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Jazeera Airways K.S.C
Kuwait

Consolidated Annual Financial Statements and Independent Auditors' Report
31 December 2008

PRICEWATERHOUSECOOPERS

AL-AHLI BUREAU
Certified Accountants

Jazeera Airways K.S.C
Kuwait

Consolidated Annual Financial Statements and Independent Auditors' Report 31 December 2008

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Jazeera Airways K.S.C.
Kuwait

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Jazeera Airways K.S.C. (the "Parent Company") and its subsidiary (together the "Group"), which comprise the consolidated balance sheet as of 31 December 2008 and the consolidated statement of income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the consolidated financial statements

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

Auditor's responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the 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 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 management, as well as evaluating the overall presentation of the 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 accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2008, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

PRICEWATERHOUSECOOPERS

AL- AHLI BUREAU
Certified Accountants

Jazeera Airways K.S.C.
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 Parent Company, and the consolidated financial statements, together with the contents of the report of the 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 Commercial Companies Law of 1960, as amended, and by the Parent Company's Articles of Association; that an inventory was duly carried out; and that, to the best of our knowledge and belief, no violations of the Commercial Companies Law of 1960, as amended, or of the Articles of Association have occurred during the year ended 31 December 2008 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
PricewaterhouseCoopers

Nasser Abdullah Al Muqait
R.A.A. No. 9A
Al Ahli Bureau

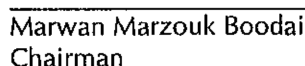
Kuwait
15 March 2009

Jazeera Airways K.S.C
Kuwait

Consolidated Balance Sheet as of 31 December 2008

	Note	Kuwaiti Dinars	
		2008	**2007**
ASSETS			
Non- current Assets			
Property and equipment	4	38,380,179	75,612,489
Deposits	5	2,314,215	2,314,215
		40,694,394	77,926,704
Current Assets			
Non current assets classified as held for sale	6	22,736,643	-
Receivables from related party	7	5,124,641	95,342
Inventories, expendable parts and supplies		146,008	145,856
Trade and other receivables	8	1,761,619	1,667,576
Cash and bank balances	9	2,590,672	3,067,632
		32,359,583	4,976,406
Total assets		73,053,977	82,903,110
LIABILITIES AND EQUITY			
Equity			
Share capital	10	19,998,860	19,998,860
Legal reserve	11	801,461	335,509
Equity transaction costs		(46,079)	(46,079)
Retained earnings		6,970,389	2,987,881
Equity attributable to the Parent Company's Shareholders		27,724,631	23,276,171
Minority interest		276	292
Total equity		27,724,907	23,276,463
Non-current liabilities			
Term loans	12	-	44,067,095
Post employment benefits		457,219	275,334
Lease maintenance provision	13	158,081	-
		615,300	44,342,429
Current liabilities			
Term loans	12	19,209,799	3,506,134
Due to banks	14	12,147,437	-
Trade and other payables	15	7,621,932	6,494,620
Deferred revenue		5,734,602	5,283,464
		44,713,770	15,284,218
Total liabilities and equity		73,053,977	82,903,110

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



Marwan Marzouk Boodai
Chairman

Jazeera Airways K.S.C
Kuwait

Consolidated Statement of Income - Year ended 31 December 2008

	Note	Kuwaiti Dinars	
		2008	**2007**
Revenue	16	48,705,069	34,709,392
Operating costs	17	(42,950,788)	(28,362,965)
Gross profit		5,754,281	6,346,427
Other income		1,659,437	1,013,159
Gain on sale of fixed assets	4	5,564,392	-
Foreign currency (loss)/ gain		(1,134,073)	2,667,783
General and administrative expenses	18	(4,346,798)	(4,876,923)
Finance costs		(2,837,717)	(2,840,157)
Contribution to Kuwait Foundation for Advancement of Sciences (KFAS)		(41,936)	(20,793)
National Labour Support Tax (NLST)		(116,488)	-
Zakat		(52,638)	(1,502)
Profit for the year		4,448,460	2,287,994
Attributable to:			
Shareholders of the Parent Company		4,448,460	2,287,994
		4,448,460	2,287,994
Earnings per share (fils) – Basic and Diluted	19	22.24	20.12

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

Jazeera Airways K.S.C
Kuwait

Consolidated Statement of Changes in Equity – Year ended 31 December 2008

	Kuwaiti Dinars					
	Equity attributable to the Parent Company's Shareholders				**Minority interest**	**Total equity**
	Share capital	**Legal reserve**	**Equity transaction costs**	**Retained earnings / (accumulated deficit)**		
At 1 January 2008	19,998,860	335,509	(46,079)	2,987,881	292	23,276,463
Profit for the year	-	-		4,448,460	-	4,448,460
Total income for 2008	-	-	-	4,448,460	-	4,448,460
Transfer to reserves	-	465,952	-	(465,952)	-	-
(Disposals)/ acquisitions during the year (net)	-	-	-	-	(16)	(16)
At 31 December 2008	19,998,860	801,461	(46,079)	6,970,389	276	27,724,907
At 1 January 2007	10,000,000	104,480	-	930,916	292	11,035,688
Rights issue	9,998,860	-	-	-	-	9,998,860
Rights issue expenses	-	-	(46,079)	-	-	(46,079)
Total expenses directly recognised in equity	-	-	(46,079)	-	-	(46,079)
Profit for the year	-	-		2,287,994	-	2,287,994
Total (expenses)/ income for 2007	-	-	(46,079)	2,287,994	-	2,241,915
Transfer to reserves	-	231,029	-	(231,029)	-	-
At 31 December 2007	19,998,860	335,509	(46,079)	2,987,881	292	23,276,463

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

Jazeera Airways K.S.C
Kuwait

Consolidated Statement of Cash Flows –Year ended 31 December 2008

	Note	Kuwaiti Dinars	
		2008	**2007**
Cash flows from operating activities			
Profit for the year		4,448,460	2,287,994
Adjustments for:			
Depreciation		4,511,354	3,866,015
Finance costs		2,837,717	2,840,157
Post employment benefits		181,885	148,096
Gain on sale of fixed assets		(5,564,392)	-
Loss/ (gain) on foreign currency revaluation		1,134,073	(2,558,129)
Operating profit before working capital changes		7,549,097	6,584,133
Increase in inventories		(152)	(32,838)
Increase in trade and other receivables		(95,390)	(780,625)
Increase in trade and other payables		1,127,312	2,275,521
Increase in deferred revenue		451,138	2,904,195
Increase in receivables from related party		(5,029,299)	-
Lease maintenance provision		158,081	-
Net cash from operating activities		4,160,787	10,950,386
Cash flows from investing activities			
Acquisition of property and equipment		(47,944,312)	(26,808,907)
Increase in deposits		-	(2,169,620)
Disposal of property and equipment		63,493,017	-
Net cash from/ (used) in investing activities		15,548,705	(28,978,527)
Cash flows from financing activities			
Capital contribution – Rights issue		-	9,998,860
Expenses of rights issue		-	(46,079)
(Repayment of)/ proceeds from term loans (net)		(28,363,430)	10,812,485
Proceeds from/ (repayment of) bank overdraft		12,147,437	(925,250)
Finance costs		(2,837,717)	(2,840,157)
Effects of exchange rate changes on term loan		(1,071,013)	2,595,980
Net cash (used in)/ from financing activities		(20,124,723)	19,595,839
Net (decrease)/ increase in cash and cash equivalents		(415,231)	1,567,698
Cash and cash equivalents at			
beginning of year		3,026,937	1,497,090
Effects of exchange rate changes on cash and cash equivalents		(63,060)	(37,851)
end of year	9	2,548,646	3,026,937

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

1. Constitution and activities

Jazeera Airways K.S.C. (the "Parent Company") was incorporated by Amiri Decree on 3 March 2004 as a Kuwaiti Public Shareholding Company under the laws of Kuwait.

The Parent Company is engaged in the business of air transportation and commercial passenger services under a license from the Directorate General of Civil Aviation, Kuwait and its sole subsidiary (note 3) owns and leases aircraft and engines. The Parent Company and its subsidiary are together referred to as the "Group" in these consolidated financial statements.

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

The Parent Company was listed on the Kuwait Stock Exchange on 14 January 2008.

These consolidated financial statements have been approved for issue by the Board of Directors on 15 March 2009 and are subject to the approval of shareholders at their forthcoming annual general assembly 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 Dinars.

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 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 26.

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 International Financial Reporting Standards (IFRS) issued by IASB and Interpretations issued by International Financial Reporting Interpretation Committee (IFRIC) have been amended/ issued which do not have any impact on the financial statements of the Group.

IAS 39 - Financial Instruments: Recognition and Measurement
IFRS 7 – Financial Instruments: Disclosures, relating to reclassification of Financial Assets
IFRIC 11: IFRS 2 - Group and Treasury Share Transactions;
IFRIC 12: Service Concession Arrangements; and
IFRIC 14: IAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

The following International Financial Reporting Standards (IFRS) issued by IASB and Interpretations issued by IFRIC, but not yet effective and have not been adopted by the Group.

IAS 1: Presentation of Financial Statements (effective 01 January 2009)
IAS 16: Property, Plant and Equipment (Amended – effective 01 January 2009)
IAS 23: Borrowing Costs (Revised – effective 01 January 2009)
IAS 36: Impairment of asset (Amended – effective 01 January 2009)
IAS 38: Intangible assets (Amended – effective 01 January 2009)
IFRS 2: Share-based Payment – Vesting Conditions and Cancellations (effective 01 January 2009)
IFRS 8: Operating Segments (effective 01 January 2009)
IFRIC 13: Customer Loyalty Programmes (effective 01 July 2008)

The application of IAS 1 and IFRS 8 will result in amendments to the presentation of the consolidated financial statements. Additional disclosures will be made in the consolidated financial statements when these Standards and Interpretations become effective.

The application of other Standards and Interpretations are not expected to have a material impact on the consolidated financial statements.

The Group's current liabilities exceed current assets (excluding deferred revenue) by KD 6,619,585 (31 December 2007: KD 5,024,348). These consolidated financial statements have been prepared on a going concern basis as the Board of Directors and management expect the cash flow position to continually improve and the Group to continue to receive financial support from shareholders and lenders

In preparing these consolidated financial statements, the financial statements of the Parent Company and the subsidiary have been combined on a line by line basis, after eliminating intra group transactions and resulting unrealized profits in full and using uniform accounting policies for like transactions and other events in similar circumstances.

2.2 Consolidation

Subsidiaries are those enterprises, including special purpose entities, controlled by the Parent Company. Control exists when the Parent Company has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements on a line-by-line basis, from the date on which control is transferred to the Parent Company until the date that control ceases.

Consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances based on financial information of the subsidiary. Intra group balances, transactions, income and expenses are eliminated in full. Unrealised losses resulting from inter-company transactions are also eliminated unless cost cannot be recovered. Profits and losses resulting from intra group transactions that are recognized in assets are eliminated in full. If a parent loses control of a subsidiary, it derecognizes the assets (including any goodwill) and liabilities of the subsidiary at their carrying amounts at the date when control is lost as well as related non controlling interests.

2.3 Financial instruments

Classification

In the normal course of business the Group uses financial instruments, principally cash, deposits, receivables, investments, payables, due to banks and derivatives.

In accordance with International Accounting Standard (IAS) 39, the Group classifies financial assets as "at fair value through profit or loss" or "loans and receivables". All financial liabilities are classified as "other than at fair value through profit or loss" except any liabilities from fair valuation of derivative financial instruments.

Derivative financial instruments and hedging activities

The Group enters into transactions that involve derivative financial instruments to be settled in a future date. A derivative financial instrument is a financial contract between two parties where payments are dependent upon movements in price of one or more underlying financial instruments, reference rate or index.

The Group makes use of derivative financial instruments to manage exposures to commodity rate variances arising from forecast transactions.

Where derivative contracts are entered into by specifically designating such contracts as a fair value hedge or a cash flow hedge of recognised asset or liability, the Group accounts for them using hedge accounting principles, provided certain criteria are met.

If such derivative transactions, while providing effective economic hedges under the Group's risk management policies do not qualify for hedge accounting under IAS 39, they are treated as derivatives held for trading. 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. The resultant gains and losses are included in the statement of income.

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 added except for those financial instruments classified as "at fair value through profit or loss".

Financial assets at fair value through profit or loss

Financial assets classified as "at fair value through profit or loss" are divided into two sub categories: financial assets held for trading, and those designated at fair value through income statement at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if they are managed and their performance is evaluated and reported internally on a fair value basis in accordance with a documented investment strategy.

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 yield method.

Available for sale

These are non-derivative financial assets not included in any of the above classifications and principally acquired to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices. These are subsequently measured and carried at fair value and any resultant gains or losses are recognized in equity. When the "available for sale "asset is disposed of or impaired, the related accumulated fair value adjustments are transferred to the statement of income as gains or losses.

Financial liabilities/ equity

Financial liabilities classified as "other than at fair value through profit or loss" are subsequently measured and carried at amortized cost using the effective yield method. Equity interests are classified as financial liabilities if there is a contractual obligation to deliver cash or another financial asset.

Financial guarantees

Financial guarantees are initially recognised in the financial statements at fair value, being the premium received. Financial guarantees are subsequently measured at the higher of the amount initially recognized less any cumulative amortization and the best estimate of the amount required to settle any financial obligation arising as a result of the guarantee.

Fair values

Fair values of quoted instruments are based on quoted closing bid prices. If the market for a financial asset is not active or the financial instrument is unquoted, fair value is derived from recent arm's length transactions, discounted cash flow analysis, other valuation techniques commonly used by market participants or determined with reference to market values of similar instruments.

Impairment

A financial asset is impaired if its carrying amount is greater than its estimated recoverable amount. An assessment is made at each balance sheet date 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 determined based on the net present value of future cash flows discounted at original effective interest rates; and of an equity instrument is determined with reference to market rates or appropriate valuation models. Any impairment loss is recognised in the statement of income. For "available for sale" equity investments, reversals of impairment losses are recorded as increases in fair valuation reserve through equity.

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

Recognition and de-recognition

All financial assets and liabilities are initially recognized at its fair value plus, except for financial instruments classified as "at fair value through profit or loss", transaction costs that are directly attributable to the acquisition of the financial instrument.

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 derecognised when the obligation specified in the contract is discharged.

All 'regular way' purchase and sale of financial assets are recognized using settlement date accounting. Changes in fair value between the trade date and settlement date are recognized in income in accordance with the policy applicable to the related instruments. 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.

2.4 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 up to bringing them 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.

Upon acquisition of new aircraft, an inspection component is recognised for the estimated costs of performing regular major inspections of engines and airframe. This is treated as a separate asset and its cost is reduced from the original cost of the aircraft and engines, as its useful life is different from that of the aircraft or the engine to which it relates. 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 improvements5	
Furniture & equipments	3-5
Aircraft and engines	23
Rotables	2-3
Vehicles	5

The cost of the inspection component is depreciated over 5,000 to 15,000 flying hours, being the normal period between inspections. The cost of each subsequent major inspection is capitalised and the remaining cost, if any, of the previous inspection is written off.

Capital work-in-progress is stated at cost and includes advance payments made in respect of aircraft purchase commitments. 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 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 balance sheet date 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).

2.5 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

2.6 Cash and cash equivalents

Cash and time deposits with banks whose original maturities do not exceed three months are classified as cash and cash equivalents in the statement of cash flows.

2.7 Non-current assets held for sale

Non-current assets are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. They are stated at the lower of carrying amount and fair value less costs to sell if their carrying amount is to be recovered principally through a sale transaction rather than through continuing use. Non-current assets classified as held for sale are not depreciated while it is classified as non current assets classified as held for sale. Interest and other expenses attributable to such assets are recognized in the income statement.

2.8 Accounting for leases

Where the Group is the lessee

Operating lease

Leases of property and equipment under which all the risks and rewards of ownership are effectively retained by the lessor are classified as operating leases. Payments made under operating leases are charged to 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 balance sheet 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.

Sale and lease back

If a sale and leaseback transaction results in a finance lease, any excess of sales proceeds over the carrying amount is deferred and amortised over the lease term.

If a sale and leaseback transaction results in an operating lease, and it is clear that the transaction is established at fair value, any profit or loss is recognised immediately in the income statement. If the sale price is below fair value and such loss is not compensated for by future payments at below market price, any profit or loss is recognised immediately in the income statement .If the sale price is above fair value, the excess over fair value is deferred and amortised over the period for which the asset is expected to be used.

2.9 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 statement of income, depending on the terms of the credit.

2.10 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 balance sheet date and approximates the present value of the final obligation.

2.11 Revenue recognition

Revenue from flight seats sold, but not flown is included in deferred revenue and is recognised in statement of income when the service is provided. Miscellaneous fees and ancillary revenue are recognised in the period in which the service is provided.

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

2.12 Borrowing costs

Borrowing costs that are directly attributable to the acquisition of a qualifying asset are capitalized as part of the cost of that asset. If the funds are borrowed specifically for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalization are the actual borrowing costs incurred during the period less any investment income on the temporary investment of those borrowings. If the funds are borrowed generally and used for the purpose of obtaining a qualifying asset, the amount of borrowing costs eligible for capitalization are determined using the weighted average of the borrowing costs applicable to the borrowings that are outstanding during the period.

2.13 Foreign currency translation

The functional currency of the Parent Company is the Kuwaiti Dinar. Foreign currency transactions are translated at the rates of exchange prevailing on the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into Kuwaiti Dinars at the rates of exchange prevailing at the balance sheet date. Resultant gains or losses are taken to the statement of income. Exchange differences arising from the translation of the net investment in foreign operations (including goodwill and fair value adjustments arising on business combinations) are taken to shareholders' equity.

2.14 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. Provision for tax liabilities is recognised in accordance with the tax laws of the countries where the aircraft operates.

2.15 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 Parent Company's subsidiary, Jazeera Leasing Company (JLC), was incorporated with a share capital of USD 1,000 equivalent to KD 292 and was fully owned by a third party. JLC was a Special Purpose Entity ("SPE") set up for the sole purpose of arranging finance for acquiring aircraft and engines and for leasing them to the Parent Company under finance leases. During the year the Parent Company ceased to exercise control over and obtain benefits from JLC and accordingly has not been consolidated in these financial statements.

During the year, Jazeera Leasing Company – 2 (JLC -2), was incorporated with a share capital of USD 1,000 equivalent to KD 276 and is fully owned by a third party. JLC -2 is a Special Purpose Entity ("SPE") set up for the sole purpose of arranging finance for acquiring aircraft and engines and for leasing them to the Parent Company under finance leases and accordingly has been consolidated in these 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 2006	45,795,229	121,399	375,156	4,424	9,551,467	55,847,675
Additions	150,001	-	214,052	6,200	26,438,654	26,808,907
Transfers	22,884,809	220,029	-	-	(23,104,838)	-
As at 31 December 2007	68,830,039	341,428	589,208	10,624	12,885,283	82,656,582
Additions	89,547	13,215	82,652	-	47,758,898	47,944,312
Transfers	22,736,643	151,545	23,482	-	(22,911,670)	-
Sale	(68,756,000)	-	(474)	-	-	(68,756,474)
Transferred as "held for sale"	(22,736,643)	-	-	-	-	(22,736,643)
As at 31 December 2008	163,586	506,188	694,868	10,624	37,732,511	39,107,777
Depreciation						
As at 31 December 2006	2,983,563	46,893	146,590	1,032	-	3,178,078
Charge for the year	3,700,534	27,951	136,128	1,402	-	3,866,015
As at 31 December 2007	6,684,097	74,844	282,718	2,434	-	7,044,093
Charge for the year	4,262,358	85,075	161,796	2,125	-	4,511,354
Disposal	(10,827,660)	-	(189)	-	-	(10,827,849)
As at 31 December 2008	118,795	159,919	444,325	4,559	-	727,598
Net book value						
As at 31 December 2008	44,791	346,269	250,543	6,065	37,732,511	38,380,179
As at 31 December 2007	62,145,942	266,584	306,490	8,190	12,885,283	75,612,489

Depreciation has been allocated in statement of income as follows:

	Kuwaiti Dinars	
	2008	**2007**
Operating costs	4,273,482	3,708,255
General and administrative expenses	237,872	157,760
	4,511,354	3,866,015

Capital work-in-progress includes pre-delivery payments of KD 34,999,927 (31 December 2007: KD 11,228,189) for purchase of thirty two aircraft. The cost and net book value also include pre-payments of KD 2,567,299 (31 December 2007: KD 1,515,901) for aircraft maintenance.

The cost of aircraft and engines and capital work-in-progress includes borrowing costs of KD 256,954 (31 December 2007: KD 145,473) capitalised at the rate of 7.062% to 8.25% (31 December 2007: 6.09% to 7.03%) being the cost of funds borrowed specifically for the purpose of obtaining qualifying assets.

During the year the Parent Company novated the finance lease of six aircraft and a spare engine for a total consideration of USD 230,740,000 (KD equivalent : 63,493,017) in favour of Al Sahaab Aircraft Leasing Company W.L.L and took it back on operating lease for a period ranging from four to six years (11 February 2012 to 11 February 2015).The Parent Company is entitled to extend the leases for a further period of one year extendable for another two annual terms, from the end of the initial lease period.

Aircraft and engines transferred to Non current assets held for sale relates to two aircraft and engines which are part of a sale and lease back agreement, expected to be completed by July 2009.

5. Deposits

This represents firm order payments of KD 2,314,215 (31 December 2007: KD 2,314,215) for purchase of 32 aircraft (31 December 2007: 34 aircraft).

6. Non current assets classified as held for sale

	Kuwaiti Dinars	
	2008	**2007**
Aircraft and engines	22,736,643	-
	22,736,643	-

The above represents the carrying value of two aircraft and engines that are held for sale following the decision of Group's management to sell the aircrafts to Al Sahaab Aircraft leasing Company W.L.L. The transaction is expected to be completed by 30 July 2009. These are currently under lien for term loans availed by JLC- 2.

7. Receivables from related party

This primarily consists of short term receivables of KD 5,109,266 due against sale of six aircraft and one engine. This carries an annual interest rate of 2% over Kuwait Inter Bank Offered Rate (KIBOR). The effective interest rate as of 31 December 2008 was 6.5% (2007: Nil).

8. Trade and other receivables

	Kuwaiti Dinars	
	2008	**2007**
Trade receivables	1,002,442	985,052
Provision for impairment	(110,660)	-
Net trade receivables	891,782	985,052
Prepayments	425,746	167,716
Deposits	177,167	174,371
Accrued receivables	125,418	253,222
Staff receivables	141,506	87,215
	1,761,619	1,667,576

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 2008, trade receivables of KD 891,782 (31 December 2007: KD 985,052) 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 fully secured by bank guarantees. As of 31 December 2008, trade receivables of KD 110,660 (31 December 2007: KD nil) were past due and impaired and fully provided for. The other classes with in trade and other receivables primarily consist of staff receivables which are neither past due nor impaired.

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

	Kuwaiti Dinars	
	2008	**2007**
Kuwaiti Dinars	442,141	787,802
Bahraini Dinars	54,790	41,403
Indian Rupees	40,373	41,254
Egyptian Pounds	53,863	38,128
US Dollars	45,106	25,303
Others	255,509	51,162
	891,782	985,052

9. Cash and bank balances

	Kuwaiti Dinars	
	2008	**2007**
Cash on hand	11,294	8,286
Balances with banks		
- Current Accounts	2,537,352	3,018,651
- Time Deposits	42,026	40,695
	2,590,672	3,067,632
Time deposits with banks whose original maturity period exceeds three months	(42,026)	(40,695)
Cash & cash equivalents in the statement of cash flows	2,548,646	3,026,937

The cash and cash equivalents are denominated in the following currencies:

	Kuwaiti Dinars	
	2008	**2007**
Kuwaiti Dinars	1,342,719	1,084,552
US Dollars	492,127	1,505,441
UAE Dirham	180,414	208,114
Indian Rupees	466,960	92,837
Others	108,452	176,688
	2,590,672	3,067,632

10. Share capital

The authorized capital of the Parent Company as of 31 December 2008 is KD 20,000,000 (31 December 2007: KD 20,000,000) comprising of 200,000,000 shares of 100 fils each (31 December 2007 - 200,000,000 shares of 100 fils each).

The issued and fully paid up capital of the Parent Company as of 31 December 2008 is KD 19,998,860 (31 December 2007: 19,998,860) comprising of 199,988,602 shares of 100 fils each (31 December 2007 - 199,988,602 shares of 100 fils each).

Bonus shares and Employee Stock Option Plan

The Board of Directors has proposed distribution of bonus shares amounting to KD 2,000,000 in the ratio of one share for every ten shares held as on the date of annual general assembly meeting. The Board of Directors has also proposed Employee Stock Option Plan amounting to 10% of the share capital. These are subject to the approval of shareholders at the next annual general assembly meeting.

11. Reserves

Legal reserve

In accordance with the Law of Commercial Companies and the Parent Company's Articles of Association, 10% of net profit has been appropriated as 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 Parent Company's Articles of Association stipulates that the Board of Directors may propose appropriations to voluntary reserve for shareholders' approval. The Board of Directors has not proposed any appropriations to voluntary reserve in 2008 (2007: Nil).

12. Term loans

	Kuwaiti Dinars	
	2008	**2007**
Term loans are repayable as follows:		
Not later than 1 year (current portion)	19,209,799	3,506,134
Later than 1 year and not later than 2 years	-	3,328,142
Later than 3 year and not later than 5 years	-	15,493,973
Over 5 years	-	25,244,980
Term loans (non-current portion)	-	44,067,095
	19,209,799	47,573,229

The term loans are senior loans and are arranged through JLC - 2. The loans, for acquisition of two aircrafts and engines classified as non current held for sale, are denominated in US Dollars and represent amounts due to consortium of European banks. The effective interest rate on term loans was 5.4 % to 5.5 % (2007 - 6.26% to 6.52%) which is re priced every three months (2007: KD 14,386,344 carries fixed rate of interest).

The tem loans are secured by a first priority charge / pledge over the shares of JLC - 2 and a first priority registered aircraft mortgage over each aircraft.

13. Aircraft lease maintenance provision

This represents provision for future maintenance of leased aircrafts payable under the operating lease agreement and are primarily based on actual flying hours.

14. Due to banks

This represents unsecured overdraft facility of USD 44 million from a local bank which carries an interest rate of 1.25% over funding cost .The effective interest rate as of 31 December 2008 was 4.5% to 6.5% (2007: nil)

15. Trade and other payables

	Kuwaiti Dinars	
	2008	**2007**
Trade payables	2,651,717	3,159,991
Accrued expenses	3,416,869	2,648,052
Tax payable	905,127	421,411
Staff leave payable	396,497	242,871
Contribution to KFAS,NLST and Zakat payable	211,062	22,295
Others	40,660	-
	7,621,932	6,494,620

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

	Kuwaiti Dinars	
	2008	**2007**
Kuwaiti Dinars	1,620,615	2,070,764
UAE Dirham	106,570	161,467
Euro	32,090	54,248
Indian Rupees	113,020	69,839
US Dollars	449,726	725,409
Others	329,696	78,264
	2,651,717	3,159,991

16. Revenue

	Kuwaiti Dinars	
	2008	**2007**
Passenger revenue	45,143,618	31,648,231
Ancillary revenue	3,561,451	3,061,161
	48,705,069	34,709,392

17. Operating costs

	Kuwaiti Dinars	
	2008	**2007**
Staff costs	7,342,768	5,217,926
Depreciation	4,273,482	3,708,255
Aircraft fuel and maintenance	22,686,167	12,935,459
Overflying, landing and ground handling charges	6,580,790	5,184,924
Insurance	401,306	320,638
Lease rental	445,385	-
Others	1,220,890	995,763
	42,950,788	28,362,965

18. General and administrative expenses

	Kuwaiti Dinars	
	2008	**2007**
Staff costs	1,243,297	999,395
Rent	101,209	186,456
Professional and consultancy	64,605	48,443
Travel	103,327	149,555
Marketing	1,308,026	2,577,176
Depreciation	237,871	157,760
Others	1,288,463	758,138
	4,346,798	4,876,923

The number of personnel employed by the Group as of 31 December 2008 was 499 (December 2007 was 410).

19. Earnings per share

Earnings per share are calculated based on the net profit for the year and the weighted average number of shares outstanding, as follows:

	2008	**2007**
Net profit (in Kuwaiti Dinars)	4,448,460	2,287,994
Weighted average number of shares outstanding	199,988,602	113,697,069
Earnings per share (fils) – Basic and Diluted	22.24	20.12

20. Related party transactions and balances

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

	Kuwaiti Dinars	
	2008	**2007**
Transactions		
Sale of aircraft	63,493,017	-
Sale of tickets	253,513	254,284
Lease rental	445,385	-
Administration and distribution expenses	399,966	247,998
Key management compensation		
Salaries and other employment benefits	379,418	257,389

No remuneration is payable to the Board of Directors in 2008 for their services (2007: Nil).

21. Taxes

The Parent Company has not accrued any tax liability based on exemptions currently available under bilateral tax agreements with countries where its aircraft operates. However, the Parent Company is contingently liable for any taxes that may finally be determined by the taxation authorities of those countries.

22. Segment information

The Parent Company's sole business segment is the operation of passenger airline service.

Since the Parent Company's fleet is flexibly employed across its route network, there is no suitable basis for allocating revenue, expenses, assets and related liabilities to geographical segments.

23. Contingent liabilities and Commitments

The Group has issued bank guarantee to regulatory agencies and third party service providers amounting to KD 682,096 (31 December 2007: KD 431,482). The Parent Company has also provided guarantee to JLC in respect of the obligations and liabilities of Al Sahaab Aircraft Leasing Company W.L.L pursuant to the novated lease agreement. Parent Company is contractually committed to the acquisition of 32 aircraft (31 December 2007: 34 aircraft) with a list price of approximately KD 618,307,200 (31 December 2007: KD 650,692,000) over a period of four years.

Operating lease commitments

During the year the Group transferred six aircraft and a spare engine and took them back on an operating lease for periods ranging from four to six years (11 February 2012 to 11 February 2015). The future aggregate minimum base lease payments under non-cancellable operating leases are as follows:

	Kuwaiti Dinars	
	2008	**2007**
Not later than one year	7,941,072	-
Later than one year and not later than five years	29,845,704	-
Later than five years	2,663,819	-

The above does not include contingent rent which is linked to market interest rates. The Parent Company is entitled to extend aircraft leases for a further period of one year extendable for another two annual terms.

24. Financial risk management

Financial risk factors

The Group's use of financial instruments exposes it to a variety of financial risks such as credit risk, market 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 finance department under policies approved by the Board of Directors. The Board provides principles for overall risk management, as well as policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk and investment of excess liquidity. Finance department identifies and evaluates financial risks in close co-operation with the Group's operating units. The significant risks that the Group is exposed to are discussed below:

(a) 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 before collateral held are as follows:

	Kuwaiti Dinars	
	2008	**2007**
Cash and bank balances	2,590,672	3,067,632
Trade and other receivables	1,158,706	1,420,831
Receivables from related party	5,124,641	-
	8,874,019	4,488,463

The current accounts and short term deposits are with banks which are rated A+ to BBB- by reputed external credit rating agencies.

The Group's trade receivables are fully 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.8

(b) Market risk

Market risk, comprising of foreign exchange risk, interest rate risk and equity price risk arises due to movements in foreign currency rates, interest rates and market prices of assets respectively.

(i) Foreign exchange 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 exchange rates. The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar, Indian Rupees and UAE Dirham.

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 cash and bank deposits and trade and other receivables and payables. The Group manages this risk by setting limits on exposures to currency and transacting business in major currencies.

The net impact on the profit/ (loss), as of 31 December 2008, if Kuwaiti Dinars had strengthened against the major currencies by 5% is shown below:

Currency	Kuwaiti Dinars 2008	Kuwaiti Dinars 2007
US Dollar	428,331	(1,488,288)
Indian Rupees	17,697	4,959
UAE Dirham	3,692	2,324
Others	(11,062)	2,159

A 5% weakening of the Kuwaiti Dinars against the above currencies would have had the equal but the opposite effect on profit to the amounts shown above.

(ii) Interest rate risk

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

The Group's interest rate risk arises significantly from its exposure to interest bearing liabilities borrowed at floating rates and re priced periodically.

The Group monitors its interest rate exposure on a dynamic basis and considers the options for refinancing, renewal of existing positions and alternative financing to limit its losses against adverse movement of interest rates.

An increase of 50 basis points in interest rates at the reporting dates would have decreased the profits for the year by KD 156,786 (2007: KD 165,934).Had the interest rates decreased by 50 basis points at the reporting date, it would have had an equal but opposite effect on the profits for the year.

(iii) Equity price risk

The Group is not exposed to equity price risk as it does not have any financial instrument exposed to 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 to achieve a level of control over jet fuel costs so that profitability is not adversely affected.

(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. Finance department maintains flexibility in funding by maintaining availability under committed credit lines.

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Kuwaiti Dinars			
	Less than 1 Year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
31 December 2008				
Term Loans	19,758,088	-	-	-
Due to banks	12,147,437			
Trade and other payables	7,621,932		-	-
Bank Guarantee	682,096	-	-	-
Commitments	38,644,200	19,322,100	367,119,900	193,221,00
31 December 2007				
Term Loans	3,506,134	6,117,648	24,197,981	29,703,772
Trade and other payables	6,494,620	-	-	-
Bank Gurantee	431,482	-	-	-
Commitments	-	57,414,000	248,794,000	344,484,00

25. 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 for the purpose of capital risk management is calculated as equity as shown in the consolidated balance sheet plus net debt. As at 31 December 2008 the gearing ratio was 51% (31 December 2007: 66%).

26. Critical accounting judgments and estimates

The Group makes estimates and assumptions that may affect amounts reported in these financial statements. Estimates are revised if changes occur in the circumstances on which the estimate was 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 balance sheet date to assess whether a provision for impairment loss should be recognized in the 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.

27. Comparative figures

Certain comparative figures have been restated to conform to current year presentation but do not affect previously reported net profit or equity.