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ANNUAL  
REPORT | **2010**



His Highness Sheikh

**Khalifa bin Zayed Al Nahyan**

President of the United Arab Emirates



His Highness Sheikh Dr.

**Sultan Bin Mohammad Al Qasimi**

Member of the Supreme Council Ruler of Sharjah



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7 years, 18 million customers and 1 promise

# **Value for money**

Welcome to our 2010 annual report.



# Our vision

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

## In terms of:

- Profit Margin
- Innovation
- Reputation
- Operational Excellence

# Our mission

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

## To achieve this we will:

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



# Air Arabia message

Dear Shareholders,

This is the fourth year we have written to you since Air Arabia have become a public company. Throughout these years and in every Annual Report we have presented to you, we have tried to transparently convey the airline's performance and the industry highlights as well as giving you a glimpse of how the future looks. The year 2010 was another successful year for Air Arabia, a year full of challenges and rewards.

In accordance with the vision of His Highness Dr Sheikh Sultan Bin Mohammad Al Qasimi, Member of the Supreme Council and Ruler of Sharjah, and the direction of the Board of Directors and the Management of Air Arabia, we have succeeded in taking the brand 'Air Arabia' to new heights, competing on the global scene and celebrating our seventh year of successful operations.

## Challenging and successful 2010

2010 has been called the year when 'the world started moving again' following the biggest loss the aviation industry has ever experienced in 2009. Having said that, the global growth figures were very conservative. The month of December has also seen a dip in growth, mainly in European traffic due to the severe weather conditions that has hit the continent. The global average load factor for the year 2010 was 78.4%, which is a 2.7 percentage point improvement on 2009. The challenge of the year of course remained in turning those slight improvements in demand into tangible profits. As far as Air Arabia is concerned, we have capitalized onto this growth to further enhance our 2010 performance. We have remained loyal to our low cost philosophy more than ever and drove operational costs down in every possible way, continued with our set plan for growth as well as increased our market share. We have completed this in a cautious manner of day to day changes that the year 2010 has brought.

Aviation today is more than ever global, impacted by similar factors in different regions. The volatile oil prices and the dilution of yields that was 2009 main challenges continued in 2010. Airlines from this region had to cope up with additional pressure on yield margins mostly by observing new techniques to increase ancillary revenue and utilize their assets more efficiently. While passenger traffic continued its up-ward trend in the Middle East and North Africa region, competition has also increased. Many of the local and international airlines eyed this region to make up for other markets and as a result, additional capacity has been put into service.

In 2010, Air Arabia continued its expansion plans, maintained high profitability margins, entered new markets and ventures as well as increasing the number of passengers carried. As we have told you before, the business model Air Arabia created, the efficiency of our operations and a compelling value-for-money customer proposition will always remain our key to success.

In 2010, we have launched operations from our third hub in Alexandria, Egypt. In less than six months, we have placed a fleet of two new aircraft in the new hub at Burj Al Arab International Airport and developed our operations to cover five cities across Levant and the Gulf region; and set the commercial structure to organically grow our operations there. At the same time, we have maintained growth figures from the main base at Sharjah International Airport as well as from our second hub at Mohamed V International Airport in Casablanca by adding a total of eleven new routes and increasing frequencies to many existing ones. We are proud to say that Air Arabia can now fly you to over 67 destinations across the globe.

## Solid Financial Performance

In 2010, we have also entered into new partnerships; ventures and introduced new products and services to further bring value to our customers. We have also announced Air Arabia's fourth hub to be in Jordan through a joint venture agreement with Tantash Group. The new hub is expected to be launched in 2011 and will open up new markets for us as well as linking the three exiting hubs in certain cities. With all the hubs that we are aiming to grow, Air Arabia is set firm to continue link the whole range of the Arab World and Europe.

Air Arabia subsidiaries have also developed throughout 2010; profitably contributing to the bottom lines of the Group. We have also introduced a new member to the family, Cozmo Travel which was launched in May as a UAE based travel agency and has already closed the year with notable profitability. We are proud to see that our joint venture companies are following the profitability path of Air Arabia.

During last year's Annual General Meeting, the Board proposition of 10% cash dividend was ratified and 10% of the company's capital was shared with you, our shareholders. This is a testament to our promise of bringing strong returns to our investors. We have continued our legacy of being one of the world's most profitable airlines and registered a net profit of around AED 310 Million for 2010, demonstrating the ongoing profitability and the efficiency of Air Arabia's business model. Moreover, we have been named the Best Managed Company in the Middle East – Airlines and Aviation, by participants of Euromoney's annual survey that took place in October 2010.

## Looking Ahead

Every year welcomes us with many challenges and opportunities; and we work hard to benefit and learn from them. We have said before that we will remain cautiously optimistic in 2011 and we say it here again. Air Arabia and through its people will remain focused on doing what we do best, – providing our customers with the most competitive fares, greatest number of destinations and highest-quality services – and are confident that this will be reflected in the return on investment to our shareholders.

And finally, we thank each of the 18 million customers who chose to fly Air Arabia over the past seven years. We re-enforce on our promise of making air travel more affordable by the day. To our people, we always say, we have the greatest confidence that you will always rise to the promise, no matter how high the goal is.

Yours Sincerely,

Abdulla Bin Mohammed Al Thani  
Chairman

Adel Abdullah Ali  
Board Member and Group CEO



# Corporate Governance Report - 2010

## 1. Practices of corporate governance

Air Arabia has been a leader in the application of corporate governance practices among public companies in the region, as the company believes in the importance of the practical application of such principles and the formal implementation within the general framework of the laws and corporate governance principles which preserve the rights and interests of the company, its investors, its management and the entire investment environment surrounding it. In this regards, Air Arabia was awarded by the regulator SCA for its overall compliance with disclosure laws and regulations, and fine implementation for the governance practices.

Therefore, Air Arabia, and all its subsidiaries in the group are committed to all laws and procedures imposed upon them as an international airline and as a publicly listed company in the United Arab Emirates. This includes the Commercial Companies Law (Federal Law No. (8) Of 1984 concerning Commercial Companies) and subsequent resolutions and amendments or interpretations or clarifications Issued by the Securities and Commodities Authority and all other official authorities now or later on, this applies to all its activities and dealings. Air Arabia is also committed to apply the Ministerial Decree No. (518) for the year 2009 issued by the Minister of Economy and Chairman of the Securities and Commodities Authority with regards corporate governance and institutional standards of discipline, and any decisions that may be issued, amended, or replaced by any authority. This has instilled confidence in the major Investment houses around the world to hold significant positions in Air Arabia – PJSC.

On top of that, and as part of the Corporate Governance Manual, Air Arabia has also passed several policies and statements like: Shareholder Communication Statement, Code of Ethics and Conduct, Share Dealing Policy, Whistle Blowing Policy, Corporate Social & Environmental Policy, and Dividend Policy.

## 2. Trading members of the Board of Directors in Securities:

Air Arabia corporate governance manual sets insider trading policy, which governs board members and management with insider information trading of shares, in accordance with laws and regulations. All relevant parties are well aware of the policy and carries their buy-in. In 2010, none of Air Arabia board members traded Air Arabia shares.

### 3. Board of Directors Composition:

The current board of directors is elected by the founders of the company till the beginning of 2011:

Sheikh Abdullah Bin Mohammed Al Thani	Chairman of the Board
Adel Abdullah Ali	Executive Member
Dr. Ghanem Mohammed Al Hajri	Independent member
Taryam Matar Taryam	Independent member
Abdulwahab Mohammed Al Roomi	Independent member
Arif Naqvi	Non-Executive Director
Mustafa Abdul Wadood	Non-Executive Director

With the exception of Sheikh Abdullah Al Thani who serves as a board member of Al Buhaira Insurance Company, none of Air Arabia board of directors' members serve in other public companies board.

The board of directors recommended AED 1.925M as total remuneration for the year 2010. This is subject to the approval of the AGM.

Air Arabia board of directors met 6 times in 2010, and held its meetings on the following dates:

12 / 02 / 2010	17 / 02 / 2010	18 / 03 / 2010
05 / 05 / 2010	08 / 08 / 2010	22 / 09 / 2010

#### a. Board of Directors overall duties and responsibilities:

The board of Directors oversees the general framework and strategies for the company and discusses this with executive management, while the executive management is delegated to run the daily business of the company. The management accordingly raises reports to the board, which includes its expansion plans and the challenges they face, and strategy implementation.



**Sheikh Abdullah Bin Mohamed Al Thani**

Chairman, Air Arabia

His Excellency Sheikh Abdullah Bin Mohammed Al Thani holds several prominent positions in the UAE. HE Sheikh Abdullah is a member of the Executive Council of the Emirate of Sharjah and the Chairman of Department of the Civil Aviation in Sharjah. His contribution to develop the civil aviation and air transport in the UAE are significant, so are his efforts to promote tourism and development in the Emirate of Sharjah.



**Adel Abdullah Ali**

Group Chief Executive Officer, Air Arabia

Mr. Adel Ali, awarded world's Low Cost Airline "CEO of the year" 2007, 2008, 2009 and 2010 has been given credit for setting up the Middle East and North Africa's first low-cost carrier (LCC), Air Arabia. Adel has brought over 28 years of strategic aviation, tourism and commercial experience to Air Arabia since the company commenced operations in October 2003. Mr. Ali previously served as Vice President (Commercial and Customer Service) for Gulf Air, where he played a central role in the airline's recovery. Before that, he spent over 20 years with British Airways where he also held senior management positions, including General Manager (Middle East and Africa).



**Dr. Ghanem Mohammed Al Hajri**

Director General, Sharjah Airport Authority

Dr. Ghanem Mohammed Al Hajri is currently the Director General of Sharjah Airport Authority. Dr. Ghanem has served in numerous regional and international senior aviation posts including Secretary General for Gulf Airports Services Association (GASA) and Secretary General of Arab Airports Council. Dr. Ghanem has been a Member of the Board of Directors of the Airport Council International (ACI) since 1991, through his career he was elected President ACI Asia Region, then elected as Vice Chairman and second Deputy Chairman ACI, and finally was elected as Chairman ACI. Dr. Ghanem Holds a Doctorate Degree in Air Transport from Cranfield College of Aeronautics, United Kingdom.



**Arif Masood Naqvi**

Founder and Group CEO, Abraaj Capital

Mr. Arif is the founder and Group CEO of Abraaj Capital. Abraaj is the largest private equity firm in the MENASA region with a paid up capital of US\$ 1.5 billion. Since inception in 2002, it has raised about US\$ 7 billion and distributed about US\$ 3 billion to its investors. Abraaj has associated with some of the regions most notable transactions and has won numerous awards including 'Middle East Private Equity Firm of the year' from London based Private Equity International (PEI) five years in a row since 2005.



**AbdulWahab Mohammad Al Roomi**

Director General, Civil Aviation - Sharjah

Mr. AbdulWahab Mohammad Al Roomi is the Director of Civil Aviation, Sharjah. Mr. Al Roomi sits on various boards along with Air Arabia's board, such as Board Member Sharjah Commerce & Tourism Development Authority, Board Member Sharjah International Free Zone, and Board Member Sharjah International Airport. He is an Engineer, holding a Degree in Chemical and Petroleum Engineering from Al Ain University in UAE.



**Mustafa Abdel-Wadood**

Managing Director, Abraaj Capital

Mr. Mustafa Abdel-Wadood is a Managing Director, a member of the Board of Directors and Vice Chairman of the Executive Committee of Abraaj Capital. In his capacity as CEO of Abraaj Investment Management, he oversees the company's investment activity across the Middle East, North Africa and South Asia (MENASA). Before Abraaj, Mr. Abdel-Wadood was at Egyptian investment bank EFG-Hermes. His last position there was as CEO in the United Arab Emirates, overseeing the bank's expansion the lower Gulf.



**Taryam Mattar Taryam**

Director General, Sharjah Airport International Free Zone

Mr. Taryam Mattar Taryam enjoys wide and long years of experience in the telecom industry where he spent 17 years with Emirates Telecommunications Company (ETISALAT) where he held the position of General Manager. Mr. Taryam and for the last nine years has been the Director General of Sharjah Airport International Free Zone (SAIF-Zone) and along with Air Arabia, Mr. Taryam is a member of Board of Directors for Sharjah International Airport

#### 4. Fees of the external auditor:

Air Arabia board of directors, in its meeting on Monday 21st of February, recommended the reappointment of Deloitte as external and independent auditors for the year 2011, with total fees of AED 410,000/-. This is subject to the approval of the AGM.

#### 5. Audit Committee:

This committee was formed in accordance with Corporate Governance Regulations is composed of three members:

Mr. Taryam Mattar Taryam	Chairman
Mr. Abdul Wahab Mohammed Al Roumi	Member
Mr. Mustafa Abdul Wadood	Member

The functions of the Committee in general are as follows:

- Adopt a policy of appointing and contracting with external auditor.
- Audit the Financial Statements.
- Internal control frameworks.
- Forming financial and audit policies.
- Preparing general audit reports.
- Disclosing irregularities and fraud.
- Performing tasks given to the Committee of the Board of Directors.

The Corporate Governance Manual contains the rules and procedural functions of the Committee in detail.

#### 6. Internal control system:

The internal control system is a fully integrated system, which imposes regulations, procedures, conditions and administrative laws and monitors their application in practical terms through the company's performance. This is not an obstacle to the effectiveness of the work, speed of delivery and performance; as a matter of fact, it is quite the opposite as it ensures the company's development of effective performance and the effectiveness of risk management and internal control systems of the company. It also measures the level of compliance with policies and procedures, protection of property, efficient and effective use of resources. The board of directors has acknowledged its responsibility for the internal control system in the company and the periodic review of its effectiveness.

#### 7. General Information:

To the best of the knowledge of the board of directors, and the executive management, Air Arabia has not committed any violations during the year 2010.



# Board of Directors Report

Dear Shareholders,

On behalf of the board of directors, I am pleased to report on the company's activities and financial position as of 31st December 2010.

The difficulties that the aviation sector has seen later 2009, have continued throughout 2010. Those difficulties or better said, challenges, were partially a direct consequence of the international financial turmoil, compounded by the increase in fuel prices. There is no Airline anywhere in the world that was immune from this, including Air Arabia; however, I am glad to report a net profit of AED 310M during the year 2010.

Despite the slight drop in Net profits YoY, all other business and commercial indicators were positive, which proves that the company is heading in the right direction of planned growth. For instance, passenger numbers grew by approximately 10%, load factors grew by more than 3% up to 82.7% for the full year, and destinations grew by 7%, while number of aircraft grew by 19% in comparison to 2009. That growth was driven with extremely high efficiency and effectiveness from all staff members, with staff numbers growing by less than 6% during the year.

The Board of directors has promised in the past to grow this company, and this growth was delivered over the past year. After launching Air Arabia Maroc back in 2009, Air Arabia has yet expanded its family by adding a new hub in the Arab Republic of Egypt. The executive management continues to explore and study various business proposals and opportunities, which we hope some will come to fruition soon.

I would really like to take this opportunity, to pass my gratitude and appreciation to the board of directors, the executive management, and to each and every member of the staff for their loyalty, seriousness at work, and positive attitude. The same is also passed to the investors and shareholders for the trust that they have in this company, and the people working for it.

We wish the best of success and prosperity to Air Arabia and all our shareholders.

On behalf of the board of directors  
**Abdullah Bin Mohammed Al Thani**  
Chairman

# A rapidly changing industry

The Aviation industry is changing rapidly and we can see this pace accelerating year after year. Since the 1990's, airlines have had to recognize the need for radical change to ensure their survival and prosperity. Many have tried to cut costs aggressively, to reduce capacity growth and to increase load factors. At a time of renewed economic activity, these actions have helped to return the industry as a whole to profitability; an airline's profitability after all is linked to economic activity and trade growth.

A number of factors are continuously forcing airlines to become more efficient. In Europe, the European Union (EU) has ruled that governments should not be allowed to subsidize their loss-making airlines. Elsewhere too, governments' concerns over their own finances and recognition of the benefits of privatization have led to a gradual transfer of ownership of airlines from the state to the private sector. In order to appeal to prospective shareholders, the airlines have to become more efficient and competitive.

2010 have seen airlines across the globe surpassing the recovery lines from the 2008 financial downturn, but not long before political in-stability in many countries introduced new challenges, volatile oil prices continued adding into higher marginal costs and excess in capacity putting yield margins into further dilution. Taking all those challenges into account, aviation is mainstay to many national economies and therefore, challenges are always accompanied with opportunities.

In the Middle East region, opportunities are tremendous and serious efforts have been put over the past decade to grow this industry in the right direction. In 2010 alone, Arab airlines fleet grew by 12% reaching 856 aircraft today and furthermore, delivery of some 680 aircraft is anticipated to take place between 2011 and 2019. The Arab air transport market have expanded by an average of 8% in 2010, which reflects the potential that exists with-in intraregional air travel and showcase the role low cost airlines have been playing for the past seven years in growing this segment of travel. With a surrounding population of 2 billion people located with-in four hours flying time from the GCC, greatest opportunities lie closer to home – in underserved markets of the Middle East, Africa and Asia. Every player in this industry shares responsibility towards better aviation in the Middle East region. Corrective measures are in need - such as open skies implementation and liberalization, development of low cost efficient airports, and privatization to mention a few.

The outlook for the air travel industry is one of strong growth. Forecasts suggest that the number of passengers will continuously double. For airlines, the future will hold many challenges. Successful airlines will be those that continue to tackle their costs and improve their products, thereby securing a strong presence in the key world aviation markets.



# Milestone Achievements of 2010

## Seven Years. Sixty seven Destinations

In October 2010, Air Arabia celebrated its seventh anniversary, marking seven years of growth, success and change. At a time where the aviation industry was witnessing continuous challenges and airlines were slowly returning into profitability but maintaining a conservative approach for growth, Air Arabia continued with its expansion plan set forth three years ago. Now operating from three main hubs in Sharjah, United Arab Emirates; Casablanca, Kingdom of Morocco and Alexandria, Egypt - the Air Arabia brand was reaching new heights. Starting by increasing capacity from our main bases at Sharjah International Airport and Mohamed V International Airport to cover over 60 destinations and launched our 'Unbelievable fares' campaign that helped people to maintain their travel needs in such difficult times. Air Arabia also started operations from its third hub in Burj Al Arab International Airport in Alexandria, Egypt and organically grew the network from this hub to cover 5 destinations in less than 5 months. We have also announced our will in setting up our fourth hub in Jordan by signing a joint venture agreement with Tantash Group.

With all the change Air Arabia brought to the regions aviation, our simple promise of value for money air travel hasn't changed. The year 2010 has seen Air Arabia offering best fares in the market along our comfort, reliability and value for money services.

## Over 18 Million Passengers

In 2010, we passed the 18 million passenger mark since the launch in October 2003. The year 2010 saw Air Arabia carrying 4.45 million passengers, a 10 per cent increase from same period in 2009. Just like the year before, 2010 saw Air Arabia achieving one of the world's highest seat factors with an average of 83 per cent.

## New Routes. More Frequencies.

As every year, entering new cities and expanding network reach is something Air Arabia is renowned for. In 2010, we started operations from our third hub in Burj Al Arab International Airport in Alexandria, Egypt which allowed us to aggressively enter new markets. In addition, we continued the steady growth from our main bases at Sharjah International Airport, UAE and Mohamed V International Airport in Casablanca, Morocco.

We added a total of sixteen new destinations to our comprehensive route network in 2010, two from Sharjah, nine from Casablanca and five from Alexandria. We introduced services to Sohag and Kabul from Sharjah in December as well as services to Oujda, Nador, Fez, Tangier, Montpellier, Malaga, Cologne, Alexandria and Tunis from Casablanca. Flights to Beirut, Amman, Sudan, Kuwait and Abu Dhabi took off from our latest hub in Alexandria. Due to increasing demand and business needs, we have increased services to Amman, Damascus, Alexandria, Goa and Istanbul.

By end of 2010, Air Arabia route network reached over 67 Global destinations across the Middle East, North Africa, Indian Subcontinent, Europe and Asia.





## MAROC and EGYPT

In 2010, Air Arabia embarked upon a new phase of organic growth, launching its third hub in Alexandria, Egypt in June. The new hub was set-up to serve the ever growing demand for low cost travel and from a strategic location in Alexandria, Egypt. Air Arabia Egypt launched its operations following a ground breaking ceremony that took place on June 1, 2010 in Egypt. By the end of 2010, Air Arabia Egypt network reached 5 cities across the region using a fleet of two new Airbus A320 aircraft. During 2010 as well, Air Arabia Maroc, operating from Casablanca continued its notable expansion and capitalizing on the open sky agreement between Morocco and Europe and therefore, aggressively serve that continent offering the Moroccans as well as Europeans access to the unique Air Arabia model. The year 2010 have seen Air Arabia Maroc expanding its reach with-in Morocco by offering its flights from five different Airports across Morocco and also tapping on the African Market by serving Alexandria and Tunis from Casablanca.

Air Arabia introduced its latest family member Air Arabia "JORDAN" in the third quarter of 2010. Air Arabia's fourth hub in Jordan is expected to commence operations in 2011. The new hub will operate across the Middle East and Europe and therefore, linking our ever growing global network together.

## Innovative Services

Air Arabia and in partnership with IVS Global Services launched a unique UAE visa service designed for India in October. For the first time, Indian passengers will be able to apply for their visa to the UAE through multiple easily accessible channels.

Buy tickets and apply for the visa online from the comfort of their homes or visit any Air Arabia sales shop. A one stop shop for Visa and Hotel assistance, flight bookings and car rental. For the first time also, a travel agency can apply for a UAE visa right from their office. Air Arabia has a strong distribution network of travel agents who will be authorized to offer visa services

Air Arabia also launched of a bus service for its passengers travelling from Ras Al Khaimah (RAK) to Sharjah International Airport. The new service is aimed to greatly enhance the convenience for passengers in terms of an alternative mode of transport to Sharjah International Airport.

## Celebrating Five years in India

Air Arabia is India's first foreign low-cost carrier (LCC), completed its five successful years of operation since it started its flights to Mumbai in March 2005. The airline has posted steady growth and driven significant value to its customer base across India, with its philosophy of offering value for money and greater connectivity to the UAE and beyond.

Air Arabia is the first international low cost airline to commence services between India and the UAE, starting with daily flights from Sharjah to Mumbai on 26th March 2005. Currently, the airline offers 102 flights a week, flying directly from its hub in Sharjah to 13 Cities in India. The destinations are Bangalore, Ahmedabad, Chennai, Jaipur, Kochi, Mumbai, Nagpur, Coimbatore, Thiruvananthapuram, Hyderabad, Kozhikode, Delhi and Goa, which represents the most comprehensive destination network of any international airline in India. The airline has served over 3.9 million passengers in India in the last five years of operations.

## Fleet Expansion

The year 2010 has not only seen Air Arabia increasing its fleet by 4 new aircraft expanding the company's fleet size to 25 (leased and owned) Airbus A320 aircraft but also receiving delivery of the first of its 44 Airbus A320 aircraft ordered back in 2007. The year 2010 have seen Air Arabia increasing its fleet from Sharjah hub by 1 aircraft to a total of 19 aircraft serving 48 cities. While Air Arabia Maroc has welcomed 1 new aircraft to join its fleet reaching 4 aircraft serving 16 cities. The newly launched Air Arabia Egypt started with 2 aircraft serving 5 destinations from Alexandria. Therefore, the global fleet of Air Arabia has touched 25 aircraft in just seven years of operations.

The order for purchasing 44 A320 aircraft from Airbus took a step closer by the delivery of the first aircraft took place in Hamburg, Germany in October 22, 2010. The remaining aircraft will be delivered in batches year-on-year until 2016, by which the total operating fleet of Air Arabia will exceed 50 aircraft.





### Formalizing CFM56-5B Engine Order for new aircraft

In a special ceremony held in London, England on September 28, 2010 - Air Arabia formalized its order for CFM56-5B engines to power its fleet of 44 Airbus A320 family aircraft. This new engine selection will more than double the airlines' CFM56-5B powered A320 fleet. Air Arabia became a CFM customer in 2003 when the airline started operations with a CFM56-5B-powered Airbus A320. Air Arabia being the winner of the A320 Family Operational Excellence Award by Airbus, currently operates a total fleet of CFM56-5B-powered A320s.

CFM56-5B engines are a product of CFM International, a 50/50 joint company between Snecma (Safran group) and GE. CFM, the world's leading supplier of commercial aircraft engines, has delivered more than 21,500 engines to date and the fleet has achieved more than 500 million flight hours as the most reliable engines in the air.

### Un-matched Financial Performance

The year 2010 is considered conservative in the history of aviation. The year saw many airlines across the globe recording losses and many others cutting on capacity in an attempt to recover from continuous losses. Add to it the unprecedented oil prices and high pressure on yield margins. All these factors have put additional pressure on Air Arabia's performance and bottom lines. However, due to the low operational cost and dynamic business model combined with the appeal for low cost services in this region we maintained our growth and profitability.

For the year 2010, Air Arabia posted Net profits of AED 309.559 million a decline of 31.5 per cent compared to AED 452 million in 2009. Revenue generated was AED 2.08 billion, increase of 5.5 per cent from AED 2 billion recorded in 2009.



Air Arabia

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**Airbus A320**



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44

7390

3757 x 370 x 1176



# Welcoming the new family of Airbus A320 aircraft

In October 22, 2010, Air Arabia welcomed the first of 44 A320 aircraft (34 placed in 2007 and 10 placed in 2008) to its fleet. Air Arabia received the new aircraft during a signing ceremony that took place at the Airbus facility in Hamburg, Germany and was attended by Air Arabia Chairman Sheikh Abdullah Bin Mohamed Al Thani and Airbus President for Middle East Habib Fakhri as well as other high profile dignitaries.

The delivery of the 44 aircraft order will take place between 2010 & 2016, and will more than double the size of Air Arabia's existing fleet - in line with its aim to increase its total operating fleet to over 50 aircraft by 2016. A batch of six new aircraft is scheduled to join Air Arabia's fleet by 2011.

The A320 Family, which includes the A318, A319, A320 and A321, is recognized as the benchmark single-aisle aircraft family. Around 6,700 Airbus A320 Family aircraft have been sold to some 300 customers and operators worldwide, and over 4,400 A320 delivered, making it the world's best selling commercial jetliner ever. With proven reliability and extended servicing periods, the A320 Family has the lowest operating costs of any single aisle aircraft. Uniquely, the A320 Family offers a containerized cargo system, which is compatible with the world-wide standard wide-body system.



# Corporate Social Responsibility

## Charity Cloud Project

Air Arabia is not only committed to providing affordable air travel but is also dedicated to uplifting the lives of the less fortunate. Taking responsibility and lead on social needs of local and international communities has been part of our success. To this end, the carrier has implemented a corporate social responsibility (CSR) program with an emphasis on providing better education and healthcare for underprivileged communities.

Air Arabia became one of the first companies from the region to introduce a sustainable CSR program when it launched the "Charity Cloud" project in collaboration with Sharjah Charity International in 2005. The program is aimed at raising funds for community development initiatives through on-board passenger donations. The fund collections are reviewed annually and invested in health and education projects in impoverished nations through planned CSR initiatives.

In 2010, Air Arabia and Sharjah Charity International announced the inauguration of its latest Charity Cloud Clinic in Yemen. The new clinic will include an operation and examination room, maternity room as well as a fully equipped laboratory and pharmacy. It will also include housing for the medical team operating in the clinic. Many other activities took place in 2010 such as donation of Eid gifts in many countries including Jordan, Turkey, Kazakhstan, Kenya, Egypt, Syria, India, Bangladesh and Yemen; an Iftar buffet in Kazakhstan for more than 300 children, wheel chair distribution in Kazakhstan for people with special needs, small Hearts Campaign in Yemen, where more than 50 children with heart problems received free treatment.

In 2009, Charity Cloud Committee inaugurated its latest Charity Cloud School in the Trissur district of Kerala, India. The school will offer quality education to children from the underprivileged sections of society.

As part of 2008 CSR initiatives, the company sponsored a new school in the Warkabola area in Sri Lanka.

The airline donated an initial sum of US\$61,000 to extend an existing school, providing learners with better education facilities. Construction of Sri Lanka Charity Cloud school was completed in 2009 offering more than 300 students a better facility for education. Later in 2008, Air Arabia sponsored the first phase of renovations of the Shree Shagyodaya Secondary School in Kathmandu, Nepal. The airline assisted in erecting a pump and containers to supply water to the school. Full adoption of the school renovation will commence as phase two.

In 2007, Air Arabia and Sharjah Charity International inaugurated 'Air Arabia Medical Centre', the first free medical clinic in the needed area of Jallas in Sudan, a desert area with a population of over 20,000 and 450 km away from the Capital, Khartoum. In 2009, the clinic went into a renovation phase to better maintain the quality of health care at the clinic. Charity Cloud clinic, included an operation and examination room, maternity room as well as a laboratory and pharmacy.

## Unique partnership with Sharjah Humanitarian City

In line with its commitment towards serving its local community, Air Arabia has signed a Memorandum of Understanding with Sharjah City for Humanitarian Services (SCHS) in November 2010. Under the terms of the agreement, the airline will provide support to those with physical and mental disabilities. This will include financial aid, wheelchair services at airports, specific seat allocations for disabled passengers, and special printing for the visually impaired and sign language.

Through its flexible and comprehensive plans and its unyielding strategy, SCHS aims at providing education, care, training and rehabilitation to children and adults with disabilities, regardless of the level of disability yet within the limits that are allowed. It also aims at providing job opportunities for people with special needs. Considering the fact that their family is the ideal environment for them, SCHS provides families with guidance and counseling.



### Air Arabia Sailing World

'Air Arabia Sailing World' is Air Arabia sports sponsorship program that helps professional sailors to achieve their sports dreams. The program was launched in 2007 and since then, managed to introduce two major sailing events that achieved global records.

In 2010 and as further testimony to its commitment to developing sports in the region, Air Arabia, in association with BMI Bank (the Bahrain based associate of Bank Muscat) and Audi Bahrain announced launched the "2010 Air Arabia Sailing Adventure". The adventure included sponsoring Air Arabia pilot and Olympic sailor on his new bid to compete in the 2010 Asian Games that was held in the city of Guangzhou in China in November 13, 2010.

As part of the "2010 Air Arabia Sailing Adventure" and in order to qualify for the 2010 Asian Games, 25 year-old sailor launched his campaign in February 2010. He competed in 12 International Regattas and training camps in the GCC, Europe and Asia, which also included

the 2010 World Championships that was held in the United Kingdom at Haling Island in August 2010. These thrilling challenges tested the strategy, strength and skill that allowed him to participate in the 2010 Asian Games that took place in China.

In 2009, Air Arabia Sailing World introduced 'Bahrain Team Air Arabia', through the sponsorship of the Bahrain Match Racing Sailing Team, who competed in two international sailing regattas in Mumbai, which took place on January, 23 - 30, 2009 at Chowpatty Bay, Mumbai, India. The team was ranked fifth overall in the world championships.

In 2007, Air Arabia Sailing World introduced "World Endurance Sailing Challenge", sponsoring Al Kooheji, one of Air Arabia pilots and Olympic sailor to complete an unprecedented 550-kilometre non stop solo voyage in a small Laser sail boat from Bahrain to Dubai, where he achieved a new world record.



### Environmental Practices

Air Arabia realizes its environmental responsibilities and followed best practices since its inception. The airline fleet policy has been associated with investing in new airplanes. Even though the cost associated with new fleet is very high, especially in current economic conditions, Air Arabia invested billion of dollars in its fleet growth, signing an agreement with Airbus to purchase 44 brand new Airbus A320 aircraft. Air Arabia's association with brand new aircraft resulted in less fuel consumption and toxic wastage towards the environment. The company fleet aging policy is designed to maintain a young fleet, and running currently at an average age of 1.5 - 2 years.

The airline also follows green practices in its offices work space. Being e-driven company, paper use is kept to the minimum and paper recycling is a must. All back office filing is done electronically and the company has leading IT solutions for its internal communications, and all based on computer systems. The company has also introduced "Social and Environmental Policy" as part of the Corporate Governance Manual.



# Awards

The year 2010 saw Air Arabia receive several notable regional and global accolades for its successful business and growth.

In May, Air Arabia received the "Business Traveller Award" This prestigious award further strengthens Air Arabia's leadership position in the LCC sector in the Middle East and North Africa (MENA) region, and highlights its ability to consistently deliver best-value services without compromising on quality, despite the tough economic climate.

In May 2010, Air Arabia won Sharjah Economic Excellence Award – Gold Class. Sharjah Economic Excellence Award is an annual award, that highlights the best economic achievements and performances of commercial companies in UAE in general and Sharjah

specifically. Even though it has been taking place for quite some time, and Air Arabia has won the award in the past, this year a further challenge was put together for the first time which is the "Gold Class Award" in which previous winners of the award get to compete in a more stringent and tougher requirements, standards, and benchmarks. By winning this Award, Air Arabia has won the most prestigious business award in Sharjah, putting it once again, on top of everyone else.

Even though Air Arabia PJSC was listed in mid of 2007; in June 2010 it was awarded by Dubai Financial Market as one of the highest traded stock in the market for the period between 2000 and 2010. This is a result of the transparent approach Air Arabia is adopting, the full and timely disclosures, and active approach of Investor Relations towards all investors of the company.



In August, Air Arabia was named the “Middle East’s leading low-cost airline” for the third consecutive year at the recent World Travel Awards. Launched in 1993, the World Travel Awards aims to separate the good from the outstanding by encouraging world-class competition and stimulating innovation and creativity.

In September, Air Arabia set a new World record when one of its A320 aircraft flew 30,000 flight hours in six years. Air Arabia received special recognition from Airbus, and was awarded for its operational efficiency and the new world breaking record.

In October, Air Arabia has been recognised as the “Best Managed Company in the Middle East – Airlines and Aviation,” by participants of Euromoney’s annual survey. The “Best Managed Companies in the Middle East” survey, which is distributed among bank analysts and equity investors, asks respondents to give their opinions on which Middle Eastern companies they believe to be the best and why. As part of the 2010 survey, respondents were also asked to nominate the top three Middle Eastern companies in order of quality in a range of sectors.

In November, Air Arabia entered the superbrands UAE book whereby the Brand Air Arabia has been considered among the most valuable in the region.

In December, Air Arabia has been named “Low Cost Airline of the Year” at the prestigious Aviation Business Awards. At the event held in Emirates Palace, Abu Dhabi. The award acknowledged the success of Air Arabia’s new regional and international routes, its investment in aircraft, and its track record for excellence and innovation. Air Arabia’s Group CEO, Adel Ali, also received a personal accolade when he won the inaugural “Hall of Fame” award which honors a leading and respected figurehead from the Middle East aviation industry.



May	2010	Business Traveller Award
May	2010	Sharjah Economic Excellence Award
June	2010	DFM Award
August	2010	World Travel Award
September	2010	World breaking record by Airbus
October	2010	Best Managed Company by Euromoney
November	2010	Superbrands Award
December	2010	Low Cost Airline of the Year
December	2010	Hall of Fame Award for Air Arabia CEO

# Air Arabia Group

Air Arabia (PJSC), listed on the Dubai Financial Market and traded under ticker symbol: (DFM:AIRARABIA) consists of a group of airlines and companies offering travel and tourism services across the globe. The Group started in October 2003 with the launch of Air Arabia and currently holds a portfolio of successful businesses and projects.

Air Arabia operates from three hubs in Sharjah International Airport, UAE; Mohamed V International Airport in Morocco and Burj Al Arab International Airport in Alexandria, Egypt. The company is expected to start operations from its fourth hub in Jordan in 2011.

## Air Arabia (UAE)

Air Arabia took off the skies in October 2003 as the Middle East and North Africa's first low cost carrier (LCC). Since establishment, Air Arabia revolutionized the way aviation was perceived in the Middle East and North Africa by introducing a successful low cost business model that accommodates local preferences of the region. The airline was able to re-define the concept of air travel in this part of the world through offering superb value for money travel along with a comfort and reliable operations.

Air Arabia main achievements was making air travel more convenient through Internet bookings and offering the lowest fares in the market along with the highest levels of quality and service standards. With its value proposition "Pay Less. Fly More." Air Arabia's business model has cleared the way for a greater number of business and leisure customers to travel more often, to more places.



## Air Arabia (Maroc)

In November 2007, Air Arabia announced the establishment of its second hub in Casablanca, Morocco. Preparatory work on the establishment of the new hub was on full stream through 2008 and operations of the new airline took off in May 2009. Air Arabia's second hub in Casablanca is providing the airline with a platform from which to reach the wider Europe, Middle East and Africa (EMEA) market.

## Air Arabia (Egypt)

In September 2009, Air Arabia and Travco Group, the Middle East's largest travel and hospitality group announced the signing of a joint venture agreement to launch a new low cost carrier based in Egypt. The new carrier took off the skies in June 1, 2010 in the aim to serve Europe, Middle East and Africa (EMEA) markets representing Air Arabia third hub after UAE and Morocco.

Building upon Air Arabia's existing services across Europe, the Middle East, Africa and Asia, the new from its base in Alexandria and will contribute to the on-going development of the Egyptian travel and tourism sector as well as offer a larger base of customer best value for money air travel.

## Centro Sharjah Hotel

In 2007, we announced the plans to construct a budget hotel at Sharjah International Airport and signed a management agreement with Rotana Hotels, to manage this property under their innovative Centro by Rotana brand, offering affordable, superior-class accommodation and hospitality.

In July 2008, we began construction of the 306-room budget hotel and appointed Gustav Pegel & Sohn as general contractor for the hotel, which is due for completion by first quarter of 2011.

We believe that this new project will complement the low cost air travel services we offer to our customers. The property, which will include both standard rooms and suites, will also offer comfort and convenience for travellers passing through one of the region's fastest-growing airports as well as for visitors to the emirate.



### Air Arabia Studio Apartments

Providing our staff with class A accommodation is something we always kept in our plans. In 2008, we broke ground on constructing a studio apartments project to offer our increasing number of employees appropriate accommodation. The project was completed in first quarter of 2010 and currently offers Air Arabia staff a total of 152 apartments.

### Information System Associates (ISA)

ISA Aviation or Information System Associates is a joint venture between Air Arabia and John Keells Holdings (JKH), Sri Lanka's largest conglomerate. The company was established in September 2003 and provides leading IT solutions in the aviation industry.

ISA unique creation was the state of the art reservation system 'AccelAero' that is now used by many low cost airlines across the world. The company's impressive performance allowed it to develop other innovative products such as AccelAero.RM, AccelAero.HM BRS and Cesar.

### Sharjah Aviation Services (SAS)

SAS or Sharjah Aviation Services a joint venture between Air Arabia and the Sharjah Department of Civil Aviation. The company was launched in January 2007, in order to support the ongoing expansion of Sharjah Airport and became profitable after first year of operations. Sharjah Aviation Services deliver a comprehensive range of passenger, ramp and cargo handling services for airline operators and their customers at the airport.

### Alpha Flight Services

Alpha Flight Services is a joint venture company between Air Arabia and UK based Alpha Catering Group. The company was established in May 2007 to support and enhance the quality of on board catering needs. Alpha Catering Sharjah is now a profitable company that contributes to Air Arabia group profits.

### Alpha Flight Academy

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

### Cozmo Travel

Cozmo Travel, a UAE-based travel agency providing a wide range of innovative individual and corporate travel solutions.

Cozmo Travel, a one-stop solutions provider, offers a comprehensive range of travel options, including VIP services such as access to its VIP service lounges, valet parking and other exclusive benefits. The company also provides flight bookings, car rental, ocean cruises, corporate solutions and visa processing services for UAE Nationals and residents.



**cozmo travel**  
مقر العالم للسفريات

# Seven years of Air Arabia

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

The low cost model has been warmly welcomed across the region since Air Arabia introduced it in October 2003 and continues to go from strength to strength. In just seven year's time, low cost travel has become the preferred choice of travel to wide audience and we have been able to carry over 18 million passengers since inception.

Initially operating with two new Airbus A320 aircraft, Air Arabia's fleet in 2010 has increased to 25 (owned and leased) Airbus A320 aircraft flying to over 67 destinations from three hubs in Sharjah, UAE; Casablanca, Morocco and Alexandria, Egypt. Air Arabia customers enjoy the benefits of quick access, fast check-in processes, low congestion, friendly airport staff, as well as access to other commercial carriers served at the Sharjah, Casablanca and Alexandria airports.

Air Arabia enjoys an enviable reputation for the many milestone achievements earned in the airline's first seven years. Our financial break even result in our first year of operation is a ground breaking feat for any airline. Air Arabia's profitability margin has constantly growing per annum over the past seven years.

The reliable and profitable record the company has achieved since inception, allowed us to take a solid and pioneer step in converting the company into a public joint stock company (PJSC) in 2007. Currently, Air Arabia enjoys a strong base of an average of 30,000 local and international investors and its shares are traded on the Dubai Financial Market.

In November 2007, Air Arabia signed an agreement with Airbus for the acquisition of a total of 44 A320 aircraft. In October 2010, the company took delivery of the first of its 44 Airbus A320 aircraft in October 2010, with the remaining to be delivered between 2010 and 2016.

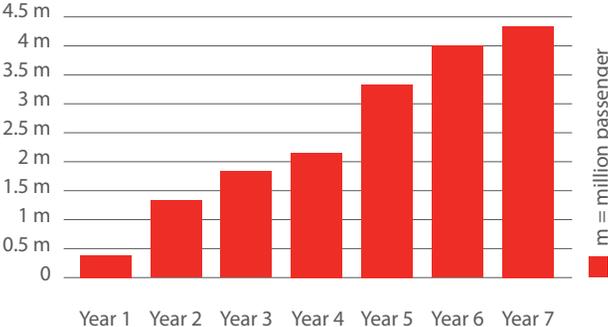
In 2008, the company introduced Air Arabia "Maroc" - latest member of the Air Arabia family. Based at Mohamed V International Airport in Casablanca, operations from second hub in Morocco started operations in May 2009. In November 2009, we have announced our will to start our third hub in Egypt. In partnership with Travco Group, Air Arabia 'EGYPT' took off the skies in June 2010. The new hub in Egypt will complete Air Arabia's Pan Arab network offering direct services across the Middle East, Africa, Europe and Central Asia. In June 2010, Air Arabia announced its will to start its fourth hub in Jordan following the signing of a joint venture agreement with Tantash Group of Jordan. The new carrier is expected to start operations by 2011.

Air Arabia's greatest asset is its people. The company's success is a result of efficient integration between different departments, multi-functionality of its teams and individual contributions. The company total head count reached more than a thousand five hundred employees in 2010, which reflects the growth the company is witnessing.

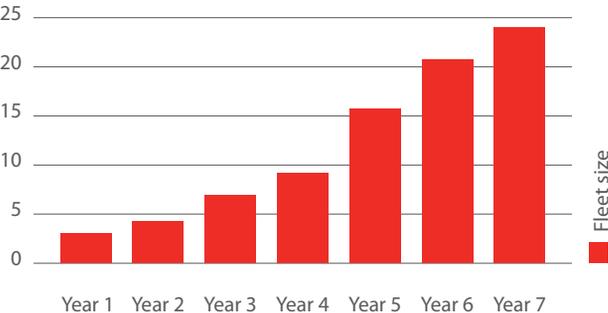
Air Arabia now stands as a vibrant and internationally recognized brand with a promising future ahead. The company's super performance in 2010 versus its global peers has granted Air Arabia the title "Best Managed Company in the aviation sector 2010".

Below charts showcase year on year growth in terms of Fleet, Destinations, Passenger number, Profitability and staff count.

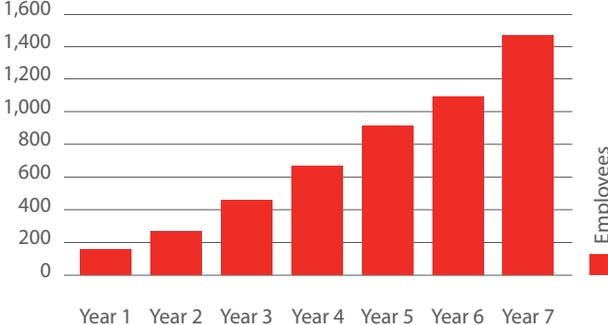
**Passengers growth**



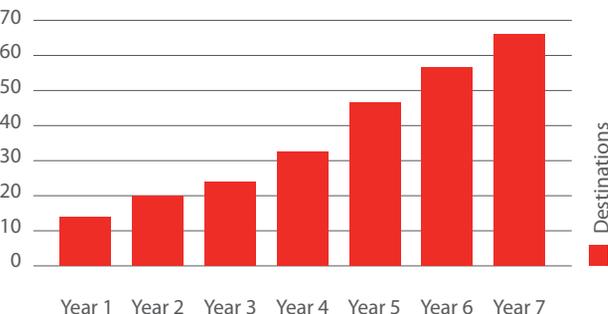
**Fleet growth**



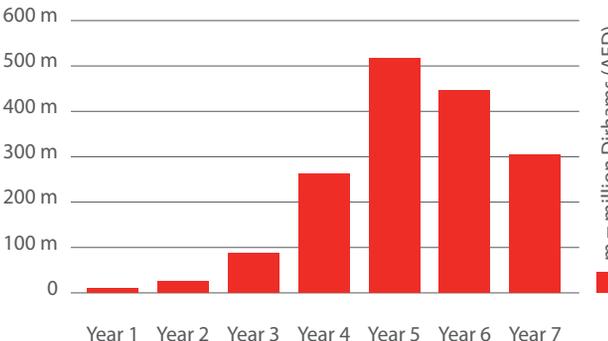
**Headcount growth**



**Network growth**



**Profitability growth**





# The Power of Low Cost Travel

Seven years after Air Arabia first introduced the concept of low-cost travel to the region, the low cost phenomena went from strength to strength. Weekend travel, short breaks and frequent flying became part of the lives of a large portion of UAE residents. Further demonstrating the rapid growth and acceptance of the concept was the creation of the Middle East's second low-cost carrier, Kuwait's Jazeera Airways in 2005, followed by RAK Airways in 2006, Saudi's Sama and NAS airlines in 2007 and recently Fly Dubai.

In fact, according to the results of a recent survey conducted by YouGov Siraj, the introduction of low-cost carriers to the Middle East has shifted the dynamics of travel and travellers. With the increased availability of lower fares, travelling is no longer a privilege that only the wealthy can enjoy, and passengers can afford to travel more often for leisure rather than mere necessity.

Of the 750 respondents interviewed by YouGov Siraj, 69 per cent have revealed that they travel more frequently due to the availability of low-cost carriers in the region, 63 per cent have used LCCs for leisure travel in the past two years, and 60 per cent of the non-LCC travellers are interested in travelling on low-cost carriers in the future.

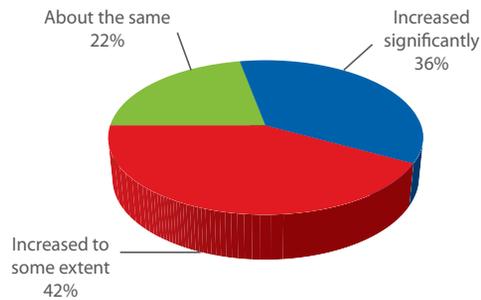
Another revelation from the survey is that the main factors that determine UAE residents' travel plans are low fares, convenience (flight timings, airport location) and destination of choice, not the availability of extras such as entertainment or "free" food. The majority of passengers are more interested in getting from A to Z at a lower cost than paying for extras that enhance the overall experience at the expense of their bank balances.

Seven years after it first introduced LCCs to the Middle East, the airline not only provides low-cost flights to dirham-conscious travellers looking for a safe, reliable and reputable airline, but also offers a range of travel solutions from holiday packages to visa services.

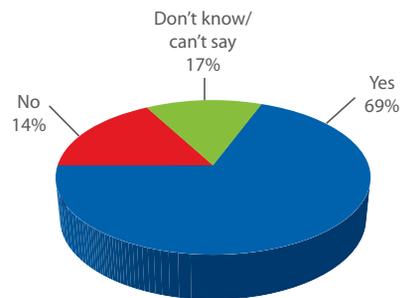
In fact, today, Air Arabia is the largest LCC in the Middle East and North Africa, and its success has ignited interest in the concept across the region, although not all of the subsequent airlines have been as successful as their predecessor.

While challenges remain for the regional LCC sector, it is clear now that it is here to stay. With 60 per cent respondents who have never flown on LCCs open to flying with them in the future, the survey highlights that consumer confidence has definitely come a long way since they were first launched!

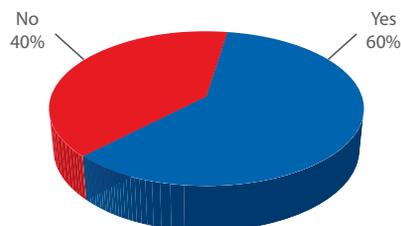
To what extent has the availability of low cost / budget airlines affected your frequency of travel while traveling on leisure?



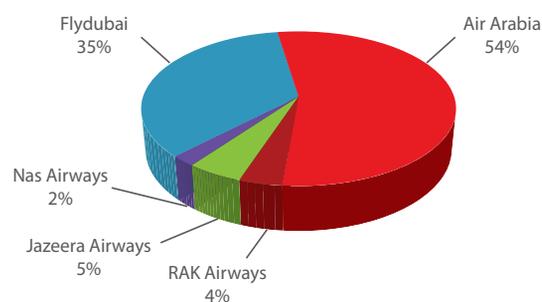
In your opinion, has the introduction of low cost / budget airlines changed people's travel habits?



Would you be interested in traveling by low cost / budget airlines while traveling on leisure?



Which of the following do you consider as the top low cost / budget airline?





# Best Managed Company in the Middle East aviation sector

As further testimony to its successful business model, Air Arabia has been recognised as the “Best Managed Company in the Middle East – Airlines and Aviation,” by participants of Euromoney’s annual survey that took place in October 2010.

The “Best Managed Companies in the Middle East” survey, which is distributed among bank analysts and equity investors, asks respondents to give their opinions on which Middle Eastern companies they believe to be the best and why. As part of the 2010 survey, respondents were also asked to nominate the top three Middle Eastern companies in order of quality in a range of sectors.

This prestigious accolade is further evidence of the strength and success of Air Arabia’s robust business model. Over 250 bank analyst and equity investors participated in this survey by Euromoney which highlighted the success of Air Arabia’s robust business model.

# Financial Results

## Independent Auditor's Report

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

The accompanying summarised consolidated financial statements have been derived from the consolidated financial statements of **Air Arabia P.J.S.C. (Air Arabia) (the 'Company') and subsidiaries (together the 'Group') Sharjah, United Arab Emirates** for the year ended 31 December 2010. These summarised consolidated financial statements are the responsibility of Group's management. Our responsibility is to express our opinion on whether these summarised consolidated financial statements are consistent, in all material respects, with the consolidated financial statements from which they were derived.

We have audited the consolidated financial statements of the Group for the year ended 31 December 2010, from which the summarised consolidated financial statements were derived, in accordance with International standards in Auditing. In our report dated 21 February 2011, we expressed an unqualified opinion on the consolidated financial statements from which the summarised consolidated financial statements were derived.

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

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

**Deloitte & Touche**

Sharjah

February 21, 2011



# Consolidated Statement of Financial Position

## At December 31, 2010

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

# Consolidated Statement of Financial Position

## At December 31, 2010

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

# Consolidated Statement of Income

## For the year ended December 31, 2010

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

# Consolidated Statement of Comprehensive Income

## For the year ended December 31, 2010

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

## Consolidated Statement of Changes in Equity For the Year Ended December 31, 2010

	Share capital	Treasury shares	Statutory reserve	General reserve	
	AED '000	AED '000	AED '000	AED '000	
Balance at 31 December 2008	4,666,700	(42,582)	77,672	77,672	
Profit for the year	-	-	-	-	
Other comprehensive income for the year	-	-	-	-	
Total comprehensive income for the year	-	-	-	-	
Transfer to reserves	-	-	45,224	45,224	
Dividend paid	-	-	-	-	
Treasury shares sold	-	42,582	-	-	
Balance at 31 December 2009	4,666,700	-	122,896	122,896	
Profit for the year	-	-	-	-	
Other comprehensive income for the year	-	-	-	-	
Total comprehensive income for the year	-	-	-	-	
Transfer to reserves	-	-	30,579	30,579	
Increase in non-controlling interest	-	-	-	-	
Dividend paid	-	-	-	-	
<b>Balance at December 31, 2009</b>	<b>4,666,700</b>	<b>-</b>	<b>153,475</b>	<b>153,475</b>	

## Consolidated Statement of Changes in Equity For the Year Ended December 31, 2010

	Cumulative change in fair values	Retained earnings	Attributable to equity holders of the parent	Non-controlling interests	Total
	AED '000	AED '000	AED '000	AED '000	AED '000
	(105,882)	710,025	5,383,605	-	5,383,605
	-	452,234	452,234	-	452,234
	54,477	(2,100)	52,377	-	52,377
	54,477	450,134	504,611	-	504,611
	-	(90,448)	-	-	-
	-	(466,670)	(466,670)	-	(466,670)
	-	4,182	46,764	-	46,764
	(51,405)	607,223	5,468,310	-	5,468,310
	-	305,789	305,789	3,770	309,559
	65,205	(1,925)	63,280	-	63,280
	65,205	303,864	369,069	3,770	372,839
	-	(61,158)	-	-	-
	-	-	-	2,450	2,450
	-	(466,670)	(466,670)	-	(466,670)
	<b>13,800</b>	<b>383,259</b>	<b>5,370,709</b>	<b>6,220</b>	<b>5,376,929</b>

# Consolidated Cash Flows

## For the Year Ended December 31, 2010

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

# Consolidated Cash Flows

## For the Year Ended December 31, 2010

...continued

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

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

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

# Notes to the summarised consolidated financial statements

## For the Year Ended December 31, 2010

### 1. General information

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

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

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

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

### 2. Accounting policies

The accounting policies followed by the Group are included in the consolidated financial statements in Note 3. These summarised consolidated financial statements should be read in conjunction with the Group's audited consolidated financial statements for year ended 31 December 2010.

### 3. Intangible assets

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

	2010 AED '000	2009 AED '000
Trade name	395,410	395,410
Landing rights	468,273	468,273
Price benefit from related parties	180,281	180,281
Handling licence - Sharjah Aviation Services	48,383	48,383
<b>Fair value, at the end of the year</b>	<b>1,092,347</b>	<b>1,092,347</b>

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 and management has concluded based on the independent valuer's report that intangible assets are unlikely to be impaired for the reporting period.

# Notes to the summarised consolidated financial statements

## For the Year Ended December 31, 2010

...continued

### 4. Goodwill

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

	2010 AED '000	2009 AED '000
Total fair value of Air Arabia Company L.L.C. (Air Arabia)	1,400,000	1,400,000
Fair value of intangible assets	(1,092,347)	(1,092,347)
Fair value of tangible assets (net)	(118,179)	(118,179)
<b>At 31 December 2009 and 2010</b>	<b>189,474</b>	<b>189,474</b>

During the year Group has performed the impairment test on goodwill through an independent valuer. The recoverable amount of cash-generating unit for impairment test has been determined using value in use calculation. For calculation purpose management approved cash flow projections for 5 year period from 2011-2015 and a discount rate of 15.29% per annum has been considered.

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

### 5. Available-for-sale investments

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

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

# Notes to the summarised consolidated financial statements

## For the Year Ended December 31, 2010

...continued

### 5. Available-for-sale investments (Continued)

Movement during the year were as follows:

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

### 6. Bank balances and cash

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

# Notes to the summarised consolidated financial statements

## For the Year Ended December 31, 2010

...continued

### 7. Revenue

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

### 8. Basic earnings per share

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

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.

### 9. Aircraft operating lease commitments

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

# Notes to the summarised consolidated financial statements

## For the Year Ended December 31, 2010

...continued

### 10. Contingent liabilities

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

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

### 11. Capital commitments

11.1 The Group has entered into the following capital commitments

	2010 AED '000	2009 AED '000
<b>11.1.1 Authorised and contracted:</b>		
Aircraft fleet (Note 11.2)	12,033,882	12,627,095
Investment in an associate	34,921	44,071
Hotel project	7,703	114,824
Simulator project	42,945	-
Others	1,383	24,197
	<b>12,120,834</b>	<b>12,810,187</b>
<b>11.1.2 Authorised but not contracted:</b>		
Simulator project	-	30,803
Aircraft fleet (Note 11.2)	1,422,807	1,422,807
	<b>1,422,807</b>	<b>1,453,610</b>

### 11.2 Aircraft fleet

The Group has entered into a contract with Airbus S.A.S. for the purchase of 34 Airbus A320 aircraft and there was an option in the contract to purchase 15 aircraft from Airbus, out of which, the Group has exercised the option of purchasing 10 aircraft. The total value of the 42 aircraft order was approximately USD 3.5 billion (AED: 12.6 billion) (31 December 2009: 44 aircrafts, USD 3.6 billion (AED 13 billion) at list prices subject to adjustment in accordance with the Airbus price revision formula. As per the contract, 20% of the purchase price of 42 (2009: 44) aircraft is payable over the next four years, with the balance being due on delivery.

### 12. Dividends

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

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

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