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Jazeera Airways K.S.C.P.
Kuwait

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS

Report on the Consolidated Financial Statements

We have audited the consolidated financial statements of Jazeera Airways K.S.C.P. ("the Ultimate Parent Company") and its subsidiaries (collectively "the Group") which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error. In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so. Those Charged with Governance are responsible for overseeing the Group's financial reporting process.

Auditors' Responsibility

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements. As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also: Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

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 consolidated financial position of the Group as at 31 December 2016, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

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. 1 of 2016, and its executive regulations; and by the Ultimate Parent Company's Memorandum of Incorporation and Articles of Association, as amended; that an inventory was duly carried out; and that, to the best of our knowledge and belief, no violations of the Companies' Law No. 1 of 2016, and its executive regulations; or of the Ultimate Parent Company's Memorandum of Incorporation and Articles of Association, as amended, have occurred during the year ended 31 December 2016 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.

Kuwait
9 February 2017

Consolidated Statement of Financial Position as at 31 December 2016

Kuwaiti Dinars

	Note	2016	2015
ASSETS			
Non - current assets			
Property and equipment	3	5,624,192	5,124,488
Advances for maintenance	4	10,432,847	8,671,717
Security deposit with lessors		2,482,320	2,968,048
		18,539,359	16,764,253
Current assets			
Inventories, expendable parts and supplies		222,624	230,065
Trade and other receivables	5	5,508,594	5,157,009
Cash and bank balances	6	29,441,328	30,857,236
		35,172,546	36,244,310
Total assets		53,711,905	53,008,563
LIABILITIES AND EQUITY			
Equity			
Attributable to Ultimate Parent Company's shareholders			
Share capital	7	20,000,000	20,000,000
Legal reserve	8	2,735,709	1,607,146
Retained earnings		14,225,922	7,559,273
Foreign currency translation reserve		-	2,427,421
Total equity		36,961,631	31,593,840
Non-current liabilities			
Post employment benefits		2,494,102	2,669,735
Reserve for lease maintenance	9	1,194,848	1,728,317
		3,688,950	4,398,052
Current liabilities			
Trade and other payables	10	9,584,620	11,781,807
Deferred revenue		3,476,704	5,234,864
		13,061,324	17,016,671
Total liabilities and equity		53,711,905	53,008,563

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

Marwan Marzouk Boodai
Chairman

Consolidated Statement of Income - Year ended 31 December 2016

Kuwaiti Dinars

	Note	2016	2015
Continuing operations			
Revenue	11	52,754,535	58,601,910
Operating costs	12	(40,286,445)	(41,556,849)
Operating profit		12,468,090	17,045,061
Other income		1,755,741	1,411,340
General and administrative expenses	13	(3,696,273)	(3,490,022)
Finance costs		(9,414)	(341,763)
Foreign currency (loss)/gain		(1,659,932)	177,987
Foreign currency translation reserve reclassified to statement of income	14	2,427,421	-
Profit before contributions and taxes		11,285,633	14,802,603
Zakat expense		(111,100)	(151,176)
Contribution to Kuwait Foundation for the Advancement of Sciences		(101,571)	(104,353)
National Labour Support Tax		(277,750)	(377,941)
Profit for the year from continuing operations		10,795,212	14,169,133
Discontinued operations			
Net profit for the year from discontinued operations	15	-	1,213,026
Net profit for the year		10,795,212	15,382,159
Attributable to:			
Shareholders of the Ultimate Parent Company		10,795,212	15,382,159
Earnings per share (fils) – Basic and Diluted	16		
From continuing and discontinued operations		53.98	37.82
From continuing operations		53.98	34.84
From discontinued operations		-	2.98

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

Consolidated Statement of Comprehensive Income - Year ended 31 December 2016

Kuwaiti Dinars

	2016	2015
Profit for the year	10,795,212	15,382,159
Loss in subsequent periods:		
Discontinued Operations		
Exchange differences on translating foreign operations	-	1,453,246
Total comprehensive income for the year	10,795,212	16,835,405
Attributable to:		
Shareholders of the Ultimate Parent Company	10,795,212	16,835,405

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

Consolidated Statement of Changes in Shareholders' Equity - Year ended 31 December 2016

Kuwaiti Dinars

Equity attributable to the Ultimate Parent Company's Shareholders

	Note	Share capital	Legal reserve	Retained earnings	Foreign currency translation reserve	Non-controlling interest	Total equity
At 1 January 2016		20,000,000	1,607,146	7,559,273	2,427,421	-	31,593,840
Total comprehensive income for the year		-	-	10,795,212	-	-	10,795,212
Foreign currency translation reserve reclassified to statement of income	14	-	-	-	(2,427,421)	-	(2,427,421)
Transfers		-	1,128,563	(1,128,563)	-	-	-
Dividend - 2015	7	-	-	(3,000,000)	-	-	(3,000,000)
At 31 December 2016		20,000,000	2,735,709	14,225,922	-	-	36,961,631
At 1 January 2015		42,000,000	4,482,688	20,019,589	974,175	428	67,476,880
Reduction of share capital		(22,000,000)	-	-	-	-	(22,000,000)
Dividend - 2015		-	(4,482,688)	(6,235,329)	-	-	(10,718,017)
Dividend - 2014		-	-	(20,000,000)	-	-	(20,000,000)
Total comprehensive income for the year		-	-	15,382,159	1,453,246	-	16,835,405
Transfers		-	1,607,146	(1,607,146)	-	-	-
Change in non-controlling interest		-	-	-	-	(428)	(428)
At 31 December 2015		20,000,000	1,607,146	7,559,273	2,427,421	-	31,593,840

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

Consolidated Statement of Cash Flows - Year ended 31 December 2016

Kuwaiti Dinars

	Note	2016	2015
Cash flows from operating activities			
Net profit for the year		10,795,212	15,382,159
Depreciation	3	638,746	464,755
Interest rate adjustment on sale of aircraft		-	(774,400)
Finance costs		9,414	1,770,990
Foreign exchange loss/(gain)		1,659,932	(177,987)
Provision for post employment benefits		265,698	689,744
Foreign currency translation reserve reclassified to statement of income	14	(2,427,421)	-
Operating profit before working capital changes		10,941,581	17,355,261
Decrease/(increase) in inventories		7,441	(18,080)
Decrease in deposits		-	1,230,051
Increase in trade and other receivables		(351,585)	(2,999,836)
(Decrease)/increase in reserve for lease maintenance		(533,469)	1,728,317
(Decrease)/increase in trade and other payables		(3,857,119)	909,521
Decrease in deferred revenue		(1,758,160)	(1,100,605)
Post-employment benefits paid		(441,331)	(374,707)
Net cash from operating activities		4,007,358	16,729,922
Cash flows from investing activities			
Purchase of property and equipment	3	(1,138,450)	(3,619,011)
Proceeds from sale of assets held for sale		-	149,264,560
Increase in advance for maintenance		(1,761,130)	(1,385,580)
Decrease/(increase) in security deposit with lessors		485,728	(1,548,258)
Decrease in time deposits with banks		-	12,320,367
Decrease in advance received from lessee		-	(20,210,187)
Change in non-controlling interest		-	(428)
Net cash (used in)/from investing activities		(2,413,852)	134,821,463
Cash flows from financing activities			
Reduction of share capital		-	(22,000,000)
Repayment of term loans (net)		-	(116,283,015)
Repayment of overdraft		-	(321,362)
Dividend paid		(3,000,000)	(30,718,017)
Finance costs paid		(9,414)	(2,071,090)
Decrease in security deposit from lessee		-	(3,244,173)
Net cash used in financing activities		(3,009,414)	(174,637,657)
Net decrease in cash and cash equivalents		(1,415,908)	(23,086,272)
Cash and cash equivalents at			
beginning of year		30,857,236	52,490,273
effects of exchange rate changes on balances held in foreign currencies		-	1,453,235
end of year	6	29,441,328	30,857,236

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 objects of the Ultimate Parent Company are:

- Air transportation services without the luxury services.
- Carry out all air transportation and other air services and all other related activities including people air transportation, cargo, goods and mails in Kuwait and abroad.
- Provide aircraft and other related asset purchasing services in favour of others and coordinate with the manufacturers.
- Provide both operating and financing lease services as needed and required by the clients "aviation companies".
- Market the aircraft to cover the medium and long-term needs of the aviation companies that ask for such services.
- Assist aviation companies to market their aircraft through sale or lease.
- Engage in providing and financing the technical support and various assets management services to aviation companies.
- Assist in co-investment processes specialized in the aviation industry.
- Invest whether partially or wholly in supplying aircraft, engines and spare parts as per needs of the clients "aviation companies" and manufacturers.
- Provide all aircraft related services to aviation companies and others whether in Kuwait or abroad, such as: handling, maintenance and other services.
- Booking tickets and passengers' services.
- Supply and deal in delivering and managing all services and products required by aviation sector, in order to properly carry out operations and maintain, support and provide aircraft customs brokerage services.
- Owning real estate and movable property to conduct its operations within the limits as stipulated by law.
- Providing services of financing aircraft purchase projects (in whole or in part) in light of the evaluation studies and determining the factors of risks associated with such projects.
- Establishing and utilizing aircraft service stations, warehouses, hangars, workshops, factories, as well as all machineries, devices and equipment related to the company's purposes.
- Investing in fields of air transportation of passengers, goods, facilities and utilities required to serve the company's purposes or its achievement.
- Founding and establishing branches and agencies of the company in Kuwait and abroad as well as conducting the businesses of ground, technical and commercial agency of Arabian and foreign airlines inside Kuwait and abroad.
- Providing service of tourism, travel and freight and conducting all its related businesses including land conveyance, holidays and flights' integrated services, car rental with or without a driver, as well as all touristic businesses related to the company's purposes, in addition to holding celebrations, competitions, exhibitions, currency exchange transactions and selling goods and products on the company's aircraft, offices and premises.
- Providing services of management and marketing in addition to the consultancy services related to the field of aircraft industry.
- Conducting all air cargo businesses inside and outside Kuwait within the limits as stipulated by law.
- Conducting all businesses of transporting, handling, distributing and customs clearance of goods related to air cargo.
- Establishing aviation, wireless studies, engineering, air and ground services institutes, in addition to training the technical personnel in the field of aviation and qualifying the Kuwaiti citizens in order to assume the technical, administrative and commercial businesses required to achieve the company's purposes.
- Owning and granting any privileges, leases or investments, as well as outsourcing any businesses or other rights related aircraft.
- Investing surplus funds in investment and real estate portfolios managed by specialized companies or entities.

The Ultimate Parent Company has the following subsidiaries:

Name of the Company	Country of Incorporation	Percentage of Holding		Description
		2016	2015	
Al Sahaab Aviation Services W.L.L. (formerly known as "Al Sahaab Aircraft Leasing Company W.L.L.")	Kuwait	99.99%	99.99%	Intermediate Parent Company
Sahaab Aviation LLC (Trustor)	United States of America	-	100%	Subsidiary of Intermediate Parent Company

The remaining shareholding in the Intermediate Parent Company is held by a party for the beneficial interest of the Ultimate Parent Company.

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

The Intermediate Parent Company and subsidiary of the Intermediate Parent Company, which were engaged in leasing aircraft, decided in 2014 to discontinue this business and sell the aircraft. The sale was completed in 2015. The Intermediate Parent Company intends to enter into other aviation business. Sahaab Aviation LLC, the subsidiary of the Intermediate Parent Company, was dissolved during the year 2016.

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

On 1 February 2016, the new Companies Law No.1 of 2016 was published in the Official Gazette which is effective from 26 November 2012. According to the new law, the Companies law No. 25 of 2012 and its amendments have been cancelled. On 17 July 2016, the new executive regulations for the Companies Law No. 1 of 2016 were issued which cancelled the executive regulations of Companies Law No. 25 of 2012 which were in force until then.

These consolidated financial statements were authorised for issue by the Board of Directors of the Ultimate Parent Company on 8 February 2016 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 24.

2.2 Functional and presentation currency

The functional currency of an entity is the currency of the primary economic environment in which it operates. Accordingly, the functional currency of the Intermediate Parent Company was US Dollars, as it derived its revenue from US Dollars. During the year 2015, the Intermediate Parent Company sold the entire fleet of aircraft. In 2016, the management of the Intermediate Parent Company intends to use the entity for other aviation business, based in Kuwait. Accordingly, with effect from 01 January 2016, the functional currency was changed from US Dollars to Kuwaiti Dinar (Note 14).

2.3 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 adoption of the following amendments, which were applicable to the Group:

Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation

The amendments clarify the principle in IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is a part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are applied prospectively and do not have any impact on the Group, given that it has not used a revenue-based method to depreciate its non-current assets.

Amendments to IAS 1: Disclosure Initiative

The amendments to IAS 1 clarify, rather than significantly change, existing IAS 1 requirements. The amendments clarify:

- The materiality requirements in IAS 1
- That specific line items in the statement(s) of income and other comprehensive income and the statement of financial position may be disaggregated
- That entities have flexibility as to the order in which they present the notes to financial statements
- That the share of other comprehensive income of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to statement of income

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement(s) of income and other comprehensive income. These amendments do not have any impact on the consolidated financial statements of the Group.

Annual Improvements 2012-2014 Cycle

IAS 19: Employee Benefits

The amendment clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used. This amendment is applied prospectively. This amendment did not have any impact on the consolidated financial statements of the Group.

IFRS 7: Financial Instruments: Disclosures

Servicing contracts

The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and the arrangement against the guidance for continuing involvement in IFRS 7 in order to assess whether the disclosures are required. The assessment of which servicing contracts constitute continuing involvement must be done retrospectively. However, the required disclosures need not be provided for any period beginning before the annual period in which the entity first applies the amendments.

Other amendments to IFRSs which are effective for annual accounting period starting from 1 January 2016 did not have any material impact on the accounting policies, financial position or performance of the Group.

Standards issued but not yet effective:

A number of new standards, amendments to standards and interpretations which are effective for annual periods beginning on or after 1 January 2016 have not been early adopted in the preparation of the Group's consolidated financial statements. None of these are expected to have a significant impact on the consolidated financial statements of the Group except the following:

IFRS 9: Financial Instruments

The IASB issued IFRS 9 - Financial Instruments in its final form in July 2014 and is effective for annual periods beginning on or after 1 January 2018 with an option to early adopt. IFRS 9 sets out the requirements for recognizing and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial assets.

This standard replaces IAS 39 Financial Instruments: Recognition and Measurement. The adoption of this standard will have an effect on the classification and measurement of Group's financial assets but is not expected to have a significant impact on the classification and measurement of financial liabilities. The new standard introduces an 'expected credit loss' model for the measurement of the impairment of financial assets. The Group is in the process of quantifying the impact of this standard on the annual consolidated financial statements, when adopted.

IFRS 15: Revenue from Contracts with customers

IFRS 16: Leases
In May 2014, the IASB issued IFRS 15 Revenue from Contracts with Customers, effective for periods beginning on 1 January 2018 with early adoption permitted. IFRS 15 defines principles for recognising revenue and will be applicable to all contracts with customers. However, interest and fee income integral to financial instruments and leases will continue to fall outside the scope of IFRS 15 and will be regulated by the other applicable standards (e.g. IFRS 9 and IFRS 16 Leases). This standard will supersede IAS 11 Construction contracts; IAS 18 Revenue; along with IFRIC 13, IFRIC 15, IFRIC 18 and SIC 13 from the effective date.

Revenue under IFRS 15 will need to be recognised as goods and services are transferred, to the extent that the transferor anticipates entitlement to goods and services. The standard will also specify a comprehensive set of disclosure requirements regarding the nature, extent and timing as well as any uncertainty of revenue and corresponding cash flows with customers.

The IASB issued the new standard for accounting for leases - IFRS 16 Leases in January 2016. The new standard does not significantly change the accounting for leases for lessors. However, it does require lessees to recognise most leases on their balance sheets as lease liabilities, with the corresponding right- of-use assets. Lessees must apply a single model for all recognised leases, but will have the option not to recognise 'short-term' leases and leases of 'low-value' assets. Generally, the profit or loss recognition pattern for recognised leases will be similar to today's finance lease accounting, with interest and depreciation expense recognised separately in the consolidated statement of income.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted provided the new revenue standard, IFRS 15, is applied on the same date. Lessees must adopt IFRS 16 using either a full retrospective or a modified retrospective approach. The Group does not anticipate early adopting IFRS 16 and is in the process of evaluating the effect of IFRS 16 on the Group and do not expect any significant impact on adoption of this standard.

Amendments to IAS 12: Income Taxes
In January 2016, through issuing amendments to IAS 12, the IASB clarified the accounting treatment of deferred tax assets of debt instruments measured at fair value for accounting, but measured at cost for tax purposes. The amendment is effective from 1 January 2017. The Group does not anticipate material impact on the consolidated financial statements as all the debt instruments of the Group are measured at amortised cost.

Amendments to IAS 7: Statement of Cash Flows
In January 2016, the IASB issued amendments to IAS 7 Statement of Cash Flows with the intention to improve disclosures of financing activities and help users to better understand the reporting entities' liquidity positions. Under the new requirements, entities will need to disclose changes in their financial liabilities as a result of financing activities such as changes from cash flows and non-cash items (e.g., gains and losses due to foreign currency movements). The amendment is effective from 1 January 2017. The Group is currently evaluating the impact.

Adoption of other new or amended Standards are not expected to have a 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.

2.4 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.

2.5 Discontinued operations
A discontinued operation is a component of an entity that either has been disposed of or is classified as held for sale and represents a separate major line of business or geographical area of operations; or is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations; or is a subsidiary acquired exclusively with a view to resale.

2.6 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.

2.7 Financial instruments
Classification
In the normal course of business the Group uses financial instruments, principally trade and other receivables, cash and bank balances and trade and other payables.

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).

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.

2.8 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
Engines	15
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).

2.9 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.

2.10 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.

2.11 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.

2.12 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.

2.13 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.

2.14 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.

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

2.15 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.

2.16 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.

2.17 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.

2.18 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.

2.19 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. Property and equipment

Kuwaiti Dinars

	Engines & rotables	Leasehold improvements	Furniture & equipment	Vehicles	Capital work-in-progress	Total
Cost						
As at 31 December 2014	1,543,003	1,239,947	2,064,098	21,854	75,372	4,944,274
Additions	3,540,290	1,300	18,042	350	59,029	3,619,011
Transfers	-	62,570	18,734	6,782	(88,086)	-
Exchange adjustment	-	-	39	-	-	39
As at 31 December 2015	5,083,293	1,303,817	2,100,913	28,986	46,315	8,563,324
Additions	36,943	1,450	29,937	-	1,070,120	1,138,450
Transfers	-	820,074	-	-	(820,074)	-
As at 31 December 2016	5,120,236	2,125,341	2,130,850	28,986	296,361	9,701,774
Depreciation						
As at 31 December 2014	351,511	687,492	1,923,551	11,499	-	2,974,053
Charge for the year	214,007	141,743	105,743	3,262	-	464,755
Exchange adjustment	-	-	28	-	-	28
As at 31 December 2015	565,518	829,235	2,029,322	14,761	-	3,438,836
Charge for the year	409,929	181,290	43,183	4,344	-	638,746
As at 31 December 2016	975,447	1,010,525	2,072,505	19,105	-	4,077,582
Net book value						
As at 31 December 2016	4,144,789	1,114,816	58,345	9,881	296,361	5,624,192
As at 31 December 2015	4,517,775	474,582	71,591	14,225	46,315	5,124,488

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

Kuwaiti Dinars

	2016	2015
Operating costs	414,273	217,269
General and administrative expenses	224,473	247,486
	638,746	464,755

4. Advances for maintenance

This represents advances given to service providers for future maintenance of aircrafts.

5. Trade and other receivables

Kuwaiti Dinars

	2016	2015
Trade receivables	547,258	447,730
Provision for impairment	(152,956)	(152,956)
Net trade receivables	394,302	294,774
Prepayments	902,046	715,207
Deposits	467,899	443,752
Staff receivables	6,695	13,146
Other receivables	3,737,652	3,690,130
	5,508,594	5,157,009

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 2016, trade receivables amounting to KD 394,302 (31 December 2015: KD 294,774) 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 2016, trade receivables of KD 152,956 (31 December 2015: KD 152,956) 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.

Other receivables include an amount of KD 3,516,897 (31 December 2015: KD 3,527,474) which is not receivable in cash but can be adjusted against future payment to suppliers.

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

Kuwaiti Dinars

	2016	2015
Kuwaiti Dinars	596,061	472,800
US Dollars	4,331,288	4,186,558
Egyptian Pounds	247,078	223,110
UAE Dirham	15,191	15,790
Euro	29,113	23,158
Others	289,863	235,593
	5,508,594	5,157,009

6. Cash and bank balances

Kuwaiti Dinars

	2016	2015
Cash on hand	26,803	26,627
Current account with banks	2,570,201	2,615,503
Time deposits with banks	26,844,324	28,215,106
	29,441,328	30,857,236

The effective interest rate on time deposits as of 31 December 2016 was 1.45% to 13% (31 December 2015: 1.75% to 7.25%).

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

Kuwaiti Dinars

	2016	2015
Kuwaiti Dinars	26,945,116	27,628,241
Egyptian Pounds	1,904,381	2,528,402
US Dollars	146,178	337,977
UAE Dirham	64,385	77,263
Euro	48,484	16,464
Others	332,784	268,889
	29,441,328	30,857,236

7. Share capital

The authorised, issued and fully paid up share capital of the Ultimate Parent Company as at 31 December 2016 is KD 20,000,000 (31 December 2015: KD 20,000,000) comprising of 200,000,000 shares of 100 fils each (31 December 2015: 200,000,000 shares of 100 fils each).

Dividend
The Annual General Assembly of the shareholders of the Ultimate Parent Company held on 17 April 2016 approved the distribution of cash dividend of 15 fils per share to the shareholders, amounting to KD 3,000,000, for the year ended 31 December 2015 (31 December 2014: KD 20,000,000).

Proposed dividend
The Board of Directors of the Ultimate Parent Company has proposed a cash dividend of 35 fils per share, amounting to KD 7,000,000 for the year ended 31 December 2016 (31 December 2015: KD 3,000,000). Such dividend, if approved by the Annual General Assembly, will be payable to the registered shareholders as of the date of the Annual General Assembly.

8. 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 shall propose appropriations to voluntary reserve, which should be approved by the shareholders. During the year, the Board of Directors did not propose any transfer to voluntary reserve. There is no restriction on the distribution of voluntary reserve.

9. Reserve for lease maintenance

Reserve for lease maintenance is for future maintenance of leased aircraft, under the terms of the operating lease agreements and are primarily based on actual flying hours.

10. Trade and other payables

Kuwaiti Dinars

	2016	2015
Trade payables	2,259,189	2,466,193
Accrued expenses	4,044,360	5,575,166
Tax payable	2,444,077	3,045,092
Staff leave payable	671,526	596,234
Others	165,468	99,122
	9,584,620	11,781,807

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

Kuwaiti Dinars

	2016	2015
Kuwaiti Dinars	5,370,045	5,375,538
US Dollars	2,017,949	3,693,766
UAE Dirhams	382,885	381,162
Egyptian Pounds	418,812	891,674
Euro	156,229	108,505
Others	1,238,700	1,331,162
	9,584,620	11,781,807

11. Revenue

Kuwaiti Dinars

	2016	2015
Passenger revenue	48,772,452	54,245,170
Ancillary revenue	3,982,083	4,356,740
	52,754,535	58,601,910

12. Operating costs

Kuwaiti Dinars

	2016	2015
Staff costs	6,474,337	5,913,347
Depreciation	414,273	217,269
Aircraft fuel and maintenance	11,286,168	13,573,383
Overflying, landing and ground handling charges	6,381,074	6,147,668
Insurance	377,498	485,284
Lease rental	9,100,127	8,953,207
Lease maintenance	3,388,315	3,365,365
Others	2,864,653	2,901,326
	40,286,445	41,556,849

13. General and administrative expenses

Kuwaiti Dinars

	2016	2015
Staff costs	1,956,104	1,885,879
Rent	164,670	150,517
Professional and consultancy	134,802	86,853
Travel	60,901	60,629
Marketing	682,203	674,379
Depreciation	224,473	247,361
Others	473,120	384,404
	3,696,273	3,490,022

The number of personnel employed by the Group as of 31 December 2016 was 482 (31 December 2015: 430).

14. Foreign currency translation reserve reclassified to statement of income

Kuwaiti Dinars

	2016	2015
Due to change in functional currency	2,078,399	-
Due to discontinuance of foreign operations	349,022	-
	2,427,421	-

15. Discontinued operations

The Intermediate Parent Company and subsidiary of the Intermediate Parent Company, which were engaged in leasing aircraft, decided in 2014 to discontinue this business and sell the aircraft. The sale was completed in 2015. The Intermediate Parent Company intends to enter into other aviation business.

16. 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:

From continuing and discontinued operations

	2016	2015
Earnings for the year (in Kuwaiti Dinars)	10,795,212	15,382,159
Weighted average number of shares outstanding	200,000,000	406,739,726
Earnings per share (fils) – Basic and Diluted	53.98	37.82

From continuing operations

	2016	2015
Earnings for the year (in Kuwaiti Dinars)	10,795,212	14,169,133
Weighted average number of shares outstanding	200,000,000	406,739,726
Earnings per share (fils) – Basic and Diluted	53.98	34.84

From discontinued operations

	2016	2015
Earnings for the year (in Kuwaiti Dinars)	-	1,213,026
Weighted average number of shares outstanding	-	406,739,726
Earnings per share (fils) – Basic and Diluted	-	2.98

17. 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

	2016	2015
Balance		
Due from related parties	40,708	34,366
Transactions		
Sales and services	691,746	1,146,986
General and administrative expenses	114,641	121,372
Key management compensation		
Salaries and other employment benefits	554,541	544,191

18. 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.

The Group is liable for alternate minimum tax on sale of four aircraft owned by Sahaab Aviation LLC, incorporated in the United States of America. In 2016, the Group paid this tax based on tax return filed and is now awaiting tax assessment order.

19. Segment information

The Group derives their revenue primarily from operation of passenger airline service. On 15 January 2015, the Group entered into an agreement to sell its entire fleet of aircraft to third parties with effective economic date as of 23 December 2014 (note 15). Accordingly, the passenger airline service information is disclosed as continuing operations and leasing of aircraft is shown as discontinued operations in the Consolidated Statement of Income.

20. Contingent liabilities and commitments

The Group has issued bank guarantees to regulatory agencies and third party service providers amounting to KD 6,404,586 (31 December 2015: KD 4,857,140).

21. Operating lease expense

The future minimum lease rent payable on the operating lease is KD 61,179,632 (31 December 2015: KD 70,064,914) and is payable as follows:

Kuwaiti Dinars

	2016	2015
Not later than one year	9,245,983	9,196,149
Later than one year but not later than five years	27,737,950	27,588,446
Later than five years	24,195,699	33,280,319
	61,179,632	70,064,914

22. 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. 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 2016, 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 2016, is shown below:

Kuwaiti Dinars

	Impact on profit		Impact on equity	
Currency	2016	2015	2016	2015
US Dollars	122,976	129,869	-	(2,179,487)
UAE Dirhams	(15,165)	(14,405)	-	-
Egyptian Pounds	86,632	92,992	-	-
Euro	(3,932)	(3,444)	-	-
Others	(30,803)	(41,214)	-	-
Net impact	159,708	163,798	-	(2,179,487)

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 time deposits with banks.

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 wherever necessary.

At 31 December 2016, 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 higher by KD 134,222 (31 December 2015: profit would have been lower by KD 141,076).

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.

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.

Kuwaiti Dinars

	2016	2015
Advance for maintenance	10,432,847	8,671,717
Trade and other receivables, excluding prepayments and other receivables	868,896	751,672
Cash equivalents	29,414,525	30,830,609
	40,716,268	40,253,998

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. 5.

(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 financial liabilities of the Group mature within a period of 12 months.

23. 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 2016 and 31 December 2015, the Group was not geared.

24. 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:

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.

25. Comparative figures

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