Amendments to IFRS 2, IFRS 5, IFRS 8, IAS 1, IAS 7, IAS 17, IAS 18, IAS 36, IAS 38 and IAS 39 resulting from April 2009 *Annual Improvements to IFRSs*.	Majority effective for annual periods beginning on or after January 1, 2010

New Interpretations and amendments to Interpretations:

	Effective for annual periods beginning on or after
• IFRIC 17: *Distributions of Non-cash Assets to Owners*	July 1, 2009
• IFRIC 18: *Transfers of Assets from Customers*	July 1, 2009
• IFRIC 19: *Extinguishing Financial Liabilities with Equity Instruments*	July 1, 2010
• Amendment to IFRIC 14: *IAS 19: The limit on a defined Benefit Asset, Minimum Funding Requirement and their interaction*	January 1, 2011
• Amendment to IFRIC 9 (revised): *Reassessment of Embedded Derivatives* relating to assessment of embedded derivatives in case of reclassification of a financial asset out of the 'FVTPL' category	July 1, 2009
• Amendment to IFRIC 16: *Hedges of a Net Investment in a Foreign Operation*	July 1, 2009

Management anticipates that these amendments will be adopted in the Group's consolidated financial statements for the period commencing January 1, 2010 or as and when applicable and adoption of these standards and interpretation in future periods will have no material impact on the consolidated financial statements of Group in the period of initial application.

3. Significant accounting policies

Statement of compliance

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

Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis, except for the revaluation of financial instruments. The principal accounting policies adopted are set out below.

Basis of consolidation

The consolidated financial statements of Air Arabia P.J.S.C. (Air Arabia) and 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 profit or loss from the effective date of acquisition or up to the effective date of disposal, as appropriate.

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

Subsidiaries

Details of the Company's subsidiaries at December 31, 2009 are 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.	U.A.E.	100%	100%	Travel, travel and tours, tourism and cargo services

Of the above subsidiaries, 49% of the investments in COZMO Travel L.L.C., U.A.E., are held by a related party, in trust and for the benefit of the Group through nominee arrangements. There are no commercial operations for this subsidiary as at the end of reporting date.

3. Significant accounting policies (continued)

Business combination

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The consideration for each acquisition is measured at the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred.

Where applicable, the consideration for the acquisition includes any asset or liability resulting from a contingent consideration arrangement, measured at its acquisition-date fair value. Subsequent changes in such fair values are adjusted against the cost of acquisition where they qualify as measurement period adjustments. All other subsequent changes in the fair value of contingent consideration classified as an asset or liability are accounted for in accordance with relevant IFRSs. Changes in the fair value of contingent consideration classified as equity are not recognised.

Where a business combination is achieved in stages, the Group's previously held interests in the acquired entity are remeasured to fair value at the acquisition date (i.e. the date the Group attains 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 or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

The measurement period is the period from the date of acquisition to the date the Group obtains complete information about facts and circumstances that existed as of the acquisition date – and is subject to a maximum of one year.

Interests in joint ventures

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

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

3. Significant accounting policies (continued)

Interests in joint ventures (continued)

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

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

Investment 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. Under the equity method, investments in associates are carried in the statement of financial position at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associates, less any impairment in the value of individual investments. Losses of an associate in excess of 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) are recognised only to the extent that the Group has incurred legal or constructive obligation or made payments on behalf of associates.

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 the associate recognised at the date of acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part 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.

When a group entity transacts with an associate of the Group, profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

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. Significant accounting policies (continued)

Revenue recognition (continued)

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.

Sale of goods

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

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

Dividend and bank deposit profit revenue

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

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

Lease income

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

Tuition fees

Tuition fees are taken to income on an accrual basis with respect to the financial year to which they relate.

3. Significant accounting policies (continued)

Leasing

When the Group is the lessee:

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

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

When the Group is the lessor:

Operating leases

Leases of aircraft where the Group retains substantially all risks and rewards incidental to ownership are classified as operating leases.

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

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 recorded at the rates of exchange prevailing at the dates of the transactions. At each reporting date, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the reporting 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. Significant accounting policies (continued)

Foreign currencies (continued)

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

i) exchange differences which relate to assets under construction for future productive use, which are included in the cost of those assets where they are regarded as an adjustment to interest costs on foreign currency borrowings;

ii) exchange differences on transactions entered into in order to hedge certain foreign currency risks and

iii) exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur, which form part of the net investment in a foreign operation, and which are recognised in the foreign currency translation reserve and recognised in profit or loss on disposal of the net investment.

Provision for employees' end of service indemnity

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

Defined contribution plan

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

Statutory reserve

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

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. The balances in the general reserve as of December 31, 2009 are maintained to reflect the above transfers from inception.

3. Significant accounting policies (continued)

Property and equipment

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

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

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

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

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

Investment property

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

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.

Deferred charges

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

Intangible assets acquired in a business combination

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

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

3. Significant accounting policies (continued)

Goodwill

Goodwill arising in a business combination is recognised as an asset at the date that control is acquired (the acquisition date). 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 Group's interest in the fair value of the acquiree's identifiable net assets 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 equity interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Goodwill is not amortised but is reviewed for impairment at least annually. For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than 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 on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

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

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.

3. Significant accounting policies (continued)

Impairment of tangible and intangible assets excluding goodwill (continued)

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.

Inventories

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

Deferred income

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

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 reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

3. Significant accounting policies (continued)

Aircraft maintenance

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

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

Financial assets

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.

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

The Group has classified the following financial assets as 'loans and receivables': cash and cash equivalents, trade and other receivables, due from related parties and aircraft lease deposits. Financial assets also include AFS 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.

3. Significant accounting policies (continued)

Financial assets (continued)

AFS financial assets (continued)

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.

Loans and receivables

Loans and receivables that have fixed or determinable payments are initially measured at fair value and subsequently measured at amortised cost using the effective interest method, less any impairment.

Cash and cash equivalents

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

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the asset have been affected.

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

For certain categories of financial asset, such as trade and other 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 as well as observable changes in national or local economic conditions that correlate with default on receivables.

3. Significant accounting policies (continued)

Financial assets (continued)

Impairment of financial assets (continued)

For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

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

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

With the exception of AFS financial assets, 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 financial assets, 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.

Derecognition of financial assets

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

3. Significant accounting policies (continued)

Financial liabilities and equity instruments issued by the Group

Classification as debt and equity instruments

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

Equity instruments

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.

Financial liabilities

The Group has classified the following financial liabilities as 'other financial liabilities': trade and other payables and due to related parties.

Other financial liabilities 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.

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.

Derecognition of financial liabilities

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

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 date. 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.

3. Significant accounting policies (continued)

Financial liabilities and equity instruments (continued)

Treasury shares

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

Dividend distribution

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

4. Critical accounting judgements and key sources of estimation uncertainty

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

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

Critical judgements in applying accounting policies

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

Classification of investments

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

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

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

Critical judgements in applying accounting policies (continued)

Fair value of derivative financial instruments

At December 31, 2009 the Group has outstanding commodity swap as disclosed in Note 25 to these consolidated financial statements. The fair value has been determined as such in accordance with best market practice and using observable market data.

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.

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 4,551,099 (2008: AED 6,808,088) 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.

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 the reporting date.

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. Critical accounting judgements and key sources of estimation uncertainty

Key sources of estimation uncertainty (continued)

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.

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 judgements and key sources of estimation uncertainty (continued)

Key sources of estimation uncertainty (continued)

Property and equipment

The cost of property and equipment is depreciated over the estimated useful life, which is based on expected usage of the asset, expected physical wear and tear, the repair and maintenance program and technological obsolescence arising from changes and the residual value. The management has considered residual values while computing the depreciation for aircraft, aircraft engines and aircraft rotables and equipment.

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.

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.

Impairment of trade receivables

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

5. Bank balances and cash

	December 31, 2009 AED	December 31, 2008 AED
Bank balances:		
Current accounts	**49,062,694**	34,743,550
Call deposits	**27,108,297**	45,825,500
Fixed deposits	**1,422,563,551**	1,372,728,961
Deposit with financial institution	**184,372,500**	-
Murabaha deposits	**311,223,977**	312,350,000
Margin deposits	**804,397**	417,500
	1,995,135,416	1,766,065,511
Cash on hand	**1,115,700**	1,059,746
	1,996,251,116	1,767,125,257
Bank balances:		
In U.A.E.	**1,683,530,466**	1,453,588,019
In other G.C.C. countries	**311,604,950**	312,477,492
	1,995,135,416	1,766,065,511

Margin deposits are held by banks against letters of guarantee.

6. Trade and other receivables

	December 31, 2009 AED	December 31, 2008 AED
Current		
Trade receivables	**95,479,100**	110,628,186
Allowance for doubtful debts	**(1,770,595)**	(745,990)
	93,708,505	109,882,196
Prepaid aircraft lease rentals	**21,645,254**	14,965,599
Prepaid expenses - others	**2,227,652**	2,671,195
Accrued interest	**94,491,125**	76,115,913
Advances and other receivables	**35,465,756**	38,060,650
Derivative financial instruments (see Note 25)	**22,104,503**	-
	269,642,795	241,695,553
Non-current		
Derivatives financial instruments (see Note 25)	**14,578,675**	-

6. Trade and other receivables (continued)

The average credit period ranges between 29 – 45 days (2008: 25 - 45 days). Trade receivables more than 180 days are provided for based on estimated irrecoverable amounts, determined by reference to past default experience in addition to specific provision made on identified customers.

Before accepting any new customer the Group assesses the potential customers' credit quality and defines credit limits by customer. There are 2 customers (2008: 2 customers) who represent more than 5% of the total balance of trade receivables.

Trade receivables include receivable from Sales Agents amounting to AED 71.2 million (2008: AED 79.7 million), which is fully secured by bank guarantees.

Movement in the allowance for doubtful debts:

	2009	2008
	AED	AED
Balance, at the beginning of the year	**745,990**	242,130
Allowance made during the year	**1,101,721**	542,562
Amounts recovered during the year	**(77,116)**	(38,702)
Balance, at end of the year	**1,770,595**	745,990

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.

Ageing of impaired trade receivables:

	December 31,	
	2009	2008
	AED	AED
Impaired trade receivables:		
60 - 90 days	**12,215**	70,307
90 - 180 days	**10,167**	2,940
More than 180 days	**1,748,213**	672,743
	1,770,595	745,990

7. Related party transactions

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

	December 31,	
	2009	2008
	AED	AED
Due from related parties:		
Sharjah Airport Authority - U.A.E.	**4,026,265**	-
Alpha Flight Services, Jordon	**-**	103,191
Air Arabia Maroc, S.A., Morocco - associate	**16,752,593**	-
Air Arabia - Egypt Company (S.A.E.), Egypt - associate	**1,789,333**	-
	22,568,191	103,191
Due to related parties:		
Sharjah Airport International Free Zone - U.A.E.	**-**	2,234,603
Sharjah Airport Authority - U.A.E.	**-**	6,136,059
	-	8,370,662

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.

Transactions:

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

	Year ended December 31,	
	2009	2008
	AED	AED
Rental income from investment property	**2,325,000**	2,250,000
Rental income from operating lease	**27,535,551**	-
Management fees	**2,481,417**	-

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

7. Related party transactions (continued)

Compensation of board of directors/key management personnel:

	Year ended December 31,	
	2009	2008
	AED	AED
Short term benefits	**14,133,006**	7,534,015
Long term benefits	**1,336,185**	91,000
Board of Directors' remuneration	**1,800,000**	-
Board of Directors' remuneration – joint ventures	**300,000**	-

8. Available-for-sale investments

	December 31,	
	2009	2008
	AED	AED
Quoted	**14,716,748**	9,477,991
Unquoted	**1,190,620,010**	1,513,332,496
	1,205,336,758	1,522,810,487
In U.A.E.	**329,944,512**	647,418,241
In other G.C.C. countries	**875,392,246**	875,392,246
	1,205,336,758	1,522,810,487

Movement during the year:

	2009	2008
	AED	AED
Balance, at the beginning of the year	**1,522,810,487**	581,215,288
Purchases during the year	**-**	1,059,152,246
Proceeds on maturity	**(367,400,000)**	-
Change in fair value	**49,926,271**	(117,557,047)
Balance, at the end of the year	**1,205,336,758**	1,522,810,487

9. Aircraft lease deposits

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

10. Deferred charges

	Aircraft upgrade costs	Landing permission charges	Computer software	Total
	AED	AED	AED	AED
Cost				
At December 31, 2007	12,237,950	25,327,752	954,567	38,520,269
Additions during the year	5,647,098	25,816,875	483,260	31,947,233
Eliminated on disposals	-	-	(531,770)	(531,770)
At December 31, 2008	17,885,048	51,144,627	906,057	69,935,732
Additions during the year	3,132,426	-	286,762	3,419,188
At December 31, 2009	**21,017,474**	**51,144,627**	**1,192,819**	**73,354,920**
Amortisation/impairment				
At December 31, 2007	6,203,009	25,327,752	531,770	32,062,531
Charge for the year	3,253,988	3,333,021	123,791	6,710,800
Eliminated on disposals	-	-	(531,770)	(531,770)
At December 31, 2008	9,456,997	28,660,773	123,791	38,241,561
Charge for the year	2,934,681	5,726,874	187,080	8,848,635
At December 31, 2009	**12,391,678**	**34,387,647**	**310,871**	**47,090,196**
Carrying amount				
At December 31, 2009	**8,625,796**	**16,756,980**	**881,948**	**26,264,724**
	========	========	========	========
At December 31, 2008	8,428,051	22,483,854	782,266	31,694,171
	========	========	========	========

11. 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.

12. Goodwill

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

	Amount AED
Total fair value of Air Arabia Company L.L.C. (Air Arabia) (see Note 19)	**1,400,000,000**
Fair value of intangible assets (see Note 13)	**(1,092,346,500)**
Fair value of tangible assets (net)	**(118,179,284)**
At December 31, 2008 and 2009	**189,474,216**

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 3 year period from 2010-2012 and a discount rate of 13% 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 impairment test performed it is unlikely that underlying goodwill will be impaired.

13. Intangible assets

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

	December 31,	
	2009	2008
	AED	AED
Trade name	**395,410,000**	395,410,000
Landing rights	**468,273,000**	468,273,000
Price benefit from related parties	**180,281,000**	180,281,000
Handling licence - Sharjah Aviation Services	**48,382,500**	48,382,500
Fair value	**1,092,346,500**	1,092,346,500

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

During the year intangible assets were also subject to impairment test similar to goodwill (see Note 12) and management has concluded based on the independent valuer's report that intangible assets are unlikely to be impaired for the reporting period.

14. Investment property

	Amount
	AED
Cost	
At December 31, 2007, 2008 and 2009	**54,039,583**
Accumulated depreciation	
At December 31, 2007	2,437,500
Charge for the year	750,000
At December 31, 2008	3,187,500
Charge for the year	750,000
At December 31, 2009	**3,937,500**
Carrying amount	
At December 31, 2009	**50,102,083**
At December 31, 2008	50,852,083

14. Investment property (continued)

Investment property comprises a building constructed by the Group on a plot of land, adjacent to Sharjah International Airport, granted by the Government of Sharjah. The 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 October 1, 2004 at an annual rent of AED 3 million for the first five years and at AED 3.3 million annually for the balance of forty five years.

The property rental income earned by the Group during the year amounted to AED 3,075,000 (2008: AED 3,000,000) and direct operating expenses arising on the investment property amounted to AED 750,000 (2008: AED 750,000) (see Note 24).

Management anticipates the fair value of investment property as at December 31, 2009 to be AED 52 million (2008: AED 52 million).

15. Advance for new aircraft

Advance for new aircraft represents pre-delivery payments made to suppliers outside U.A.E. for an amount of USD 101.8 million (equivalent to AED 373.8 million) (2008: USD 70.12 million, equivalent to AED 257.7 million) made in respect of 44 (2008: 44) Airbus A320 aircraft.

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16. Property and equipment

	Aircraft	Aircraft engines	Aircraft rotables and equipment	Airport equipments	EDP equipment	Office equipment	Furniture and fixtures	Motor vehicles	Capital work-in progress	Total
	AED	AED	AED	AED	AED	AED	AED	AED	AED	AED
Cost										
At December 31, 2007	-	83,196,869	9,735,952	10,959,761	5,817,754	1,278,647	1,601,244	1,754,148	7,156,750	121,501,125
Additions during the year	478,282,875	41,492,460	8,446,270	10,283,032	4,826,486	2,093,244	672,828	185,900	34,341,273	580,624,368
Disposals	-	-	(17,824)	(90,250)	-	(2,375)	-	(42,000)	-	(152,449)
At December 31, 2008	478,282,875	124,689,329	18,164,398	21,152,543	10,644,240	3,369,516	2,274,072	1,898,048	41,498,023	701,973,044
Additions during the year	-	-	2,343,568	9,799,309	2,039,684	2,357,631	673,503	144,625	123,575,731	140,934,051
Disposals	-	-	(293,634)	(2,725,438)	(14,175)	(266,884)	(15,178)	-	-	(3,315,309)
At December 31, 2009	**478,282,875**	**124,689,329**	**20,214,332**	**28,226,414**	**12,669,749**	**5,460,263**	**2,932,397**	**2,042,673**	**165,073,754**	**839,591,786**
Accumulated depreciation										
At December 31, 2007	-	2,291,318	1,175,146	501,821	3,149,332	745,781	1,038,375	359,819	-	9,261,592
Charge for the year	19,822,100	3,635,831	1,282,528	1,828,673	1,236,107	788,550	239,916	202,786	-	29,036,491
Eliminated on disposals	-	-	(10,671)	(33,694)	-	(2,225)	-	(39,244)	-	(85,834)
At December 31, 2008	19,822,100	5,927,149	2,447,003	2,296,800	4,385,439	1,532,106	1,278,291	523,361	-	38,212,249
Charge for the year	27,696,997	4,989,043	1,524,594	2,653,190	1,693,499	1,334,263	496,368	227,300	-	40,615,254
Eliminated on disposals	-	-	(63,338)	(840,262)	(7,829)	(209,399)	-	-	-	(1,120,828)
At December 31, 2009	**47,519,097**	**10,916,192**	**3,908,259**	**4,109,728**	**6,071,109**	**2,656,970**	**1,774,659**	**750,661**	**-**	**77,706,675**
Carrying amount										
At December 31, 2009	**430,763,778**	**113,773,137**	**16,306,073**	**24,116,686**	**6,598,640**	**2,803,293**	**1,157,738**	**1,292,012**	**165,073,754**	**761,885,111**
At December 31, 2008	458,460,775	118,762,180	15,717,395	18,855,743	6,258,801	1,837,410	995,781	1,374,687	41,498,023	663,760,795

16. Property and equipment (continued)

Capital work-in-progress includes projects related to the construction of a hotel amounting to AED 116.2 million (2008: 24.6 million) and construction of two employee quarters amounting to AED 48 million (2008: AED 15.7 million).

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

The following useful lives are used in calculation of depreciation:

	Years
Aircraft	15
Aircraft engines	20
Aircraft rotables and equipment	3 – 10
Airport equipments	10
Other property and equipment	3

17. Trade and other payables

	December 31,	
	2009	2008
	AED	AED
Trade payables	**76,159,615**	73,913,291
Accrued expenses	**247,793,626**	194,736,008
Lease deposit payables	**15,986,250**	-
Other payables	**110,786,239**	53,903,420
	450,725,730	322,552,719
Less: Amount due for settlement after 12 months (shown under non-current liabilities)	**(23,124,241)**	-
Amount due for settlement before 12 months	**427,601,489**	322,552,719

The average credit period on purchases of goods and services is 45 days (2008: 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 7,137,991 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.

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18. Provision for employees' end of service indemnity

Movements in the net liability were as follows:

	2009	2008
	AED	AED
Balance, at the beginning of the year	**14,241,314**	7,738,209
Amounts charged to income during the year	**9,699,444**	7,289,555
Amounts paid during the year	**(830,068)**	(786,450)
Balance, at the end of the year	**23,110,690**	14,241,314

19. Share capital

	December 31,	
	2009	2008
	AED	AED
Authorised and issued share capital (AED 1 each)	**4,666,700,000**	4,666,700,000

20. Revenue

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

	Year ended December 31, 2009 AED	Year ended December 31, 2008 AED
Passenger revenue	**1,804,463,819**	1,945,422,669
Baggage revenue	**33,308,305**	31,393,984
Cargo revenue	**37,386,097**	17,358,199
Service revenue	**6,297,524**	9,264,772
Catering revenue	**22,656,448**	20,768,595
Flight handling revenue	**18,070,273**	16,175,488
Cargo handling revenue	**35,024,203**	21,478,938
Passenger services	**16,399,023**	12,367,500
Training revenue	**1,689,680**	-
Other operating income	**12,174,989**	9,134,082
Sales commission and expenses	**(15,505,579)**	(17,578,030)
	1,971,964,782	2,065,786,197

21. Cost of sales

	Year ended December 31, 2009 AED	Year ended December 31, 2008 AED
Staff costs	**310,524,899**	240,411,885
Aircraft lease rentals	**239,477,450**	194,936,444
Fuel	**569,557,304**	813,552,026
Aircraft maintenance expenses	**184,709,884**	146,245,997
Ground and technical handling charges	**111,796,678**	97,102,640
Landing and overflying charges	**106,432,014**	91,731,077
Insurance	**13,010,282**	11,677,731
Service costs	**17,464,209**	15,614,606
Depreciation of property and equipment	**37,240,380**	27,096,362
Other operating costs	**23,403,414**	33,202,980
	1,613,616,514	1,671,571,748

22. Selling and marketing costs

	Year ended December 31,	
	2009	2008
	AED	AED
Staff costs	**10,053,023**	16,255,816
Advertisement expenses	**18,314,314**	16,730,775
Reservation management expenses	**6,360,171**	4,080,607
	34,727,508	37,067,198

23. General and administrative expenses

	Year ended December 31,	
	2009	2008
	AED	AED
Staff costs	**40,333,444**	24,900,369
Legal and professional fees	**10,595,373**	9,826,370
Travel and accommodation costs	**2,605,328**	3,905,335
Communication costs	**3,098,370**	2,146,088
Printing and stationary	**1,528,023**	1,528,608
Depreciation of property and equipment	**3,374,874**	1,940,129
Other expenses	**12,960,898**	22,673,200
	74,496,310	66,920,099

24. Other income

	Year ended December 31,	
	2009	2008
	AED	AED
Aircraft lease income	**27,535,551**	-
Dividend income	**1,197,014**	56,435,700
Investment property income, net (see Note 14)	**2,325,000**	2,250,000
Exchange rate variance	**7,386,059**	689,236
Impairment losses on available-for-sale investments	**(4,551,099)**	(6,808,088)
Management fees	**2,481,417**	-
Share of net losses in associates (see Note 11)	**(31,654,552)**	-
Unrealised gain on fuel derivatives (see Note 25)	**36,683,178**	-
Others	**5,437,882**	3,030,965
	46,840,450	55,597,813

25. 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 December 31, 2009, the fair value of these derivatives are positive AED 36,683,178 which has been taken to the consolidated statement of income for the year ended December 31, 2009 with a corresponding current asset of AED 22,104,503 and non-current asset of AED 14,578,675 where contract expires after 12 months from the end of reporting date.

26. Profit for the year

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

	Year ended December 31,	
	2009	2008
	AED	AED
Staff costs	**360,911,366**	281,568,070
Depreciation of property and equipment	**40,615,254**	29,036,491
Depreciation of investment property	**750,000**	750,000
Amortisation of deferred charges	**8,848,635**	6,710,800

27. Basic earnings per share

	Year ended December 31,	
	2009	2008
Profit for the year (in AED)	**452,231,257**	509,725,323
Number of shares	**4,666,700,000**	4,666,700,000
Basic earnings per share (in AED)	**0.10**	0.11

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.

28. Cash and cash equivalents

	December 31,	
	2009	2008
	AED	AED
Bank balances and cash	**1,996,251,116**	1,767,125,257
Fixed deposits with maturity over 3 months	**(1,262,387,083)**	(1,266,988,475)
Murabaha deposits	**(311,223,977)**	(312,350,000)
Margin deposits	**(804,397)**	(417,500)
	421,835,659	187,369,282

29. Joint ventures

The Group has interest in the following joint ventures:

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

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

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

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

29. Joint ventures (continued)

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

	December 31,	
	2009	2008
	AED	AED
Current assets	**65,192,861**	47,433,491
Non-current assets	**15,445,563**	27,964,815
Current liabilities	**24,148,761**	44,354,430
Non - current liabilities	**10,504,393**	1,972,102
Income	**103,359,088**	106,558,201
Expenses	**75,963,572**	106,672,136

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

	Year ended December 31,	
	2009	2008
	AED	AED
Information Systems Associates (FZC), U.A.E.	**234,391**	179,434
Sharjah Aviation Services (L.L.C.), U.A.E.	**15,550,800**	8,606,105
Sharjah Airport Travel Agency – SATA, U.A.E.	**7,021,603**	3,579,372
Alpha Flight Services U.A.E. L.L.C., U.A.E.	**6,677,761**	7,006,954
Alpha Aviation Academy U.A.E. L.L.C., U.A.E.	**(2,208,764)**	-
Yeti Airways International Pvt., Nepal	**119,725**	(19,485,800)
	27,395,516	(113,935)

30. Operating lease arrangements

a) Where the Group is a lessee:

	Year ended December 31,	
	2009	2008
	AED	AED
Minimum lease payment under operating leases (excluding variable lease rental on the basis of flying hours) recognised in profit or loss for the year	**230,270,599**	194,301,881

Details of aircraft lease agreements are as follows:

	Number of aircraft December 31,	
	2009	2008
Lease agreements signed for	**20**	19
Aircraft delivered against the above lease agreements	**(18)**	(13)
Aircraft to be delivered in future periods	**2**	6

The fixed lease commitments against 18 (2008: 13) delivered aircraft are as follows:

	December 31,	
	2009	2008
	AED	AED
Within one year	**260,173,463**	174,252,462
In the second to fifth years inclusive	**680,388,934**	446,317,541
After five years	**24,002,131**	17,905,626
	964,564,528	638,475,629

The fixed lease commitments against 2 (2008: 6) aircraft to be delivered in future periods are as follows:

	December 31,	
	2009	2008
	AED	AED
Within one year	**24,872,400**	38,925,600
In the second to fifth years inclusive	**132,652,800**	383,528,880
After five years	**41,454,000**	165,275,040
	198,979,200	587,729,520

30. Operating lease arrangements (continued)

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

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

b) Where the Group is a lessor:

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

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:

	December 31, 2009 AED
Within one year	**44,183,520**
In the second to fifth years inclusive	**145,628,959**
	189,812,479

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:

	2009 AED
Net book value	**147,336,417**
Accumulated depreciation	**16,109,478**
Depreciation charge for the year	**9,032,196**

31. Contingent liabilities

	December 31, 2009 AED	December 31, 2008 AED
Letters of credit	**60,569,903**	51,398,363
Letters of guarantee	**15,505,733**	14,878,520

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

32. Capital commitments

The Group has entered into the following capital commitments:

	December 31, 2009 AED	December 31, 2008 AED
Authorised and contracted:		
Aircraft fleet	**12,627,095,247**	12,983,698,777
Investment in an associate	**44,070,800**	-
Hotel project	**114,824,104**	186,509,880
Apartment and others	**24,196,919**	42,934,602
	12,810,187,070	13,213,143,259
Authorised but not contracted:		
Simulator project	**30,802,975**	-
Aircraft fleet	**1,422,807,191**	1,422,807,191
	1,453,610,166	1,422,807,191

Aircraft fleet

The Group has entered into a contract with Airbus S.A.S. for the purchase of 34 Airbus A320 aircraft and there was an option in the contract to purchase 15 aircraft from Airbus, out of which during the year, the Group has exercised the option of purchasing 10 aircraft. The total value of the 44 aircraft order was approximately USD 3.6 billion (AED: 13 billion) (December 31, 2008: 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 44 aircraft is payable over the next five years, with the balance being due on delivery.

33. Capital risk management

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

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

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

34. Financial instruments

Significant accounting policies

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

Categories of financial instruments and others

December 31, 2009

	Financial assets			
Assets	**Loans and receivables**	**Available-for-sale**	**Non-financial assets**	**Total**
	AED	**AED**	**AED**	**AED**
Bank balances and cash	1,996,251,116	-	-	1,996,251,116
Trade and other receivables	260,348,564	-	23,872,906	284,221,470
Due from related parties	22,568,191	-	-	22,568,191
Inventories	-	-	5,050,932	5,050,932
Available-for-sale investments	-	1,205,336,758	-	1,205,336,758
Aircraft lease deposits	35,399,653	-	-	35,399,653
Deferred charges	-	-	26,264,724	26,264,724
Investment in associates	-	-	28,790,018	28,790,018
Goodwill	-	-	189,474,216	189,474,216
Intangible assets	-	-	1,092,346,500	1,092,346,500
Investment property	-	-	50,102,083	50,102,083
Advance for new aircraft	-	-	373,805,962	373,805,962
Property and equipment	-	-	761,885,111	761,885,111
Total assets	**2,314,567,524**	**1,205,336,758**	**2,551,592,452**	**6,071,496,734**

34. Financial instruments (continued)

Categories of financial instruments and others (continued)

December 31, 2008

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

December 31, 2009

Liabilities and equity	**Financial liabilities: At amortised cost**	**Non-financial liabilities**	**Total**
	AED	**AED**	**AED**
Trade and other payables	**450,725,730**	**-**	**450,725,730**
Deferred income	**-**	**129,351,603**	**129,351,603**
Provision for employees' end of service indemnity	**-**	**23,110,690**	**23,110,690**
Capital and reserves	**-**	**5,472,157,402**	**5,472,157,402**
Total liabilities and equity	**450,725,730**	**5,624,619,695**	**6,075,345,425**

34. Financial instruments (continued)

Categories of financial instruments and others (continued)

December 31, 2008

Liabilities and equity	Financial liabilities At amortised cost	Non-financial liabilities	Total
	AED	AED	AED
Trade and other payables	322,552,719	-	322,552,719
Deferred income	-	132,803,072	132,803,072
Due to related parties	8,370,662	-	8,370,662
Provision for employees' end of service indemnity	-	14,241,314	14,241,314
Capital and reserves	-	5,383,605,441	5,383,605,441
Total liabilities and equity	330,923,381	5,530,649,827	5,861,573,208

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.

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).

34. Financial instruments (continued)

Categories of financial instruments and others (continued)

	Level 1 AED	Level 2 AED	Level 3 AED	Total AED
Derivative financial instruments	-	36,683,178	-	**36,683,178**
Available-for-sale financial assets				
Quoted investments	14,716,748	-	-	**14,716,748**
Unquoted investments	-	1,190,620,010	-	**1,190,620,010**
	14,716,748	**1,227,303,188**	**-**	**1,242,019,936**

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.

Financial risk management objectives

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

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

Market risk

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

Market risk exposures are measured using sensitivity analysis.

Foreign currency risk management

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

Aircraft lease foreign currency exchange rate risk

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

34. Financial instruments (continued)

Bank deposit profit rate risk management

The Group's exposure to profit rate risk relate to its deposits with banks and other unquoted investments. At December 31, 2009, deposits carried a profit rate of 3% to 8.5% per annum (December 31, 2008: 3% to 10% per annum).

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 December 31, 2009 would decrease/increase by AED 13.6 million (December 31, 2008: AED 12.6 million).

Fuel price risk

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

Equity price risk

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

Equity price sensitivity analysis

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

If equity prices had been 5% higher/lower, equity reserves would increase/decrease by AED 0.7 million (December 31, 2008: AED 0.5 million) for the Group as a result of the changes in fair value of available-for-sale shares.

34. Financial instruments (continued)

Credit risk management

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

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

The Group does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The Group defines counterparties as having similar characteristics if they are related entities. Concentration of credit risk did not exceed 30% of gross monetary assets at any time during the year.

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.

Liquidity risk management

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

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

34. Financial instruments (continued)

Liquidity risk management (continued)

Assets
December 31, 2009

	Upto 1 month AED	1 month – 3 months AED	3 months - 1 year AED	1 year – 5 years AED	Above 5 years AED	Total AED
Bank balances and cash	**77,286,691**	**656,577,342**	**1,262,387,083**	**-**	**-**	**1,996,251,116**
Trade and other receivables	**64,092,734**	**49,405,675**	**132,271,480**	**14,578,675**	**-**	**260,348,564**
Due from related parties	**22,568,191**	**-**	**-**	**-**	**-**	**22,568,191**
Available-for-sale investments	**-**	**-**	**-**	**1,205,336,758**	**-**	**1,205,336,758**
Aircraft lease deposits	**-**	**-**	**-**	**27,108,853**	**8,290,800**	**35,399,653**
Total	**163,947,616**	**705,983,017**	**1,394,658,563**	**1,247,024,286**	**8,290,800**	**3,519,904,282**

December 31, 2008

	Upto 1 month AED	1 month - 3 months AED	3 months - 1 year AED	1 year - 5 years AED	Above 5 years AED	Total AED
Bank balances and cash	112,109,629	75,259,653	1,579,755,975	-	-	1,767,125,257
Trade and other receivables	76,918,939	45,309,319	101,830,501	-	-	224,058,759
Due from a related party	103,191	-	-	-	-	103,191
Available-for-sale investments	-	508,052,246	367,400,000	637,880,250	9,477,991	1,522,810,487
Aircraft lease deposits	-	-	-	20,712,116	21,726,600	42,438,716
Total	189,131,759	628,621,218	2,048,986,476	658,592,366	31,204,591	3,556,536,410

34. Financial instruments (continued)

Liquidity risk management (continued)

Liabilities and equity

December 31, 2009

	Upto 1 month	1 month - 3 months	3 months 1 year	1 year - 5 years	Above 5 years	Total
	AED	AED	AED	AED	AED	AED
Trade and other payables	**-**	**214,405,905**	**158,321,810**	**77,998,015**	**-**	**450,725,730**

December 31, 2008

	Upto 1 month	1 month - 3 months	3 months 1 year	1 year - 5 years	Above 5 years	Total
	AED	AED	AED	AED	AED	AED
Trade and other payables	-	318,857,066	3,695,653	-	-	322,552,719
Due to related parties	-	8,370,662	-	-	-	8,370,662
Total	-	327,227,728	3,695,653	-	-	330,923,381

35. 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.

Primary reporting format - business segments

Year ended December 31, 2009	Airline	Other segments	Eliminations	Total
	AED	AED	AED	AED
Revenue				
External sales	1,868,039,309	-	-	1,868,039,309
Result				
Segment result	237,668,318	(5,720)	-	237,662,598
Share of losses in associates				(31,654,552)
Share of results in joint ventures				27,395,516
Unrealised gain on fuel derivatives				36,683,178
Profit from bank deposits and other income				182,144,517
Profit for the year				452,231,257
Other information				
Additions to property and equipment	124,925,447	-	-	124,925,447
Addition to deferred charges	3,132,426	-	-	3,132,426
Depreciation	36,155,382	60,710	-	36,216,092
Amortisation	8,661,555	-	-	8,661,555
December 31, 2009				
Assets				
Segment assets	2,797,800,538	3,283,394	(3,109,052)	2,797,974,880
Unallocated Group assets				3,273,521,854
Total assets				6,071,496,734
Liabilities				
Segment liabilities	568,362,280	172,590	(3,109,052)	565,425,818
Unallocated Group liabilities				37,762,205
Total liabilities				603,188,023

35. Segment information (continued)

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

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 103,359,088 (December 31, 2008: AED 106,558,201), 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, Murabaha 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 (see Note 12 and 13). Segment liabilities do not include Group's share of liabilities in joint ventures.

36. Dividend

During 2009, a dividend of AED 10 fils (2008: Nil) per share was paid to the Shareholders.

The directors propose that a dividend of AED 466,670,000, AED 10 fils per share (2008: AED 466,670,000, AED 10 fils per share) will be paid to the Shareholders in 2010. 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 (2008: AED 1,800,000). The remuneration of directors is subject to approval by the Shareholders and as per limits set by the Commercial Companies Law No. 8 of 1984, as amended.

37. Approval of consolidated financial statements

The consolidated financial statements were approved by the Board of Directors and authorised for issue on February 17, 2010.