# Jazeera Airways K.S.C
Kuwait

## Consolidated Annual Financial Statements and Independent Auditors' Report
31 December 2009

PRICEWATERHOUSECOOPERS

AL-AHLI BUREAU
Certified Accountants

**Jazeera Airways K.S.C**
**Kuwait**

# Consolidated Annual Financial Statements and Independent Auditors' Report 31 December 2009

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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 subsidiaries (together the "Group"), which comprise the consolidated statement of financial position as of 31 December 2009 and the consolidated statement of comprehensive 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 2009, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

PRICEWATERHOUSECOOPERS

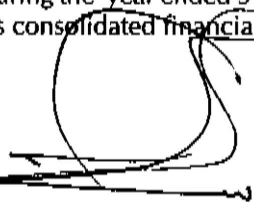
**AL- AHLI BUREAU**
**Certified Accountants**

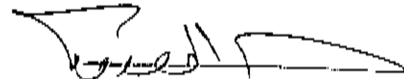
**Jazeera Airways K.S.C.**
**Kuwait**

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 2009 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**

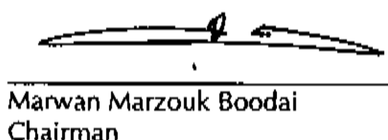
**Nasser Abdullah Al Muqait**
**R.A.A. No. 9A**
**Al Ahli Bureau**

Kuwait
25 March 2010

## Consolidated Statement of Financial Position as of 31 December 2009

| | Note | Kuwaiti Dinars 2009 | 2008 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non- current Assets** | | | |
| Property and equipment | 4 | 26,895,107 | 38,380,179 |
| Due from a related party | 5 | 28,558,252 | - |
| Deposits | | - | 2,314,215 |
| | | 55,453,359 | 40,694,394 |
| **Current Assets** | | | |
| Non current assets classified as held for sale | 6 | - | 22,736,643 |
| Due from a related party | 5 | 12,879,103 | 5,124,641 |
| Inventories, expendable parts and supplies | | 161,601 | 146,008 |
| Trade and other receivables | 7 | 1,932,088 | 1,761,619 |
| Cash and bank balances | 8 | 3,311,644 | 2,590,672 |
| | | 18,284,436 | 32,359,583 |
| **Total assets** | | 73,737,795 | 73,053,977 |
| **LIABILITIES AND EQUITY** | | | |
| **Equity** | | | |
| Share capital | 9 | 21,998,746 | 19,998,860 |
| Legal reserve | 10 | 801,461 | 801,461 |
| Equity transaction costs | | (46,079) | (46,079) |
| (Accumulated deficit)/ retained earnings | | (3,233,317) | 6,970,389 |
| **Equity attributable to the Parent Company's Shareholders** | | 19,520,811 | 27,724,631 |
| Minority interest | | 348 | 276 |
| **Total equity** | | 19,521,159 | 27,724,907 |
| **Non-current liabilities** | | | |
| Term loans | 11 | 13,772,274 | - |
| Post employment benefits | | 663,118 | 457,219 |
| Aircraft lease maintenance provision | 12 | 3,531,771 | 158,081 |
| | | 17,967,163 | 615,300 |
| **Current liabilities** | | | |
| Term loans | 11 | 1,372,556 | 19,209,799 |
| Due to banks | 13 | 12,336,552 | 12,147,437 |
| Trade and other payables | 14 | 13,759,024 | 7,621,932 |
| Deferred revenue | | 8,781,341 | 5,734,602 |
| | | 36,249,473 | 44,713,770 |
| **Total liabilities and equity** | | 73,737,795 | 73,053,977 |

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



Marwan Marzouk Boodai
Chairman

## Consolidated Statement of Comprehensive Income - Year ended 31 December 2009

| | Note | Kuwaiti Dinars | |
|---|---|---|---|
| | | **2009** | **2008** |
| Revenue | 15 | 46,009,099 | 48,705,069 |
| Operating costs | 16 | (51,497,943) | (42,950,788) |
| **(Loss)/ profit from operations** | | (5,488,844) | 5,754,281 |
| Other income | | 2,807,586 | 1,659,437 |
| Gain on sale of equipment | | - | 5,564,392 |
| Foreign currency gain/ (loss) | | 631,458 | (1,134,073) |
| General and administrative expenses | 17 | (4,426,606) | (4,346,798) |
| Finance costs | | (1,727,414) | (2,837,717) |
| Contribution to Kuwait Foundation for Advancement of Sciences (KFAS) | | - | (41,936) |
| National Labour Support Tax (NLST) | | - | (116,488) |
| Zakat | | - | (52,638) |
| **(Loss)/ profit for the year** | | (8,203,820) | 4,448,460 |
| Other comprehensive income | | - | - |
| Total comprehensive (expense)/ income for the year | | (8,203,820) | 4,448,460 |
| **Attributable to:** | | | |
| Shareholders of the Parent Company | | (8,203,820) | 4,448,460 |
| **(Loss)/ earnings per share (fils) – Basic and Diluted** | 18 | (37.29) | 20.22 |

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 2009

| | Kuwaiti Dinars | | | | | |
|---|---|---|---|---|---|---|
| | Equity attributable to the Parent Company's Shareholders | | | | Minority interest | Total equity |
| | Share capital | Legal reserve | Equity transaction costs | (accumulated deficit)/ retained earnings | | |
| At 1 January 2009 | 19,998,860 | 801,461 | (46,079) | 6,970,389 | 276 | 27,724,907 |
| Issue of bonus shares | 1,999,886 | - | - | (1,999,886) | - | - |
| Comprehensive expense for 2009 | - | - | - | (8,203,820) | - | (8,203,820) |
| Acquisitions during the year | - | - | - | - | 72 | 72 |
| At 31 December 2009 | 21,998,746 | 801,461 | (46,079) | (3,233,317) | 348 | 19,521,159 |
| At 1 January 2008 | 19,998,860 | 335,509 | (46,079) | 2,987,881 | 292 | 23,276,463 |
| Comprehensive income for 2008 | - | - | - | 4,448,460 | - | 4,448,460 |
| Transfer to reserve | - | 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 |

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 2009**

| | Note | Kuwaiti Dinars | |
|---|---|---|---|
| | | **2009** | **2008** |
| **Cash flows from operating activities** | | | |
| (Loss)/ profit for the year | | (8,203,820) | 4,448,460 |
| *Adjustments for:* | | | |
| Depreciation | | 1,962,528 | 4,511,354 |
| Finance costs | | 1,727,414 | 2,837,717 |
| Post employment benefits | | 205,898 | 181,885 |
| Gain on sale of fixed assets | | - | (5,564,392) |
| Gain/ (loss) on foreign currency revaluation | | (631,458) | 1,134,073 |
| (Loss)/ profit from operations before working capital changes | | (4,939,438) | 7,549,097 |
| Increase in inventories | | (15,592) | (152) |
| Increase in trade and other receivables | | (170,469) | (95,390) |
| Increase in trade and other payables | | 6,137,163 | 1,127,312 |
| Increase in deferred revenue | | 3,046,739 | 451,138 |
| Decrease/ (increase) in receivables from a related party | | 3,124,818 | (5,029,299) |
| Increase in aircraft lease maintenance provision | | 3,373,690 | 158,081 |
| Net cash from operating activities | | 10,556,911 | 4,160,787 |
| **Cash flows from investing activities** | | | |
| Acquisition of property and equipment | | (4,864,130) | (47,944,312) |
| Increase in term deposit with banks | | (1,287,143) | - |
| Disposal of property and equipment | | - | 63,493,017 |
| Net cash (used in)/ from investing activities | | (6,151,273) | 15,548,705 |
| **Cash flows from financing activities** | | | |
| Repayment of term loans | | (4,064,969) | (28,363,430) |
| Proceeds from bank overdraft | | 189,116 | 12,147,437 |
| Finance costs paid | | (1,727,414) | (2,837,717) |
| Effects of exchange rate changes on term loan | | 593,632 | (1,071,013) |
| Net cash used in financing activities | | (5,009,635) | (20,124,723) |
| **Net decrease in cash and cash equivalents** | | (603,997) | (415,231) |
| **Cash and cash equivalents at** | | | |
| beginning of year | | 2,548,646 | 3,026,937 |
| Effects of exchange rate changes on cash and cash equivalents | | 37,826 | (63,060) |
| end of year | 8 | 1,982,475 | 2,548,646 |

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 subsidiaries (note 3) owns and leases aircraft and engines. The Parent Company and its subsidiaries 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.

These consolidated financial statements have been approved for issue by the Board of Directors on 25 March 2010 and are subject to the approval of 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 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 25.

**Changes in accounting policies**

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

IAS 1 : 'Presentation of Financial Statements (Revised)'
IFRS 7: 'Financial Instruments: Disclosures (Amended)'
IFRS 8: 'Operating segments'
IAS 16: 'Property, plant and equipment (Amended)'
IAS 32: 'Financial instruments: Presentation (Amended)'
IAS 36: 'Impairment of assets (Amended)'
IAS 38: Intangible assets *(Amended)*
IAS 39: 'Financial instruments: recognition and measurement (Amended)'

IAS 1 'Presentation of Financial Statements (Revised)':

The revised Standard separates owner and non-owner changes in shareholders' equity. The statement of changes in shareholders' equity includes only details of transactions with owners, with non-owner changes in shareholders' equity presented as a single line. In addition, the Standard introduces the statement of comprehensive income and expenditure: it presents all items of recognised income and expense, either in one single statement, or in two linked statements. The Group has elected to present one single statement. Comparative information has been re-presented so that it also conforms to the revised Standard. Since the change in accounting policy only impacts presentation aspects, there is no impact on retained earnings.

*IFRS 7: Financial Instruments: Disclosure (amended):*

The amended Standard requires additional disclosures about fair value measurement and liquidity risk. Measurements related to items at fair value are to be disclosed by source of inputs using a three level fair value hierarchy, by class, for all financial instruments. The amended Standard also requires disclosing reconciliation between the beginning and ending balance for level 3 fair value measurements, as well as significant transfers between levels in the fair value hierarchy. Adoption of this Standard did not have any effect on the financial position or performance of the Group.

*IFRS 8 'Operating segments':*

The new Standard which replaced IAS 14 'Segment reporting' requires a 'management approach' under which segment information is presented on the same basis as that used for internal reporting purposes. This has resulted in an increase in the number of reportable segments presented. In addition, the segments are reported in a manner that is more consistent with the internal reporting to the chief operating decision maker. Adoption of this standard did not have any effect on the financial position or performance of the Group.

Adoption of this Standard requires disclosure of information about the Group's operating segments and replaces the requirement to determine primary (business) and secondary (geographical) reporting segments of the Group. Adoption of this Standard did not have any effect on the financial position or performance of the Group.

The application of other Standards did not have a material impact on the financial statements of the Group.

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

IFRS 9: 'Financial Instruments: Classification and Measurement (effective 2013)'

IAS 24: 'Related party disclosures (effective 1 January 2011)'

The IFRS 9 will replace IAS 32 and IAS 39 upon its effective date. The application of IFRS 9 will result in amendments to the classification and measurement of financial assets and liabilities of the financial statements of the Group.

The revised Standard IAS 24 simplifies the definition of a related party and provides a partial exemption from the disclosure requirements for government-related entities.

These Standards will be adopted when they become effective and are not expected to have a material impact on the financial statements of the Group.

The Group's current liabilities exceed current assets (excluding deferred revenue) by KD 9,183,696 (31 December 2008: KD 6,619,585). 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 subsidiaries 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 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 purchase 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, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination (net assets acquired in a business combination) are measured initially at the fair values at the acquisition date, irrespective of the extent of any minority interest.

The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired in a business combination is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets acquired in a business combination, the difference is recognized directly in the statement of income.

When a business combination is achieved in stages, each exchange transaction is treated separately and the cost of the transaction and fair value information at the date of transaction is used to determine the amount of goodwill associated with the transaction. An adjustment is made to recognize previously held interests at their fair values on the date of the latest exchange transaction which is accounted for as a revaluation.

The Group separately recognizes the contingent liabilities of an acquiree at the acquisition date, if 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 twelve months from the acquisition date.

2.3 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 the 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.

2.4 Financial instruments

**Classification and measurement**

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

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.

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.

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 consolidated statement of comprehensive income.

**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 the consolidated statement of comprehensive 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.

**Fair values**

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***

This is computed using the effective interest method less any allowances for impairment. The calculation takes into account any premium or discount on acquisition and includes transaction costs and fees that are an integral part of the effective interest rate.

**Impairment**

A financial asset is impaired if its carrying amount is greater than its estimated recoverable amount. An assessment is made at each financial position 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 consolidated statement of comprehensive income.

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

2.5 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 improvements | 5 |
| 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 20,000 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 maintenance 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 comprehensive 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 financial position 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 comprehensive 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).

2.6 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 consolidated 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 consolidated statement of comprehensive income.

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 consolidated statement of comprehensive 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.

**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 consolidated statement of comprehensive incomes. 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 consolidated statement of comprehensive 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 financial position 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 consolidated statement of comprehensive 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 financial position date. Resultant gains or losses are taken to the consolidated statement of comprehensive 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 - 2 (JLC -2), was incorporated with a share capital of USD 1,000 equivalent to KD 276 (2008: 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. JLC -2 has been consolidated in these financial statements in accordance with Interpretation - SIC-12 'Consolidation - Special Purpose Entities' as the Parent Company obtains all of the benefits of its activities.

During the year, the Parent Company's subsidiary, Jazeera Leasing Company – 3 (JLC -3), was incorporated with an authorised capital of USD 50,000, comprising of 50,000 shares of 1 USD each. The issued and fully paid up capital as of 31 December 2009 is USD 250 comprising of 250 shares of 1 USD each, equivalent to KD 72 and is fully owned by a third party. JLC -3 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. JLC -3 has been consolidated in these financial statements in accordance with Interpretation - SIC-12 'Consolidation - Special Purpose Entities' as the Parent Company obtains all of the benefits of its activities.

## 4. Property and equipment

| | Kuwaiti Dinars | | | | | |
|---|---|---|---|---|---|---|
| | Aircraft and engines | Leasehold improvements | Furniture & equipment | Vehicles | Capital work-in-progress | Total |
| **Cost** | | | | | | |
| 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 |
| Additions | 4,437 | 51,446 | 329,658 | - | 4,478,589 | 4,864,130 |
| Transfers | - | - | - | - | (37,123,317) | (37,123,317) |
| Transferred from "held for sale" | 22,736,643 | - | - | - | - | 22,736,643 |
| As at 31 December 2009 | 22,904,666 | 557,634 | 1,024,526 | 10,624 | 5,087,783 | 29,585,233 |
| **Depreciation** | | | | | | |
| 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 |
| Charge for the year | 1,718,768 | 98,647 | 142,988 | 2,125 | | 1,962,528 |
| As at 31 December 2009 | 1,837,563 | 258,566 | 587,313 | 6,684 | - | 2,690,126 |
| **Net book value** | | | | | | |
| As at 31 December 2009 | 21,067,103 | 299,068 | 437,213 | 3,940 | 5,087,783 | 26,895,107 |
| As at 31 December 2008 | 44,791 | 346,269 | 250,543 | 6,065 | 37,732,511 | 38,380,179 |

Depreciation has been allocated in statement of income as follows:

| | Kuwaiti Dinars | |
|---|---|---|
| | 2009 | 2008 |
| Operating costs | 1,724,176 | 4,273,482 |
| General and administrative expenses | 238,352 | 237,872 |
| | 1,962,528 | 4,511,354 |

During the year, the Board of Directors of the Parent Company has signed a Novation agreement with both the manufacturer and a related party whereby it transferred the benefits of the pre-delivery payments and obligations of its purchase agreement in favour of the related party, with effect from 31 March 2009.

Capital work-in-progress includes pre- payments of KD 4,610,157 (31 December 2008: KD 2,567,299) for aircraft maintenance.

## 5. Due from a related party

This represents Pre Delivery Payments made to aircraft supplier which has been transferred in favour of a related party with whom the Group has entered into an operating lease arrangement for the lease of aircraft. This amount is unsecured and is receivable as follows:

| | Kuwaiti Dinars | |
|---|---|---|
| | 2009 | 2008 |
| Due from a related party is recoverable as follows: | | |
| Not later than 1 year | 12,879,103 | 5,124,641 |
| Later than 1 year and not later than 2 years | 11,476,000 | - |
| Later than 3 year and not later than 5 years | 17,082,252 | - |
| | 28,558,252 | - |
| | 41,437,355 | 5,124,641 |

This carries an interest charge of 6 months' LIBOR plus 25 basis points. The effective interest rate as of 31 December 2009 was 0.88% 31 December 2008: nil).

## 6. Non current assets classified as held for sale

| | Kuwaiti Dinars | |
|---|---|---|
| | 2009 | 2008 |
| Aircraft and engines | - | 22,736,643 |
| | - | 22,736,643 |

The above represents the carrying value of two aircraft and engines that were held for sale following the decision of Group's management to sell the aircrafts to Al Sahaab Aircraft leasing Company W.L.L. Subsequent to the Group's decision to acquire the prospective buyer of "assets classified as held for sale" (refer note -26), the Group has changed its plan to sell two aircraft and engines. Depreciation for the period during which the asset has been classified as held for sale, amounted to KD 1,499,190, and has been charged to the consolidated statement of comprehensive income for the year.

## 7. Trade and other receivables

| | Kuwaiti Dinars | |
|---|---|---|
| | 2009 | 2008 |
| Trade receivables | 871,402 | 974,699 |
| Provision for impairment | (110,660) | (110,660) |
| Net trade receivables | 760,742 | 864,039 |
| Prepayments | 569,131 | 425,746 |
| Deposits | 172,886 | 177,167 |
| Accrued receivables | 313,013 | 153,161 |
| Staff receivables | 116,316 | 141,506 |
| | 1,932,088 | 1,761,619 |

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 2009, trade receivables of KD 760,742 (31 December 2008: KD 864,039) 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 2009, trade receivables of KD 110,660 (31 December 2008: KD 110,660) 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 | |
|---|---|---|
| | 2009 | 2008 |
| Kuwaiti Dinars | 508,688 | 525,058 |
| Bahraini Dinars | 71,147 | 54,790 |
| Indian Rupees | 23,875 | 40,373 |
| Egyptian Pounds | 56,846 | 53,863 |
| US Dollars | 41,044 | 45,106 |
| Others | 169,802 | 255,509 |
| | 871,402 | 974,699 |

## 8. Cash and bank balances

| | Kuwaiti Dinars | |
|---|---|---|
| | **2009** | **2008** |
| Cash on hand | 16,192 | 11,294 |
| Balances with banks : | | |
| - Current Accounts | 1,966,283 | 2,537,352 |
| - Time Deposits | 1,329,169 | 42,026 |
| | 3,311,644 | 2,590,672 |
| Time deposits with banks whose original maturity period exceeds three months | (1,329,169) | (42,026) |
| Cash & cash equivalents in the consolidated statement of cash flows | 1,982,475 | 2,548,646 |

The effective interest rate on time deposits as of 31 December 2009 was 1.5% to 2% (31 December 2008: nil).

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

| | Kuwaiti Dinars | |
|---|---|---|
| | **2009** | **2008** |
| Kuwaiti Dinars | 1,595,939 | 1,342,719 |
| US Dollars | 1,508,876 | 492,127 |
| UAE Dirham | 60,736 | 180,414 |
| Indian Rupees | 3,001 | 466,960 |
| Others | 143,092 | 108,452 |
| | 3,311,644 | 2,590,672 |

## 9. Share capital

The annual general meeting held on 06 May 2009 resolved to issue bonus shares in the ratio of 1 share for every 10 shares held amounting to KD 2,000,000 (100 fils per share) for the year 2008 to the registered shareholders as of the date of the ordinary general assembly meeting.

The extra ordinary general meeting of the shareholders held on 27 May 2009 resolved to increase the authorised and issued share capital of the Parent Company from KD 20,000,000 to KD 22,000,000 by distribution of bonus shares in the ratio of 1 share for every 10 shares held amounting to KD 2,000,000 for the year 2008. The increase was registered in the Commercial Register of Ministry of Commerce and Industry under serial number 387 of 28 July 2009.

Accordingly, the authorized share capital of the Parent Company as of 31 December 2009 is KD 22,000,000 (31 December 2008: KD 20,000,000) comprising of 220,000,000 shares of 100 fils each (31 December 2008 -200,000,000 shares of 100 fils each) and the issued and fully paid up share capital of the Parent Company as of 31December 2009 is KD 21,998,746 (31 December 2008: 19,998,860) comprising of 219,987,462 shares of 100 fils each (31 December 2008 -199,988,602 shares of 100 fils each).

## 10. Reserves

*Legal reserve*

In accordance with the Law of Commercial Companies and the Parent Company's Articles of Association, 10% of net profit has to be 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. In the absence of profits during the year, no amount was appropriated to legal reserve.

*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 2009 (2008: Nil).

## 11. Term loans

| | Kuwaiti Dinars | |
|---|---|---|
| | **2009** | **2008** |
| Term loans are repayable as follows: | | |
| Not later than 1 year | 1,372,556 | 19,209,799 |
| Later than 1 year and not later than 2 years | 1,371,701 | - |
| Later than 3 year and not later than 5 years | 6,418,477 | - |
| Over 5 years | 5,982,096 | - |
| | 13,772,274 | - |
| | 15,144,830 | 19,209,799 |

Term loans are senior loans arranged through JLC – 2 and JLC - 3. The loans for acquisition of two aircraft and engines are denominated in US Dollars and represent amounts due to European banks. The effective interest rate on term loans as of 31 December 2009 was 2.32% to 5.5% (31 December 2008 - 5.4 % to 5.5 %) and are re priced every three months.

The term loans are secured by a first priority charge / pledge over the shares of JLC – 2 and JLC - 3 and a first priority registered aircraft mortgage over each aircraft.

## 12. Aircraft lease maintenance provision

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

## 13. Due to banks

This represents unsecured overdraft facility of USD 42.99 million from a local commercial bank which carries an interest rate of 1.25% over funding cost .The effective interest rate as of 31 December 2009 was 3.13% to 5.5% (2008: 4.5% to 6.5%)

## 14. Trade and other payables

| | Kuwaiti Dinars | |
|---|---|---|
| | **2009** | **2008** |
| Trade payables | 8,709,568 | 2,651,717 |
| Accrued expenses | 3,568,530 | 3,416,869 |
| Tax payable | 814,175 | 905,127 |
| Staff leave payable | 569,437 | 396,497 |
| Contribution to KFAS,NLST and Zakat payable | - | 211,062 |
| Others | 97,314 | 40,660 |
| | 13,759,024 | 7,621,932 |

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

| | Kuwaiti Dinars | |
|---|---|---|
| | **2009** | **2008** |
| Kuwaiti Dinars | 7,014,908 | 1,620,615 |
| UAE Dirham | 69,076 | 106,570 |
| Euro | 189,786 | 32,090 |
| Indian Rupees | 79,819 | 113,020 |
| US Dollars | 817,888 | 449,726 |
| Others | 538,091 | 329,696 |
| | 8,709,568 | 2,651,717 |

## 15. Revenue

| | Kuwaiti Dinars | |
|---|---|---|
| | **2009** | **2008** |
| Passenger revenue | 41,660,400 | 45,143,618 |
| Ancillary revenue | 4,348,699 | 3,561,451 |
| | 46,009,099 | 48,705,069 |

## 16. Operating costs

| | Kuwaiti Dinars | |
|---|---|---|
| | **2009** | **2008** |
| Staff costs | 8,185,683 | 7,342,768 |
| Depreciation | 1,724,176 | 4,273,482 |
| Aircraft fuel and maintenance | 19,254,811 | 22,528,086 |
| Overflying, landing and ground handling charges | 9,741,817 | 6,580,790 |
| Insurance | 562,934 | 401,306 |
| Lease rental | 6,986,911 | 445,385 |
| Lease maintenance | 3,512,698 | 158,081 |
| Others | 1,528,913 | 1,220,890 |
| | 51,497,943 | 42,950,788 |

## 17. General and administrative expenses

| | Kuwaiti Dinars | |
|---|---|---|
| | **2009** | **2008** |
| Staff costs | 1,594,362 | 1,243,297 |
| Rent | 131,146 | 101,209 |
| Professional and consultancy | 94,763 | 64,605 |
| Travel | 101,049 | 103,327 |
| Marketing | 1,346,752 | 1,308,026 |
| Depreciation | 238,352 | 237,871 |
| Others | 920,182 | 1,288,463 |
| | 4,426,606 | 4,346,798 |

The number of personnel employed by the Group as of 31 December 2009 was 620 (31 December 2008: 499).

## 18. Earnings per share

Earnings per share are calculated based on the (loss)/net profit attributable to the equity shareholders of the Group for the year and the weighted average number of shares outstanding, as follows:

| | 2009 | 2008 |
|---|---|---|
| (Loss)/ net profit attributable to the equity shareholders of the Group (in Kuwaiti Dinars) | (8,203,820) | 4,448,460 |
| Weighted average number of shares outstanding | 219,987,462 | 219,987,462 |
| **(Loss)/ earnings per share (fils) – Basic and Diluted** | (37.29) | 20.22 |

## 19. 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 | |
|---|---|---|
| | 2009 | 2008 |
| **Transactions** | | |
| Sale of aircraft | - | 63,493,017 |
| Sale of tickets | 1,735,626 | 253,513 |
| Novation of aircraft purchase agreement | 40,042,231 | - |
| Aircraft lease rental | 8,992,842 | 445,385 |
| Administration and distribution expenses | 322,487 | 399,966 |
| **Key management compensation** | | |
| Salaries and other employment benefits | 608,400 | 379,418 |
| Board of Directors' remuneration | 35,000 | - |

## 20. 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.

## 21. Segment information

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

## 22. Contingent liabilities and Commitments

The Group has issued bank guarantee to regulatory agencies and third party service providers amounting to KD 916,967 (31 December 2008: KD 682,096). The Parent Company has also provided guarantee to Jazeera Leasing Company, the lessor of novated lease agreement, in respect of the obligations and liabilities of Al Sahaab Aircraft Leasing Company W.L.L pursuant to the novated lease agreement.

In accordance with the Novation Agreement signed between the Parent Company, the aircraft supplier and a related party, the Parent Company has guaranteed the aircraft supplier the due and punctual observance and performance of all the obligations of the buyer to pay any monies falling due for payments by the buyer under the Novated Purchase Agreement.

*Operating lease commitments*

The Group has taken on operating lease eight aircrafts and one spare engine for periods ranging from four to seven 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 | |
|---|---|---|
| | **2009** | **2008** |
| Not later than one year | 11,207,367 | 7,941,072 |
| Later than one year and not later than five years | 36,738,634 | 29,845,704 |
| Later than five years | 4,445,620 | 2,663,819 |
| | 52,391,621 | 40,450,595 |

The above does not include adjustments to base 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.

## 23. 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 | |
|---|---|---|
| | **2009** | **2008** |
| Bank balances | 3,295,452 | 2,579,378 |
| Trade and other receivables | 1,362,957 | 1,584,452 |
| Due from a related party | 41,437,355 | 5,124,641 |
| | 46,095,764 | 9,288,471 |

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. 7. The management considers that the credit risk on amount due from related party is not significant

(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.

If as at 31 December 2009, Kuwaiti Dinars had weakened against the major currencies by 5% with all other variables held constant the net impact on the profit/ (loss), as of 31 December 2009, is shown below:

| Currency | Kuwaiti Dinars | |
|---|---|---|
| | **2009** | **2008** |
| US Dollar | 951,635 | 428,331 |
| Indian Rupees | 1,527 | 17,697 |
| UAE Dirham | (2,647) | 3,692 |
| Others | (6,805) | (1,062) |
| Net impact | 943,710 | 448,658 |

A 5% strengthening 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 date would have increased the loss for the year by KD 136,407 (2008: decreased the profit by KD 156,786). Had the interest rates decreased by 50 basis points at the reporting date, it would have had an equal but opposite effect on the loss 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 financial position 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 2009** | | | | |
| Term Loans | 1,372,556 | 1,439,624 | 7,373,257 | 6,873,590 |
| Due to banks | 12,336,552 | - | - | - |
| Trade and other payables | 13,759,024 | - | - | - |
| Bank Guarantee | 916,967 | - | - | - |
| Commitments | - | - | - | - |
| **31 December 2008** | | | | |
| Term Loans | 19,758,088 | - | - | - |
| Due to banks | 12,147,437 | - | - | - |
| Trade and other payables | 7,621,932 | - | - | - |
| Bank Gurantee | 682,096 | - | - | - |
| Commitments | 38,644,200 | 19,322,100 | 367,119,900 | 193,221,000 |

**24. 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 statement of financial position plus net debt. As at 31 December 2009 the gearing ratio was 55% (31 December 2008: 51%).

**25. 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 financial position date to assess whether a provision for impairment loss should be recognized in the statement of comprehensive 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.

## 26. Events after reporting period

Business combinations

The Group acquired 100% of the share capital of Al Sahaab Aircrafts Leasing Company WLL, a Company engaged in leasing of aircraft and engines, for a deferred consideration of KD 25,552,422 on 15 February 2010. The deferred consideration is payable by 31 May 2011 and carries no interest. Deferred purchase consideration is stated at fair value using an effective interest rate of 6%.

Details of net assets acquired and goodwill are as follows:

| | Kuwaiti Dinars<br>2009 |
|---|---|
| Deferred purchase consideration (fair value) | 24,459,787 |
| Fair value of assets acquired | (21,293,707) |
| Goodwill | 3,166,080 |

The above goodwill is attributable to Al Sahaab Aircrafts Leasing Company's strong position and profitability in the niche market for aircraft leasing.

The assets and liabilities arising from the acquisition, provisionally determined, are as follows:

| | Fair value |
|---|---|
| Cash and cash equivalents | 718,224 |
| Property, plant and equipment | 123,710,316 |
| Trade and other payables | (413,616) |
| Borrowings | (62,847,394) |
| Due to related parties | (39,873,823) |
| Net assets acquired | 21,293,707 |

The carrying value of the assets and liabilities approximates the fairvalue.

## 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.