Jazeera Airways K.S.C.P
Kuwait

Consolidated Annual Financial Statements and Independent Auditors' Report
31 December 2013

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Deloitte.

Deloitte & Touche
Al-Wazzan & Co.

Ahmed Al-Jaber Street, Sharq
Dar Al-Awadi Complex, Floors 7 & 9
P.O. Box 20174 Safat 13062 or
P.O. Box 23049 Safat 13091
Kuwait

Tel : + 965 22408844, 22438060
Fax: + 965 22408855, 22452080

www.deloitte.com

Crowe Horwath.

Horwath Al-Muhanna & Co.
Certified Accountants
Member Crowe Horwath International

P.O. Box 26154, Safat
13122 - Kuwait
+965 224 525 46/7/8
+965 224 525 49 Fax
www.crowehorwath.com.kw

Jazeera Airways K.S.C.P
Kuwait

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Jazeera Airways K.S.C.P ("the Ultimate Parent Company") and its subsidiaries ("together called the Group"), which comprise the consolidated statement of financial position as at 31 December 2013, and the consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, 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 entity'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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the 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.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2013, and their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Deloitte.

Crowe Horwath.

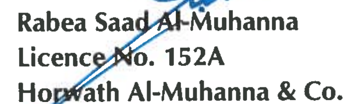
Jazeera Airways K.S.C.P
Kuwait

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS (Continued)

Report on other Legal and Regulatory Requirements

Furthermore, in our opinion proper books of accounts have been kept by the Ultimate Parent Company and the consolidated financial statements, together with the contents of the report of the Ultimate Parent Company's Board of Directors relating to these consolidated financial statements, are in accordance therewith. We further report that we obtained all the information and explanations that we required for the purpose of our audit; and that the consolidated financial statements incorporate all information that is required by Companies Law No. 25 of 2012, as amended, and by the Ultimate Parent Company's Memorandum of Incorporation and Articles of Association; that an inventory was duly carried out; and that, to the best of our knowledge and belief, no violations of the Companies Law No. 25 of 2012, as amended, or of the Ultimate Parent Company's Memorandum of Incorporation and Articles of Association have occurred during the year ended 31 December 2013 that might have had a material effect on the business of the Group or on its consolidated financial position.

Bader A. Al-Wazzan
Licence No. 62A
Deloitte & Touche
Al-Wazzan & Co.



Rabea Saad Al-Muhanna
Licence No. 152A
Horwath Al-Muhanna & Co.

Kuwait
28 January 2014

Jazeera Airways K.S.C.P
Kuwait

Consolidated Statement of Financial Position as at 31 December 2013

	Note	Kuwaiti Dinars 2013	Kuwaiti Dinars 2012
ASSETS			
Non- current Assets			
Property and equipment	4	154,039,205	140,869,217
Advance for maintenance		3,797,061	3,479,883
Deposits	5	863,830	860,803
Goodwill	6	3,443,481	3,443,481
		162,143,577	148,653,384
Current Assets			
Inventories, expendable parts and supplies		210,229	221,930
Trade and other receivables	7	1,392,372	1,475,625
Cash and bank balances	8	43,263,789	47,887,598
		44,866,390	49,585,153
Total assets		207,009,967	198,238,537
LIABILITIES AND EQUITY			
Equity			
Attributable to Ultimate Parent Company's shareholders			
Share capital	9	42,000,000	24,200,000
Share capital – rights issue		-	17,800,000
Legal reserve	10	4,482,688	2,737,593
Retained earnings		29,206,674	14,278,364
Foreign currency translation reserve		(883,218)	(991,311)
		74,806,144	58,024,646
Non-controlling interest		428	357
Total equity		74,806,572	58,025,003
Non-current liabilities			
Term loans	11	80,537,379	76,197,067
Post employment benefits		1,743,934	1,466,608
Security deposits from lessees		1,513,204	1,260,448
Advance received from lessees	12	9,791,498	8,177,821
		93,586,015	87,101,944
Current liabilities			
Term loans	11	21,215,398	17,572,209
Due to banks	13	295,250	114,621
Due to a related party		-	2,234,495
Trade and other payables	14	9,221,207	10,941,060
Deferred revenue		7,885,525	7,249,205
Deferred purchase consideration		-	15,000,000
		38,617,380	53,111,590
Total liabilities and equity		207,009,967	198,238,537

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

Marwan Marzouk Boodai
Chairman

Consolidated Statement of Income - Year ended 31 December 2013

	Note	Kuwaiti Dinars	
		2013	**2012**
Revenue	15	65,558,805	62,603,224
Operating costs	16	(40,977,870)	(40,346,025)
Operating profit		24,580,935	22,257,199
Other income		619,362	628,307
General and administrative expenses	17	(3,962,880)	(3,747,057)
Finance costs		(3,572,404)	(4,682,645)
Foreign currency loss		(214,059)	(140,947)
Profit before contribution to taxes		17,450,954	14,314,857
Zakat expense		(177,283)	(69,327)
Contribution to Kuwait Foundation for the Advancement of Sciences		(157,059)	(128,834)
National Labour Support Tax		(443,207)	(173,317)
Profit for the year		16,673,405	13,943,379
Attributable to:			
Shareholders of the Ultimate Parent Company		16,673,405	13,943,379
Earnings per share (fils) – Basic and Diluted	18	39.70	38.37

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

Consolidated Statement of Comprehensive Income - Year ended 31 December 2013

	Kuwaiti Dinars	
	2013	**2012**
Profit for the year	16,673,405	13,943,379
Other comprehensive income to be reclassified to profit or loss in subsequent periods:		
Exchange differences on translating foreign operations	108,093	407,275
Total comprehensive income for the year	16,781,498	14,350,654
Attributable to:		
Shareholders of the Ultimate Parent Company	16,781,498	14,350,654

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

Consolidated Statement of Changes in Shareholders' Equity – Year ended 31 December 2013

	Kuwaiti Dinars						
	Equity attributable to the Ultimate Parent Company's Shareholders					Non-controlling interest	Total equity
	Share capital	Share capital - rights issue	Legal reserve	Retained earnings	Foreign currency translation reserve		
At 1 January 2013	24,200,000	17,800,000	2,737,593	14,278,364	(991,311)	357	58,025,003
Total comprehensive income for the year	-	-	-	16,673,405	108,093	-	16,781,498
Issue of rights shares	17,800,000	(17,800,000)	-	-	-	-	-
Acquisition during the year	-	-	-	-	-	71	71
Transfers	-	-	1,745,095	(1,745,095)	-	-	-
At 31 December 2013	42,000,000	-	4,482,688	29,206,674	(883,218)	428	74,806,572
At 1 January 2012	22,000,000	-	1,306,107	3,966,471	(1,398,586)	287	25,874,279
Total comprehensive income for the year	-	-	-	13,943,379	407,275	-	14,350,654
Issue of bonus shares	2,200,000	-	-	(2,200,000)	-	-	-
Issue of rights shares	-	17,800,000	-	-	-	-	17,800,000
Acquisition during the year	-	-	-	-	-	70	70
Transfers	-	-	1,431,486	(1,431,486)	-	-	-
At 31 December 2012	24,200,000	17,800,000	2,737,593	14,278,364	(991,311)	357	58,025,003

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

Jazeera Airways K.S.C.P
Kuwait

Consolidated Statement of Cash Flows –Year ended 31 December 2013

	Note	Kuwaiti Dinars 2013	2012
Cash flows from operating activities			
Profit for the year		16,673,405	13,943,379
Adjustments for:			
Depreciation		6,639,881	5,969,169
Finance costs		3,572,404	4,682,645
Foreign exchange loss		214,059	140,947
Provision for post employment benefits		316,000	250,000
Operating profit before working capital changes		27,415,749	24,986,140
Decrease/ (increase) in inventories		11,701	(37,274)
Increase in deposits		(3,027)	(192,717)
Decrease in trade and other receivables		83,253	296,507
Decrease in trade and other payables		(2,414,907)	(2,706,523)
Decrease in aircraft lease maintenance reserve		-	(7,695,720)
Increase in deferred revenue		636,320	978,829
Post-employment benefits paid		(38,674)	(67,200)
Net cash from operating activities		25,690,415	15,562,042
Cash flows from investing activities			
Purchase of property and equipment		(19,429,559)	(1,363,700)
Refund of advance paid for acquisition of aircraft		-	3,987,158
(Increase)/ decrease in advance for maintenance		(317,178)	2,862,018
Increase in time deposits with banks		(1,285,261)	(1,404,300)
Increase in advance received from lessee		1,613,677	6,815,380
Change in non-controlling interest		71	70
Net cash (used in)/ from investing activities		(19,418,250)	10,896,626
Cash flows from financing activities			
Repayment of deferred purchase consideration		(15,000,000)	(14,183,033)
Proceeds from term loans (net)		7,983,501	22,819,253
Proceeds from/ (repayment of) overdraft		180,629	(12,375,131)
Repayment of loan from related party		(2,234,495)	(5,528,431)
Proceeds from issuance of rights shares		-	17,800,000
Finance costs paid		(3,091,409)	(3,128,165)
Increase in security deposit from lessee		252,756	-
Net cash (used in)/ from financing activities		(11,909,018)	5,404,493
Net (decrease)/ increase in cash and cash equivalents		(5,636,853)	31,863,161
Cash and cash equivalents at			
beginning of year		42,895,649	12,014,657
effects of exchange rate changes on cash and cash equivalents		(272,217)	(982,169)
end of year	8	36,986,579	42,895,649

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

1. Constitution and activities

Jazeera Airways K.S.C.P (the "Ultimate Parent Company") was incorporated by Amiri Decree on 3 March 2004 as a Kuwaiti Public Shareholding Company under the laws of Kuwait and is engaged in the business of air transportation and commercial passenger services under a license from the Directorate General of Civil Aviation.

The Ultimate Parent Company has the following subsidiaries:

Name of the Company	Percentage of Holding	Description
Al Sahaab Aircraft Leasing Company W.L.L.	100%	Intermediate Parent Company
Sahaab Aviation LLC (Trustor)	100%	Subsidiary of Intermediate Parent Company

The ownership interest of related parties in the Intermediate Parent Company are for the beneficial interest of the Ultimate Parent Company, which have been confirmed by these related parties. The Group is in the process of re-structuring their shareholding, in accordance with Companies Law No. 25 of 2012, as amended and executive regulations thereof.

The Ultimate Parent Company, the Intermediate Parent Company and the subsidiary of Intermediate Parent Company are together referred to in these consolidated financial statements as the Group.

The address of the registered office of the Ultimate Parent Company is Kuwait international Airport, State of Kuwait.

These consolidated financial statements were authorised for issue by the Board of Directors of the Ultimate Parent Company on 28 January 2014 and are subject to the approval of the shareholders at their forthcoming Annual General Meeting.

2. Basis of preparation and significant accounting policies

2.1 Basis of preparation

These consolidated financial statements have been prepared in conformity with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and Interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC). These consolidated financial statements are prepared under the historical cost basis of measurement. These consolidated financial statements have been presented in Kuwaiti Dinar.

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that may affect the reported amounts of assets and liabilities and disclosure of contingent assets and contingent liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. It also requires management to exercise its judgment in the process of applying the accounting policies. The areas involving a high degree of judgment or complexity or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 27.

2.2 Accounting policies

The accounting policies used in the preparation of these consolidated financial statements are consistent with those used in the previous year, except for the following new and amended IASB Standards adopted during the year:

IFRS 7: Disclosures — Offsetting Financial Assets and Financial Liabilities (Amendments)

These amendments require an entity to disclose information about rights to set-off and related arrangements (e.g., collateral agreements). The disclosures would provide users with information that is useful in evaluating the effect of netting arrangements on an entity's financial position. The new disclosures are required for all recognised financial instruments that are set off in accordance with IAS 32 Financial Instruments: Presentation. The disclosures also apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are set off in accordance with IAS 32. The adoption of these amendments has not resulted in any material impact on the consolidated financial statements of the Group.

IFRS 10: Consolidated Financial Statements

IFRS 10 replaces the consolidation guidance in IAS 27 Consolidated and Separate Financial Statements and SIC-12 Consolidation - Special Purpose Entities by introducing a single consolidation model for all entities based on control, irrespective of the nature of the investee (i.e., whether an entity is controlled through voting rights of investors or through other contractual arrangements as is common in special purpose entities). Under IFRS 10, control is based on whether an investor has 1) power over the investee; 2) exposure or rights, to variable returns from its involvement with the investee and 3) the ability to use its power over the investee to affect the amount of the returns. The adoption of this Standard has not resulted in any impact on the financial position or performance of the Group.

IFRS 12: Disclosure of Involvement with Other Entities

IFRS 12 sets out the requirements for disclosures relating to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. The requirements in IFRS 12 are more comprehensive than the previously existing disclosure requirements for subsidiaries, for example, where a subsidiary is controlled with less than a majority of voting rights. The adoption of this Standard has not resulted in any material additional disclosures.

IFRS 13: Fair Value Measurement

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS. IFRS 13 defines fair value as an exit price. As a result of the guidance in IFRS 13, the Group re-assessed its policies for measuring fair values. IFRS 13 also requires additional disclosures.

Application of IFRS 13 has not materially impacted the fair value measurements of the Group. Additional disclosures where required, are provided in the individual notes relating to the assets and liabilities whose fair values were determined.

IAS 1: Financial Statement Presentation – Presentation of Items of Other Comprehensive Income (Amendment)

The amendments to IAS 1 introduce a grouping of items presented in other comprehensive income. Items that will be reclassified ('recycled') to profit or loss at a future point in time have to be presented separately from items that will not be reclassified. The adoption of this Standard has no effect on the financial position or performance of the Group.

IAS 1 Clarification of the requirement for comparative information (Amendment)

The amendment to IAS 1 clarifies the difference between voluntary additional comparative information and the minimum required comparative information. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the minimum required comparative period. The Group has not included any additional voluntarily comparative information in its consolidated financial statements. The amendments have no impact on the Group's financial position or performance.

IAS 19: Employee Benefits (Amendment)

IAS 19 includes a number of amendments to the accounting for defined benefit plans, including actuarial gains and losses that are now recognised in other comprehensive income (OCI) and permanently excluded from profit and loss; expected returns on plan assets that are no longer recognised in profit or loss, instead, there is a requirement to recognise interest on the net defined benefit liability (asset) in profit or loss, calculated using the discount rate used to measure the defined benefit obligation, and; unvested past service costs are now recognised in profit or loss at the earlier of when the amendment occurs or when the related restructuring or termination costs are recognised. Other amendments include new disclosures, such as, quantitative sensitivity disclosures. The adoption of this Standard has no material effect on the financial position or performance of the Group.

IAS 27: Separate Financial Statements (as revised in 2011)

As a consequence of the new IFRS 10 and IFRS 12, what remains of IAS 27 is limited to accounting for subsidiaries, jointly controlled entities, and associates in separate financial statements. The Group does not present separate financial statements.

IAS 32: Tax effects of distributions to holders of equity instruments (Amendment)

The amendment to IAS 32 Financial Instruments: Presentation clarifies that income taxes arising from distributions to equity holders are accounted for in accordance with IAS 12 Income Taxes. The amendment removes existing income tax requirements from IAS 32 and requires entities to apply the requirements in IAS 12 to any income tax arising from distributions to equity holders. The amendment did not have an impact on the consolidated financial information for the Group, as there is no tax consequences attached to cash or non-cash distribution.

Other amendments to IFRSs which are effective for annual accounting period starting from 1 January 2013 did not have any material impact on the accounting policies, financial position or performance of the Group.

Standards issued but not yet effective

The following IASB Standards have been issued/amended but are not yet mandatory, and have not been adopted by the Group:

IFRS 9: Financial Instruments: Classification and Measurement

IFRS 9, as issued, reflects the first phase of the IASB's work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. In subsequent phases, the IASB is addressing hedge accounting and impairment of financial assets. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but is not expected to have on financial liabilities. The Group will quantify the effect in conjunction with the other phases, when the final Standard including all phases is issued. The Standard was initially effective for annual periods beginning on or after 1 January 2013, but IASB in its November 2013 meeting tentatively decided to defer the mandatory effective date of IFRS 9 until the issue date of the completed version of IFRS 9 is known.

Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27)

These amendments are effective for annual periods beginning on or after 1 January 2014 and provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under IFRS 10. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. It is not expected that this amendment would be relevant to the Group, since none of the entities in the Group would qualify to be an investment entity under IFRS 10.

IAS 32: Financial Instruments: Presentation - Offsetting Financial Assets and Financial liabilities (Amendment)

The amendments clarify the meaning of "currently has a legally enforceable right to set-off" and also clarify the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The Group is currently assessing the impact that this Standard will have on the consolidated financial position and performance when become effective for annual periods beginning on or after 1 January 2014.

IAS 36: Impairment of Assets - Recoverable Amount Disclosures for Non-Financial Assets (Amendment)

These amendments remove the unintended consequences of IFRS 13 on the disclosures required under IAS 36. In addition, these amendments require disclosure of the recoverable amounts for the assets or cash generating units for which impairment loss has been recognised or reversed during the period. These amendments are effective retrospectively for annual periods beginning on or after 1 January 2014 with earlier application permitted, provided IFRS 13 is also applied.

Adoption of other new or amended Standards are not expected to have material effect on the consolidated financial position or financial performance of the Group. Additional disclosures will be made in the consolidated financial statements when these Standards become effective.

2.3 Business Combinations

A business combination is the bringing together of separate entities or businesses into one reporting entity as a result of one entity, the acquirer, obtaining control of one or more other businesses. The acquisition method of accounting is used to account for business combinations. The cost of acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of the exchange. The acquisition related costs are expensed when incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination (net assets acquired in a business combination) are measured initially at their fair values at the acquisition date. Non-controlling interest in the subsidiary acquired is recognized either at the fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

When a business combination is achieved in stages, the previously held equity interest in the acquiree is re-measured at its acquisition-date fair value and the resulting gain or loss is recognized in the consolidated statement of income. The fair value of the equity of the acquiree at the acquisition date is determined using valuation techniques and considering the outcome of recent transactions for similar assets in the same industry in the same geographical region.

The Group separately recognizes contingent liabilities assumed in a business combination if it is a present obligation that arises from past events and its fair value can be measured reliably.

The Group uses provisional values for the initial accounting of a business combination and recognizes any adjustment to these provisional values within the measurement period which is twelve months from the acquisition date.

2.4 Consolidation

Subsidiaries are those enterprises, including special purpose entities, controlled by the Group. Control is achieved when the Parent Company has power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee; exposure or rights to variable returns from its involvement with the investee; and the ability to use its power over the investee to affect its returns. The Parent Company re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control.

The consolidated financial statements comprise the financial statements of the Ultimate Parent Company and subsidiaries including special purpose entities. The financial statements of the subsidiaries are prepared for the same reporting period as the Ultimate Parent Company, using consistent accounting policies. All material inter-group balances and transactions, including inter-group profits and unrealised profits and losses are eliminated on consolidation.

Subsidiaries are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date that control ceases. Control is achieved where the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The results of the subsidiaries acquired or disposed of during the period are included in the consolidated income statement from the date of acquisition and up to the date of disposal, as appropriate.

Non-controlling interests represents the equity in the subsidiaries not attributable directly, or indirectly, to the equity holders of the Ultimate Parent Company. Equity and net income attributable to non-controlling interests are shown separately in the consolidated statement of financial position, the consolidated income statement, the consolidated statement of comprehensive income and the consolidated statement of changes in Shareholders' equity.

Losses within a subsidiary are attributed to the non controlling interest even if that results in a deficit balance.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- Derecognises the assets (including goodwill) and liabilities of the subsidiary
- Derecognises the carrying amount of any non controlling interest
- Derecognises the cumulative translation differences, recorded in equity
- Recognises the fair value of the consideration received
- Recognises the fair value of any investment retained
- Recognises any surplus or deficit in profit or loss
- Reclassifies the Ultimate Parent Company's share of components previously recognised in other comprehensive income to profit or loss or retained earnings, as appropriate.

2.5 Financial instruments

Classification

In the normal course of business the Group uses financial instruments, principally deposits, trade and other receivables, cash and bank balances, term loans, advance received from lessees, due to a related party, deferred purchase consideration, due to banks, trade and other payables and derivatives.

The Group classifies financial assets as "loans and receivables" and all financial liabilities are classified as "other than at fair value through profit or loss".

Recognition/derecognition

A financial asset or a financial liability is recognised when the Group becomes a party to the contractual provisions of the instrument. A financial asset is derecognised when the contractual rights to the cash flows from the financial asset expire; or when the Group has transferred substantially all the risks and rewards of ownership; or when it has neither transferred nor retained substantially all risks and rewards of ownership and it no longer has control over the asset or portion of the asset. If the Group has retained control, it shall continue to recognise the financial asset to the extent of its continuing involvement in the financial asset.

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and recognition of a new liability.

All regular way purchase and sale of financial assets are recognized using trade date accounting. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulations or conventions in the market place.

Measurement

Financial instruments

All financial assets or financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue are included in the fair value of the financial instrument.

Loans and receivables

These are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These are subsequently measured and carried at amortised cost using the effective interest rate.

Financial liabilities

Financial liabilities are subsequently measured and carried at amortized cost using the effective interest rate.

Financial guarantees

Financial guarantees are subsequently measured at the higher of the amount initially recognized less any cumulative amortization and the best estimate of the present value of amount required to settle any financial obligation arising as a result of the guarantee.

Fair values

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value of financial instruments carried at amortised cost is estimated by discounting the future contractual cash flows at the current market interest rates for similar financial instruments.

Amortised Cost

Amortised cost is computed by taking into account any discount or premium on acquisition of the financial instrument and fees and costs that are an integral part of the effective interest rate.

Derivative financial instruments and hedging activities

Derivatives are initially recognized at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. Derivatives with positive fair values (unrealised gains) are included in other receivables and derivatives with negative fair values (unrealised losses) are included in other payables in the consolidated statement of financial position. For hedges, which do not qualify for hedge accounting and for "held for trading" derivatives, any gains or losses arising from changes in the fair value of the derivative are taken directly to the consolidated statement of income. For hedge accounting, the Group designates derivatives as either hedges of the fair value of recognized assets or liabilities or a firm commitment (fair value hedge); or hedges of a particular risk associated with a recognized asset or liability or a highly probable forecast transaction (cash flow hedge) or hedges of a net investment in a foreign operation (net investment hedge).

Fair value hedge

In relation to fair value hedges, which meet the conditions for hedge accounting, any gain or loss from re-measuring the hedging instrument to fair value is recognized in 'Other receivables' or 'Other payables' and in the consolidated statement of income. Any gain or loss on the hedged item attributable to the hedged risk is adjusted against the carrying amount of the hedged item and recognized in the consolidated statement of income.

If the hedging instrument expires or is sold, terminated or exercised, or where the hedge no longer meets the criteria for hedge accounting, the hedge relationship is terminated. For hedged items recorded at amortised cost, using the effective interest rate, the difference between the carrying value of the hedged item on termination and the face value is amortised over the remaining term of the original hedge. If the hedged item is derecognized, the unamortised fair value adjustment is recognized immediately in the consolidated statement of income.

Cash flow hedge

For designated and qualifying cash flow hedges, the effective portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognized directly in the consolidated statement of comprehensive income and the ineffective portion is recognized in the consolidated statement of income.

When the hedged cash flow affects the consolidated statement of income, the gain or loss on the hedging instrument is 'recycled' in the corresponding income or expense line of the consolidated statement of income. When a hedging instrument expires, or is sold, terminated, exercised, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in shareholders' equity at that time remains in shareholders' equity and is recognized when the hedged forecast transaction is ultimately recognized in the consolidated statement of income. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in shareholders' equity is immediately transferred to the consolidated statement of income.

Impairment

A financial asset is impaired if its carrying amount is greater than its estimated recoverable amount. An assessment is made at each date of statement of financial position to determine whether there is objective evidence that a specific financial asset or a group of similar assets may be impaired. If such evidence exists, the asset is written down to its recoverable amount. The recoverable amount of an interest bearing instrument is the present value of estimated future cash flows, including amounts recoverable from guarantees and collateral, discounted at the financial asset's original effective interest rate. If the financial asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract.

Financial assets are written off when there is no realistic prospect of recovery.

2.6 Property and equipment

Property and equipment are stated at historical cost less accumulated depreciation and accumulated provisions for impairment, if any. The cost of property and equipment consists of their purchase price and other directly attributable costs incurred to bringing them up to operating condition and ready for their intended use. The cost of aircraft and engines also includes borrowing costs incurred, until substantially all the activities necessary to prepare the asset for its intended use are complete.

The cost of property and equipment less estimated residual values is depreciated on straight-line basis over their estimated useful lives as follows:

	Years
Leasehold improvements	5
Furniture & equipment	3 - 5
Aircraft and engines	25
Rotables	2 - 3
Vehicles	5

Capital work-in-progress is stated at cost. When the asset is ready for its intended use, it is transferred from capital work-in-progress to the appropriate category under property and equipment and is depreciated from that date.

Rotable spare parts are classified as property and equipment if they are expected to be used over more than one period and are depreciated over their useful lives.

Repairs and maintenance costs are charged to the consolidated statement of income during the period in which they are incurred. Major modifications and improvements to property and equipment are capitalised and depreciated over the remaining useful life of the related asset.

The carrying amounts of property and equipment are reviewed at each date of consolidated statement of financial position to determine whether there is any indication of impairment in the carrying value. If any such indication exists, an impairment loss is recognised in consolidated statement of income, being the difference between the carrying value and the asset's recoverable amount. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units).

2.7 Goodwill

Goodwill arising in a business combination is computed as the excess of the aggregate of: the consideration transferred; the non-controlling interest's proportionate share of the acquiree's net identifiable assets, if any; and in a business combination achieved in stages the acquisition-date fair value of the acquirer's previously held equity interest in the acquiree, over the net of the acquisition-date fair values of the identifiable assets acquired and liabilities assumed. Any deficit is a gain from a bargain purchase and is recognized directly in the consolidated statement of income.

Goodwill on acquisition of subsidiaries is included in intangible assets. Goodwill is allocated to each of the cash generating units for the purpose of impairment testing. Gains and losses on disposal of an entity or a part of the entity include the carrying amount of goodwill relating to the entity or the portion sold.

Goodwill and intangible assets with indefinite useful lives are tested at least annually for impairment and carried at cost less accumulated impairment losses.

Assets are grouped at the lowest levels for which there are separately identifiable cash flows, known as cash generating units for the purpose of assessing impairment of goodwill and intangible assets. If the recoverable amount of the cash generating unit is less than the carrying amount of the unit, 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. That relating to goodwill cannot be reversed in a subsequent period. 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 risk specific to the asset for which the estimates of future cash flows have not been adjusted. The Group prepares formal five year plans for its businesses. These plans are used for the value in use calculation. Long range growth rates are used for cash flows into perpetuity beyond the five year period. Fair value less costs to sell is determined using valuation techniques and considering the outcome of recent transactions for similar assets in the same industry in the same geographical region.

2.8 Inventories, expendable parts and supplies

Inventories, expendable parts and supplies are valued at the lower of weighted average cost and net realizable value after provision for slow moving and obsolete items

2.9 Cash and cash equivalents

Cash and cash equivalents comprise of cash in hand, current account with banks and time deposits with banks with maturities not exceeding three months from acquisition date.

2.10 Accounting for leases

Where the Group is the lessee

Operating lease

Leases of property and equipment under which all risks and rewards of ownership are effectively retained by the lessor are classified as operating leases. Payments made under operating leases are charged to consolidated statement of income on a straight-line basis over the term of the lease.

Finance lease

Leases of property and equipment where the Group assumes substantially all the benefits and risks of ownership are classified as finance leases. Finance leases are recognised as assets in the statement of financial position at the estimated present value of the related lease payments. Each lease payment is allocated between the liability and finance charge so as to produce a constant periodic rate of interest on the liability outstanding.

Where the Group is the lessor

Finance lease

Leases where the risks and benefits of ownership of the asset are transferred to the lessee are classified as finance leases. Amounts due from finance lease are recorded as receivables. Finance lease receivable is initially recognised at an amount equal to present value of minimum lease payments receivable plus the present value of any unguaranteed residual value expected to accrue at the end of the lease term. Finance lease payments are allocated between finance lease income and reduction of finance lease receivable over the term of the lease in order to reflect a constant periodic return on the net investment outstanding in respect of the lease.

Operating lease

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating lease. Property and equipment which is subject to operating lease is presented in the consolidated statement of financial position according to the nature of the asset. Lease income from operating leases is recognised in the consolidated statement of income on a straight line basis over the lease term. The depreciation policy for depreciable leased assets is consistent with the lessor's normal depreciation policy for similar assets.

2.11 Manufacturers' credits

Credits received from manufacturers in connection with acquisition of aircraft and engines are reduced from the cost of the related aircraft and engines or are taken to consolidated statement of income, depending on the terms of the credit.

2.12 Post employment benefits

The Parent Company is liable under Kuwait Labour Law to make payments under defined benefit plans payable to employees at cessation of employment.

This liability, which is unfunded, represents the amount payable to employees as a result of involuntary termination on the date of statement of financial position and approximates the present value of the final obligation.

2.13 Revenue recognition

Revenue from flight seats sold, but not flown, is included in deferred revenue and is recognised in consolidated statement of income when the service is provided.

Miscellaneous fees and ancillary revenue are recognised in the period in which the service is provided.

Operating lease income is recognised on a straight-line basis over the period of the lease.

Interest on time deposits with banks is recognised on a time proportion basis using the effective interest rate.

2.14 Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of the asset. Borrowing costs are recognized as an expense in the period in which they are incurred, except to the extent that they are capitalised.

2.15 Foreign currency translation

The functional currency of an entity is the currency of the primary economic environment in which it operates and in the case of the Ultimate Parent Company it is the Kuwaiti Dinar and in the case of subsidiaries it is their respective national currencies or the applicable foreign currency.

Foreign currency transactions are recorded at the rates of exchange prevailing on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the date of consolidated statement of financial position are translated to Kuwaiti Dinars at the rates of exchange prevailing on that date. Resultant gains and losses are taken to the consolidated statement of income.

The income and cash flow statements of foreign operations are translated into the Ultimate Parent Company's reporting currency at average exchange rates for the year and their statement of financial position are translated at exchange rates prevailing on the date of the consolidated statement of financial position. Exchange differences arising from the translation of the net investment in foreign operations (including goodwill, long term receivables or loans and fair value adjustments arising on business combinations) are taken to the consolidated statement of comprehensive income. When a foreign operation is sold, any resultant exchange differences are recognized in the consolidated statement of income as part of the gain or loss on sale.

2.16 Provisions for liabilities

Provisions for liabilities are recognised when, as a result of past events, it is probable that an outflow of economic resources will be required to settle a present obligation (legal or constructive) and the amount can be reliably estimated.

2.17 Income taxes

Income tax payable on profits is recognized as an expense in the period in which the profits arise, based on the applicable tax laws in each jurisdiction.

Deferred income tax is provided using the liability method on all temporary differences, at the date of the consolidated statement of financial position, between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax provisions depend on whether the timing of the reversal of the temporary difference can be controlled and whether it is probable that the temporary difference will reverse in the foreseeable future.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the date of the consolidated statement of financial position.

Deferred tax assets are recognised for all temporary differences, including carry-forward of unused tax losses, to the extent that it is probable that taxable profit will be available against which the temporary difference can be utilised. The carrying amount of deferred tax assets is reviewed at each date of consolidated statement of financial position and reduced to the extent that it is not probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilised.

2.18 Contingencies

Contingent assets are not recognised as an asset till realisation becomes virtually certain. Contingent liabilities are not recognized as liabilities unless, as a result of past events, it is probable that an outflow of economic resources will be required to settle a present obligation (legal or constructive) and the amount can be reliably estimated.

3. Special purpose entity

The Intermediate Parent Company has four subsidiaries, Jazeera Leasing Company (JLC), Sahaab Aircraft Leasing Company - 1 (SALC-1), Sahaab Aircraft Leasing Company - 2 (SALC-2) and Sahaab Aircraft Leasing Company - 3 (SALC-3), Cayman Island companies, incorporated with an authorised capital of USD 1,000, USD 50,000, USD 50,000 and USD 250 respectively. The issued and fully paid up capital as of 31 December 2013 are USD 1,000, USD 1, USD 250 and USD 250 respectively, equivalent to KD 287, KD 0.276, KD 70 and KD 71. JLC, SALC-1, SALC-2 and SALC-3 are Special Purpose Entities ("SPE") fully owned by third parties and are set up for the sole purpose of arranging finance for acquiring aircraft and engines and for leasing them to the Intermediate Parent Company under finance leases. JLC, SALC-1, SALC-2 and SALC-3 have been consolidated in these consolidated financial statements in accordance with IFRS 10 "Consolidated Financial Statements".

Sahaab Aviation LLC ("Trustor") has created "Sahaab Trust" in association with Wells Fargo Bank Northwest National Association ("Owner Trustee"), a national banking association organised and existing under the laws of the United States of America. Sahaab Trust is a Special Purpose Entity ("SPE") set up for the sole purpose of ensuring regulatory requirement of ownership of aircraft by a citizen of the United States of America. Sahaab Trust has been consolidated in these consolidated financial statements in accordance with IFRS 10 "Consolidated Financial Statements".

4. Property and equipment

	Kuwaiti Dinars					
	Aircraft and engines	**Leasehold improvements**	**Furniture & equipment**	**Vehicles**	**Capital work-in-progress**	**Total**
Cost						
As at 31 December 2011	127,651,437	625,735	1,586,794	11,693	34,317,517	164,193,176
Additions	6,600	-	145,770	-	1,211,330	1,363,700
Transfers	14,586,058	2,175	52,776	-	(14,641,009)	-
Transfer to advances	-	-	-	-	(3,987,158)	(3,987,158)
Exchange adjustment	1,200,236	-	4	-	329,795	1,530,035
As at 31 December 2012	143,444,331	627,910	1,785,344	11,693	17,230,475	163,099,753
Additions	17,491,631	-	88,723	10,690	1,838,515	19,429,559
Transfers	11,933,392	-	133,241	-	(12,066,633)	-
Exchange adjustment	387,172	-	3	-	47,644	434,819
As at 31 December 2013	173,256,526	627,910	2,007,311	22,383	7,050,001	182,964,131
Depreciation						
As at 31 December 2011	14,591,704	458,162	1,069,700	10,078	-	16,129,644
Charge for the year	5,565,874	97,548	304,552	1,195	-	5,969,169
Exchange adjustment	131,719	-	4	-	-	131,723
As at 31 December 2012	20,289,297	555,710	1,374,256	11,273	-	22,230,536
Charge for the year	6,331,274	40,518	266,161	1,928	-	6,639,881
Exchange adjustment	54,508	-	1	-	-	54,509
As at 31 December 2013	26,675,079	596,228	1,640,418	13,201	-	28,924,926
Net book value						
As at 31 December 2013	146,581,447	31,682	366,893	9,182	7,050,001	154,039,205
As at 31 December 2012	123,155,034	72,200	411,088	420	17,230,475	140,869,217

Depreciation has been allocated in the consolidated statement of income as follows:

	Kuwaiti Dinars	
	2013	**2012**
Operating costs	6,333,202	5,567,069
General and administrative expenses	306,679	402,100
	6,639,881	5,969,169

5. Deposits

This represents deposits, denominated in US Dollars, with a lender of term loan. The effective interest rate as at 31 December 2013 was 0.095% (31 December 2012: 0.095%).

6. Goodwill

Goodwill represents consideration paid in excess of the fair value of identifiable assets and liabilities including contingent liabilities in the acquisition of the Intermediate Parent Company, Al Sahaab Aircraft Leasing Company W.L.L, in the year 2010.

7. Trade and other receivables

	Kuwaiti Dinars	
	2013	**2012**
Trade receivables	447,635	441,147
Provision for impairment	(127,390)	(127,390)
Net trade receivables	320,245	313,757
Prepayments	498,998	613,044
Deposits	453,241	416,430
Other receivables	94,992	88,589
Staff receivables	24,896	43,805
	1,392,372	1,475,625

The carrying value of trade and other receivables approximates its fair value.

Trade receivables outstanding for less than three months are not considered as past due. As of 31 December 2013, trade receivables amounting to KD 320,245 (31 December 2012: KD 313,757) are neither past due nor impaired. These relate to a number of independent customers for whom there is no recent history of default. Furthermore, these trade receivables are substantially secured by bank guarantees.

As of 31 December 2013, trade receivables of KD 127,390 (31 December 2012: KD 127,390) were past due and impaired and fully provided for. The other classes within trade and other receivables do not contain past due or impaired assets.

The carrying amounts of the Group's trade and other receivables are denominated in the following currencies:

	Kuwaiti Dinars	
	2013	**2012**
Kuwaiti Dinars	490,840	601,005
US Dollars	435,218	447,485
Egyptian Pounds	233,333	226,014
UAE Dirham	18,258	14,573
Others	214,723	186,548
	1,392,372	1,475,625

8. Cash and bank balances

	Kuwaiti Dinars	
	2013	**2012**
Cash on hand	34,289	23,868
Current account with banks	13,640,810	29,729,850
Time deposits with banks	23,311,480	13,141,931
Cash & cash equivalents in the statement of cash flows	36,986,579	42,895,649
Time deposits with banks whose original maturity period exceeds three months	6,277,210	4,991,949
Cash and bank balances	43,263,789	47,887,598

The effective interest rate on time deposits as of 31 December 2013 was 1.31% to 2.50% (31 December 2012: 0.47% to 2.50%).

The cash and bank balances are denominated in the following currencies:

	Kuwaiti Dinars	
	2013	**2012**
Kuwaiti Dinars	24,102,999	27,193,893
US Dollars	18,234,344	20,077,826
UAE Dirham	15,826	15,483
Others	910,620	600,396
	43,263,789	47,887,598

9. Share capital

The authorised share capital of the Ultimate Parent Company as at 31 December 2013 is KD 42,000,000 (31 December 2012: KD 42,000,000) comprising of 420,000,000 shares of 100 fils each (31 December 2012: 420,000,000 shares of 100 fils each) and the issued and fully paid up share capital of the Ultimate Parent Company, is KD 42,000,000, paid in cash (31 December 2012: KD 24,200,000) comprising of 420,000,000 shares of 100 fils each (31 December 2012: 242,000,000 shares of 100 fils each).

Proposed dividend

The Ultimate Parent Company's Board of Directors has proposed a cash dividend of 15 fils per share to the shareholders, amounting to KD 6,300,000 for the year ended 31 December 2013 (31 December 2012: KD Nil), subject to approval of the shareholders at the forthcoming Annual General Assembly.

10. Reserves

Legal reserve

In accordance with the Companies Law and the Ultimate Parent Company's Articles of Association, 10% of net profit has to be appropriated to legal reserve. Accordingly, 10% of the profit before contributions to taxes has been appropriated to Legal Reserve. The legal reserve can be utilized only for distribution of a maximum dividend of up to 5% in years when the retained earnings are inadequate for this purpose.

Voluntary reserve

The Ultimate Parent Company's Articles of Association stipulates that the Board of Directors may propose appropriations to voluntary reserve for shareholders' approval. During the year, the Board of Directors have not proposed any transfer to voluntary reserve. There is no restriction on the distribution of voluntary reserve.

11. Term loans

	Kuwaiti Dinars	
	2013	**2012**
Term loans are repayable as follows:		
Not later than 1 year	21,215,398	17,572,209
Later than 1 year and not later than 2 years	17,246,331	23,571,487
Later than 2 years and not later than 5 years	47,754,126	40,784,328
Over 5 years	15,536,922	11,841,252
	80,537,379	76,197,067
	101,752,777	93,769,276

This includes three loans as follows:

a) Term loans of KD 79.06 million (31 December 2012: KD 71.11 million), represent senior loans arranged through JLC, SALC-1, SALC-2, SALC-3 and Owner Trustee. They are denominated in US Dollars and represent the balance amounts due to local banks and European banks. The effective interest rate as of 31 December 2013 was 1.91% to 6.52% (31 December 2012: 1.30% to 6.52%) and these term loans are secured by a first priority charge/pledge over the shares of JLC, SALC-1, SALC-2 and SALC-3 and a first priority registered aircraft mortgage over each aircraft. These are repayable over a period up to 28 May 2025.

b) Term loan of KD 4.23 million (31 December 2012: KD 12.66 million) denominated in US Dollars represents the balance amount due to a local bank. This facility is fully guaranteed by the Ultimate Parent Company. This is repayable over a period up to 30 June 2014. The effective interest rate as at 31 December 2013 was 2.99% (31 December 2012: 3.22%).

c) Term loan of KD 18.46 million (31 December 2012: KD 10 million) denominated in Kuwaiti Dinar represents facility from local banks. This facility is secured by a pledge of the shares of the Intermediate Parent Company. The effective interest rate as at 31 December 2013 was 4.2% (31 December 2012: 4.2%).

12. Advance received from lessees

This represents advance received from lessees for future maintenance of leased aircraft, under the term of the operating lease agreement and are primarily based on actual flying hours.

13. Due to banks

This represents unsecured overdraft facility of USD 1.05 million (2012: USD 407 thousand) from a local commercial bank. The effective interest rate as of 31 December 2013 was 2.24% (31 December 2012: 2.47%).

14. Trade and other payables

	Kuwaiti Dinars	
	2013	**2012**
Trade payables	3,233,607	5,299,297
Accrued expenses	3,155,829	2,301,753
Tax payable	1,931,148	2,570,525
Staff leave payable	816,679	688,715
Others	83,944	80,770
	9,221,207	10,941,060

The carrying amounts of the Group's trade and other payables are denominated in the following currencies:

	Kuwaiti Dinars	
	2013	**2012**
Kuwaiti Dinars	6,302,987	6,739,463
US Dollars	1,108,852	1,265,147
UAE Dirham	378,501	404,227
Euro	35,229	442,128
Others	1,395,638	2,090,095
	9,221,207	10,941,060

15. Revenue

	Kuwaiti Dinars	
	2013	**2012**
Passenger revenue	55,480,694	52,320,446
Ancillary revenue	4,075,394	3,734,571
Lease rental	6,002,717	6,548,207
	65,558,805	62,603,224

16. Operating costs

	Kuwaiti Dinars	
	2013	**2012**
Staff costs	5,209,140	5,121,699
Depreciation	6,333,202	5,567,069
Aircraft fuel and maintenance	17,669,319	18,489,665
Overflying, landing and ground handling charges	5,320,294	5,190,136
Insurance	489,865	515,471
Lease maintenance	3,042,865	2,691,141
Others	2,913,185	2,770,844
	40,977,870	40,346,025

17. General and administrative expenses

	Kuwaiti Dinars	
	2013	**2012**
Staff costs	2,076,058	1,828,919
Rent	111,489	111,202
Professional and consultancy	265,867	215,522
Travel	103,127	83,412
Marketing	792,654	767,538
Depreciation	306,679	402,100
Others	307,006	338,364
	3,962,880	3,747,057

The number of personnel employed by the Group as of 31 December 2013 was 428 (31 December 2012: 426).

18. Earnings per share

Earnings per share is calculated based on the earnings attributable to the equity shareholders of the Ultimate Parent Company for the year and the weighted average number of shares outstanding, as follows:

	2013	**2012**
Earnings for the year (in Kuwaiti Dinar)	16,673,405	13,943,379
Weighted average number of shares outstanding	420,000,000	363,419,360
Earnings per share (fils) – Basic and Diluted	39.70	38.37

19. Related party transactions and balances

In the ordinary course of business, the Group enters into transactions with related parties (directors, key managerial personnel and group companies). Pricing policies and terms of these transactions are approved by the management. Transactions and balances with related parties not disclosed elsewhere in these financial statements are as follows:

	Kuwaiti Dinars	
	2013	**2012**
Balance		
Due from related parties	17,102	44,236
Transactions		
Sales and services	1,788,088	2,239,645
General and administrative expenses	95,471	360,914
Key management compensation		
Salaries and other employment benefits	720,153	703,442

20. Taxes

The Ultimate Parent Company has exemptions from tax liability under bilateral tax agreement with countries to which it operates passenger flights. However, the Ultimate Parent Company is contingently liable for any taxes that may finally be determined by the taxation authorities of those countries.

21. Segment information

The Group derives their revenue primarily from operation of passenger airline service and leasing of aircraft and engines. The segment information provided to the key management for the reportable segments for the year ended 31 December 2013 is as follows:

	Kuwaiti Dinars					
	31 December 2013			31 December 2012		
	Passenger airline service	Leasing of aircraft	Total	Passenger airline Service	Leasing of aircraft	Total
Segment revenue	59,556,088	14,832,197	74,388,285	56,055,018	15,047,980	71,102,998
Less: Intersegment revenue	-	(8,829,480)	(8,829,480)	-	(8,499,774)	(8,499,774)
Revenue from external customers	59,556,088	6,002,717	65,558,805	56,055,018	6,548,206	62,603,224
Reportable segment Profit before contribution to taxes	13,034,614	4,416,340	17,450,954	8,425,973	5,888,884	14,314,857

Reportable segment's assets and liabilities:

	Kuwaiti Dinars					
	31 December 2013			31 December 2012		
	Passenger airline service	Leasing of aircraft	Total	Passenger airline service	Leasing of aircraft	Total
Total assets	27,168,790	179,841,177	207,009,967	35,740,643	162,497,894	198,238,537
Allocated liabilities	36,543,130	94,882,716	131,425,846	31,400,455	93,441,601	124,842,056
Un allocated liabilities	-	-	777,549	-	-	15,371,478
Total liabilities	36,543,130	94,882,716	132,203,395	31,400,455	93,441,601	140,213,534

Revenue from external customers in the 'leasing of aircraft' segment primarily represents lease income from aircraft leased out and operating in the United States of America and Sri Lanka.

22. Derivatives

The Group has hedged part of its interest rate risk from floating rate liabilities using interest rate options. As at 31 December 2013, interest rate options with an aggregate notional amount of KD 4,784,416 (31 December 2012: KD 5,481,227) and a positive fair value of KD 53,007 (31 December 2012: KD 63,259) were designated as hedging instrument in a cash flow hedge.

23. Contingent liabilities and Commitments

The Group has issued bank guarantee to regulatory agencies and third party service providers amounting to KD 2,068,651 (31 December 2012: KD 2,078,369).

The Ultimate Parent Company has also provided guarantee to Jazeera Leasing Company, the lessor of novated lease agreement, in respect of the obligations and liabilities of the Intermediate Parent Company pursuant to the novated lease agreement.

In accordance with the novation agreement, the Ultimate Parent Company has guaranteed the aircraft supplier the due and punctual observance and performance of all the obligations of the buyer to pay any monies falling due for payments by the buyer under the novated purchase agreement.

The Group is contractually committed to the acquisition of one aircraft (31 December 2012: three) with a list price of approximately KD 19,749,100 (31 December 2012: KD 59,083,500). This aircraft has to be acquired over a period of one year.

24. Operating lease income

The future minimum lease rent receivable on the operating lease is KD 30,858,279 (31 December 2012: KD 36,188,826) and is receivable as follows:

	Kuwaiti Dinars	
	2013	**2012**
Not later than one year	5,383,041	5,375,790
Later than one year but not later than five years	20,072,269	20,856,118
Later than five years	5,402,969	9,956,918
	30,858,279	36,188,826

25. Financial risk management

Financial risk factors

The Group's use of financial instruments exposes it to a variety of financial risks such as market risk, credit risk and liquidity risk. The Group continuously reviews its risk exposures and takes measures to limit it to acceptable levels. Risk management is carried out by the Group Finance function under policies approved by the Board of Directors. This function identifies and evaluates financial risks in close co-operation with the Group's operating units. The Board provides principles for overall risk management, as well as policies covering specific areas, such as foreign currency risk, interest rate risk, credit risk and investment of excess liquidity.

The significant risks that the Group is exposed to are discussed below:

(a) Market risk

(i) Foreign currency risk

Foreign currency risk is the risk that the fair values or future cash flows of a financial instrument will fluctuate due to changes in foreign currency exchange rates. The Group operates internationally and is exposed to foreign currency risk arising from various currency exposures, primarily with respect to the US dollar. Foreign currency risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations.

Group management has set up a policy that requires Group companies to manage their foreign currency risk against their functional currency. Foreign currency risk arises when future commercial transactions or recognized assets or liabilities are denominated in a currency that is not the entity's functional currency.

The Group is primarily exposed to foreign currency risk as a result of foreign exchange gains/losses on translation of foreign currency denominated assets and liabilities such as trade and other receivables, deposits, cash and cash equivalents, trade and other payables due to banks and term loans. The Group's exposure to foreign currencies have been disclosed in the Notes relating to the respective financial instruments.

If as at 31 December 2013, Kuwaiti Dinars had weakened against the major currencies by 5% with all other variables held constant the net impact on the profit/equity, as of 31 December 2013, is shown below:

	Kuwaiti Dinars			
	Impact on profit		Impact on equity	
Currency	**2013**	**2012**	**2013**	**2012**
US Dollar	(3,333,758)	(3,251,111)	(4,075,990)	(2,968,195)
UAE Dirham	(17,221)	(18,709)	-	-
Others	(3,610)	(75,963)	-	-
Net impact	(3,354,589)	(3,345,783)	(4,075,990)	(2,968,195)

A 5% strengthening of the Kuwaiti Dinars against the above currencies would have had the equal but the opposite effect on profit/equity for the year.

(ii) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Group's interest rate risk arises from deposits, bank borrowings and term loans. Borrowings at variable rates expose the Group to cash flow interest rate risk. Borrowings at fixed rates expose the Group to fair value interest rate risk. The Group's borrowings as of 31 December 2013 are exposed to variable rates of interest.

The Group analyses its interest rate exposure on a dynamic basis. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions and alternative financing. Based on these scenarios, the Group calculates the impact on consolidated statement of income of a defined interest rate shift. For each simulation, the same interest rate shift is used for all currencies. The scenarios are run only for liabilities that represent the major interest-bearing positions. The Group manages interest rate risk by monitoring interest rate movements and using Interest Rate Options to hedge interest rate risk exposures, wherever necessary.

At 31 December 2013, if interest rates at that date had been 50 basis points higher with all other variables held constant, profit for the year would have been lower by KD 357,542 (31 December 2012: KD 460,619).

A 50 basis points decrease in the interest rates at the date of statement of financial position would have had the equal but the opposite effect on profit for the year.

(iii) Equity price risk

Equity price risk is the risk that the value of financial instruments will fluctuate as a result of changes in market prices, whether these changes are caused by factors specific to individual instrument or its issuer or factors affecting all instruments, traded in the market.

The Group is not exposed to equity price risk as it does not have any financial instrument exposed to equity price risk.

(iv) Fuel price risk

The airline industry is exposed to fluctuations in the price of jet fuel. The Group closely monitors the actual cost of fuel against forecasted cost. The Group utilises commodity rate swaps, as and when it deems necessary, to achieve a level of control over jet fuel costs so that profitability is not adversely affected.

(b) Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation causing the other party to incur a financial loss. Financial assets, which potentially subject the Group's to credit risk, consist principally of bank deposits and receivables. The Group manages this risk by placing deposits with high credit rating financial institutions. Credit risk with respect to receivables is limited due to the Group's credit management policies and dispersion across large number of customers.

The maximum exposures to credit risk of the Group are as follows:

	Kuwaiti Dinars	
	2013	**2012**
Advance for maintenance	3,797,061	3,479,883
Deposits	863,830	860,803
Trade and other receivables, excluding prepayments	893,374	862,581
Cash equivalents	43,229,500	47,863,730
	48,783,765	53,066,997

Cash equivalents represents current and short term deposits with banks which have been given high ratings by reputed external credit rating agencies.

The Group's trade receivables are substantially secured by bank guarantees and largely comprise of amounts receivable from reputed travel agents. Concentration of credit risk with respect to trade receivables are limited due to the Group's customer base being large and unrelated. Information on the extent of credit exposure on the Group's trade receivables is given in Note No. 7.

(c) Liquidity risk

Liquidity risk is the risk that the Group is unable to meet its payment obligations associated with its financial liabilities when they fall due. Liquidity risk management includes maintaining sufficient cash, the availability of funding from an adequate amount of committed credit facilities and the ability to close out market positions. The Ultimate Parent Company's Board of Directors increases capital or borrowings based on ongoing review of funding requirements.

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the date of statement of financial position to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

	Kuwaiti Dinars			
	Less than 1 Year	**Between 1 and 2 years**	**Between 2 and 5 years**	**Over 5 years**
31 December 2013				
Term Loans	23,625,513	19,465,637	51,981,795	16,348,105
Security deposits from lessees	-	-	-	1,513,204
Due to banks	295,250	-	-	-
Trade and other payables	9,221,207	-	-	-
Advance received from lessees	-	-	9,791,498	-
Bank Guarantee	2,068,651	-	-	-
	35,210,621	19,465,637	61,773,293	17,861,309
31 December 2012				
Term Loans	17,882,431	24,498,869	66,686,056	12,903,842
Security deposits from lessees	-	-	-	1,260,448
Due to related party	2,257,827	-	-	-
Deferred purchase consideration	15,029,904	-	-	-
Due to banks	114,621	-	-	-
Trade and other payables	10,941,060	-	-	-
Advance received from lessees	-	-	8,177,821	-
Bank Guarantee	2,078,369	-	-	-
	48,304,212	24,498,869	74,863,877	14,164,290

26. Capital risk management

The Group's objectives when managing capital are to safeguard its ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings less cash and cash equivalents. Total capital is calculated as equity, as shown in the consolidated statement of financial position, plus net debt. As at 31 December 2013, the gearing ratio was 44%(31 December 2012: 52%).

27. Critical accounting judgments and estimates

The Group makes estimates and assumptions that may affect amounts reported in these consolidated financial statements. Estimates are revised if changes occur in the circumstances on which the estimates were based. The areas where estimates and assumptions are significant to the financial statements, or areas involving a higher degree of judgement, are:

Substance of relationship with special purpose entities

Where the Parent Company obtains benefits from a special purpose entity, management considers the substance of the relationship to judge if the entity is controlled by the Parent Company.

Financial instruments carried at amortized cost

The effective yield method of calculating the amortized cost of a financial instrument involves the estimation of future cash flows through the expected life of the instrument.

Impairment of assets

The Group reviews assets at each reporting date to assess whether a provision for impairment loss should be recognized in the consolidated statement of income. The process for estimating the amount of an impairment loss involves considerable judgement by management with respect to the estimation of future cash flows. Such estimates and assumptions are also based on several other factors involving varying degrees of judgement and uncertainty.

Useful lives of property and equipment

The Group determines the estimated useful lives and residual values of property and equipment. Estimated useful lives could change significantly as a result of change in technology. The depreciation charge for the year will change significantly if actual life is different from the estimated useful life of the asset.

Contingent liabilities

Contingent liabilities are potential liabilities that arise from past events whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity. Provisions for liabilities are recorded when a loss is considered probable and can be reasonably estimated. The determination of whether or not a provision should be recorded for any potential liabilities is based on management's judgements.