JAZEERA AIRWAYS GROUP

ANNUAL REPORT 2012

FINANCIAL HIGHLIGHTS

Total revenue

KD62.6m

Up 8% from 2011

Net profit

KD13.9m

Up 32% from 2011

Operating profit

KD18.5m

Up 25% from 2011

"Once again the strategy of focusing on profitability has paid off. As operating profit margins continue to improve YoY, we remain convinced of the merits of the current strategy of focusing on improving profitability instead of chasing top-line growth."

- NBK Capital Equity Report, March 11, 2013.

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CHAIRMAN'S LETTER

Chairman's Letter

Dear Shareholders,

I am pleased to report to you that Jazeera Airways Group today is in its best shape ever. The year 2012 was another milestone year for the Group, thanks to a healthy, growing, profitable and sustainable passenger airline business, and a reliable, consistent and profitable leasing business. In this letter I will take you through some of the year's highlights for both Jazeera Airways and Sahaab Aircraft Leasing, after which I will close with an outlook for the year 2013. Allow me first to recap the year's headline financial results and balance sheet highlights.

As already officially declared, we closed the year with a record net profit of KD13.9 million, marking an increase of 32.1% over last year's record net profit. Our revenues for the year were KD62.6 million with an increase of 8.3% over last year's revenues. Our earnings before interest, tax, depreciation and amortization (EBITDA) were at KD25 million. As of December 31, 2012 our hard assets were valued at KD149 million. We ended the year with KD47 million in cash and deposits on our balance sheet (with KD17.8 million of the cash raised through our December 2012 rights issue, which I will address at a later stage in this letter). This strong financial performance clearly demonstrates the agility and viability of the Jazeera Airways Group's business model, which continues to perform even in the wake of high fuel costs and political turmoil in our region. The Group's net profit business split clearly reflects this.

The airline's contribution to the Group's bottom line grew from 48% in 2011 to 59% in 2012. I would like to emphasize at this point that the 11% increase came from growth in the airline's profitability and not from a decrease in the profitability of the leasing operation. The increase in the airline's contribution was driven by carrying more passengers at higher yields. The year's average load factor was 66.1% at an average yield of KD49.2. This enabled the airline to register record earnings for each of the four quarters in line with our Strategic Master Plan (STAMP) objectives.

STAMP incorporates the Jazeera Airways Group's strategy for the years 2012, 2013, and 2014. On the airline side, STAMP has been designed to increase the profitability of operation without any major increases in destinations, aircraft or other costs. The premise was simply to increase profitability through a combination of load factor and yield enhancements and that would result in additional revenues, which immediately translate into profit. STAMP's overarching goal is to increase the airline's load factor to 68% by 2014. This strategy is already in progress based on 2012 load factor and yield results.

The product and customer experience enhancements have also been a driver in the airline's returns. The airline's management team introduced new payment and check-in technologies, including mobile apps and self-check-in facilities at Kuwait Airport, the first in Kuwait, and web-check-in throughout the network. By the end of the 2012, one in ten bookings was made on a mobile platform. This represents a very high mobile penetration level compared to airlines in the region and other parts of the world.

Operationally, the airline also had one of its best years to date. FlightStats, the US-based center that monitors flights on-time performance (OTP) globally, had ranked Jazeera Airways as the world leader in on-time performance in 2012. This is a major achievement for our young airline and a boost to Jazeera Airways' internal OTP and operational excellence culture.

A discussion of 2012 cannot be complete without a reference to Jazeera Airways' launch of flights between Kuwait and Najaf, Iraq. Launched in April, the Kuwait-Najaf route restarted scheduled commercial flights between the two countries following a 22-year break. The resumption of flights was closely followed up by governments of both countries where their respective ambassadors were on the first flight thus treating the occasion as a national event by both countries.

As for our leasing operation, Sahaab Aircraft Leasing has continued to perform by bringing in sustainable and predictable revenues throughout the year. Those results are in line with the initial objectives set for this entity at the time it was acquired by Jazeera Airways Group in February of 2010. Sahaab Leasing continues to maintain assets placed with Jazeera Airways, Virgin America and SriLankan Airlines. Sahaab Leasing is scheduled to receive two new aircraft in 2013 and the plan is to induct both aircraft into the airline operation, replacing two older aircraft. Sahaab Aircraft Leasing will then undertake to remarket those two older aircraft into regional or international customers.

In addition to the two aircraft, the Jazeera Airways Group is scheduled to receive in 2014 one more aircraft, the last of its 15-aircraft order. The funds raised through the rights issue, which was oversubscribed 2.2 times, will help finance these deliveries and other strategic initiatives and growth plans, in addition to closing high-interest commitments.

I seize this opportunity to extend my sincere thanks to our shareholders for their statement of confidence in the Group and its management team as expressed in the rights issue.

> "This strong financial performance clearly demonstrates the agility of the Group's business model, which continues to perform in the wake of high fuel costs and political turmoil in our region."

Chairman's Letter

2013 Outlook

Following the last two record-breaking years, the Group is well positioned for another growth year in line with the strategic master plan set by the management team.

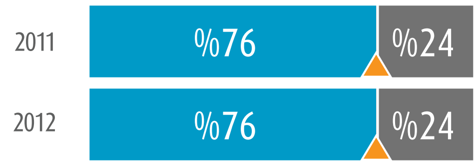
Jazeera Airways operates a regional network where the average flight time is 2.25 hours in a market with resilient demand. Since 2008, we've seen financial crises, revolutions, wars, severe weather disruptions and irregular regulatory environments. Notwithstanding those negative factors, demand for our product never waned and we continued to generate record earnings while aiming for continuing to serve our customers with a great product.

Today, with the right funding in place, both the airline and leasing business lines have been successfully complementing each other for three years now. I can truly say that we have the ideal business structure as witnessed by the impressive results.

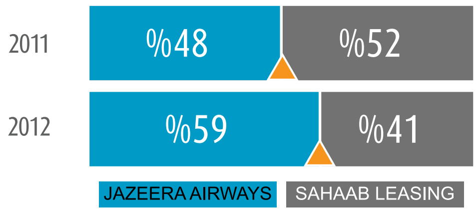
With this business combination along with our "golden" network, our loyal customer base, our modern fleet, the support of our regulators, partners and suppliers, and most importantly our passionate and committed professional team, I am very optimistic that we will continue to witness growth and perform towards meeting and hopefully exceeding our business plan targets to the satisfaction of our stakeholders and business partners. Simply said, a bright future is awaiting us.

Marwan M.Boodai
Chairman

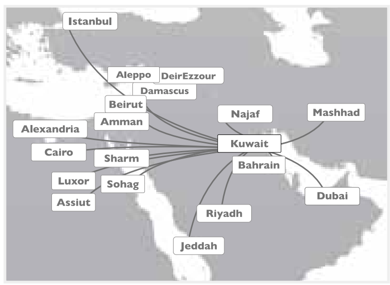
Revenue contribution



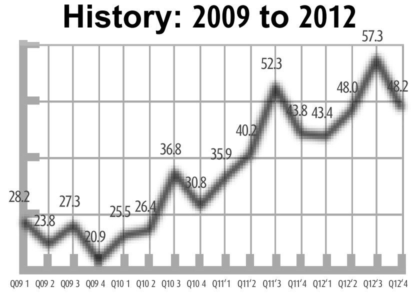
Net profit contribution



Jazeera Airways Network



Jazeera Airways Yield History: 2009 to 2012



Corporate Governance

The Board holds four formal meetings a year, one of which serves to review and approve the strategy and financial plan for the next financial year. Additional meetings are held as required. The Board also meets with the Executive Management to consider matters of strategic importance.

The Board is responsible for setting and reviewing the strategic direction of Jazeera Airways Group and monitoring the implementation of that strategy by the Executive Management, including:

- Promoting ethical and responsible decision-making.
- Monitoring compliance with all relevant laws, tax obligations, regulations, applicable accounting standards and significant corporate policies.
- Overseeing the Jazeera Airways Group, including its control and accountability systems.
- Approving the annual operating budget and monitoring the operating and financial performance of the Jazeera Airways Group.
- Approving and monitoring the capital management strategy, including major acquisitions and divestitures.
- Appointing and removing the Chief Executive Officer (CEO).
- Monitoring the performance of the CEO and Executive Management, including the Chief Financial Officer (CFO).
- Developing Board and Executive Management and succession planning.
- Ensuring a clear relationship between performance and executive remuneration.
- Monitoring the Group's system of risk management and internal compliance and control.
- Ensuring that the market and shareholders are fully informed of material developments.

Board Committees

The Board is committed to maintaining high standards of corporate governance, a process by which the Group is directed and managed, risks are identified and controlled and effective accountability is assured. The Committees established to maintain and ensure good Corporate Governance are as follows:

Board Audit & Risk Management Committee. is responsible for assisting the Board in fulfilling its corporate governance responsibilities in relation to: The integrity of Jazeera Airways Group's financial reporting, compliance with legal and regulatory obligations, the effectiveness of the Group's enterprise-wide risk management and internal control framework, oversight of the independence of the external and internal auditors, and implementation, monitoring, and evaluating internal controls.

Safety and Quality Committee. is responsible for assisting the Board in fulfilling its strategy, policy, monitoring and corporate governance responsibilities in regard to safety, health, environment and security matters including: Compliance with related legal and regulatory obligations, implementing and monitoring enterprise-wide safety and quality checks.

Remuneration and HR Committee. is responsible for assisting the Board in fulfilling its corporate governance responsibilities with regards to remuneration matters including: The remuneration and incentive framework, including any proposed incentive awards for the Senior Executives. The Committee is also responsible for recommendations and decisions (as relevant) on strategic human resources policies and MIPs.

The Executive Committee. is responsible for overseeing the commercial, financial and operational aspect of the both businesses (the airline and the leasing company). This is a Committee which involves members of the Board as well as the relevant executive management members.

Other Policies and Statements

Jazeera Airways Group also has formal policies and statements relating to its legal and other obligations to all legitimate stakeholders. These include areas such as safety, health, environment, security, employment practices and fair trading and social responsibility. Each policy is supported by procedures for compliance and monitoring effectiveness.

TIMELINE

2003

- Jazeera Airways gains approval from the Kuwaiti government.

2004

- **03-Mar-04**
  Jazeera Airways forms (under establishment) with a target capital of KD10 million.
- **26-May-04**
  Jazeera Airways kicks off IPO, first airline IPO in the Middle East.
- **10-Jun-04**
  Jazeera Airways concludes IPO, which was oversubscribed 12 times.
- **11-Sep-04**
  Jazeera Airways commercial license issued by the Ministry of Commerce.
- **10-Nov-04**
  Jazeera Airways Air Operators Certificate (AOC) granted by Kuwait's Directorate General for Civil Aviation.
- **24-Nov-04**
  Jazeera Airways places its first aircraft order with Airbus for four Airbus A320s.

2005

- **12-Sep-05**
  Jazeera Airways starts commercial operations. The first seat is sold to Dubai.
- **24-Oct-05**
  Jazeera Airways receives its first brand new Airbus A320.
- **29-Oct-05**
  Jazeera Airways operation is officially launched by the then Prime Minister of Kuwait, H.H. Sheikh Sabah Al-Ahmad Al-Jaber Al-Sabah.
- **30-Oct-05**
  Jazeera Airways starts operations, first flight takes off to Dubai.
- **31-Oct-05**
  Jazeera Airways launches flights to Beirut.
- **10-Nov-05**
  Jazeera Airways receives second brand new Airbus A320 from Airbus and launches flights to Bahrain, Amman and Damascus.
- **21-Nov-05**
  Jazeera Airways increases aircraft order to six Airbus A320s, announced at the Dubai Airshow, and signs Lufthansa Technik for engineering and maintenance.

2006

- **04-Mar-06**
  Jazeera Airways passes the 100,000 passengers mark for the first time.
- **26-Mar-06**
  Jazeera Airways launches flights to Aleppo.
- **11-Apr-06**
  Jazeera Airways receives 'Most Innovative Deal of the Year' award by AirFinance.
- **01-May-06**
  Jazeera Airways launches flights to Luxor.
- **03-May-06**
  Jazeera Airways launches flights to Alexandria.
- **24-Jun-06**
  Jazeera Airways receives its third Airbus A320.
- **08-Jul-06**
  Jazeera Airways receives its fourth Airbus A320.
- **03-Aug-06**
  Jazeera Airways launches flights to Assiut.
- **05-Aug-06**
  Jazeera Airways launches flights to Mashhad.
- **20-Sep-06**
  Jazeera Airways resumes flights to Beirut after the 2006 war. First flight offered free to passengers.
- **08-Oct-06**
  Jazeera Airways receives shareholders approval to increase capital by 100% (through a rights issue) and the listing of the airline on the Kuwait Stock Exchange.
- **30-Oct-06**
  Jazeera Airways celebrates one year of operations.
- **19-Nov-06**
  Kuwait's Prime Minister Sheikh Nasser Al-Mohammad Al-Sabah signs a Jazeera Airways aircraft in a ceremony to mark the airline's one year anniversary.
- **31-Dec-06**
  Jazeera Airways passes the 600,000 passengers mark in 2006.

2007

- **29-Jan-07**
  Jazeera Airways receives its fifth Airbus A320.
- **15-Apr-07**
  Jazeera Airways announces net profit of KD2.5 million in 2006.
- **18-Jun-07**
  Jazeera Airways orders four new Airbus A320s aircraft at Paris Airshow.
- **28-Oct-07**
  Jazeera Airways announces flights to Jeddah and Riyadh.
- **01-Nov-07**
  Jazeera Airways concludes rights issue and increases capital to KD20 million.
- **27-Dec-07**
  Jazeera Airways receives its sixth Airbus A320.
- **31-Dec-07**
  Jazeera Airways carries 1.2 million passengers in 2007.

2008

- **14-Jan-08**
  Jazeera Airways lists on the Kuwait Stock Exchange (KSE), making it the first listed airline on the KSE.
- **16-Jan-08**
  Jazeera Airways launches flights to Jeddah and Riyadh.
- **02-Mar-08**
  Jazeera Airways launches flights to Istanbul.
- **29-Oct-08**
  Jazeera Airways receives its seventh Airbus A320 aircraft.
- **05-Nov-08**
  Jazeera Airways receives its eighth Airbus A320 aircraft.
- **19-Nov-08**
  Jazeera Airways crosses the three million passengers mark, and launches 1 million seat sale to celebrate the achievement.

2009

- **14-Jan-09**
  Jazeera Airways launches flights to Deir Ezzor, Syria.
- **06-May-09**
  Jazeera Airways announces net profit of KD4.45 million for 2008.
- **06-Jun-09**
  Jazeera Airways receives its ninth Airbus A320 aircraft.
- **08-Jun-09**
  Jazeera Airways implements state-of-the-art reservation system (Navitaire New Skies 3.0).
- **20-Jun-09**
  Jazeera Airways receives its 10th Airbus A320 aircraft.
- **06-Sep-09**
  Jazeera Airways ranked the largest operator at Kuwait Inernational Airport in terms of flown passengers.
- **06-OCt-09**
  Jazeera Airways launches Jazeera Business Class.

2010

- **14-Jan-10**
  Jazeera Airways receives its 11th Airbus A320 aircraft.
- **24-Jan-10**
  Jazeera Airways completes $105 million ECA financing with Natixis for three Airbus A320 aircraft.
- **02-Feb-10**
  Jazeera Airways becomes the sixth largest carrier in Lebanon.
- **15-Feb-10**
  Jazeera Airways acquires 100% of Sahaab Aircraft Leasing for KD25.6 million.
- **30-Mar-10**
  Jazeera Airways announces KD8.2 million net loss for FY2009.
- **02-May-10**
  Jazeera Airways launches its business Turn-Around Plan (TAP) to bring the company back to profitability.
- **10-Oct-10**
  Sahaab Aircraft Leasing leases four Airbus A320s to Virgin America.
- **25-Oct-10**
  Jazeera Airways passes the one million passengers mark for 2010.
- **08-Nov-10**
  Jazeera Airways announces record net profit of KD4.4 million for Q3, 2010.
- **23-Nov-10**
  Jazeera Airways launches non-stop flights to Sohag, Egypt.
- **11-Dec-10**
  Jazeera Airways leads Kuwaiti airlines in market share in October 2010.
- **12-Dec-10**
  Jazeera Airways increases Sahaab Leasing capital by KD9 million.
- **13-Dec-10**
  Sahaab Aircraft Leasing places an Airbus A320 with SriLankan Airlines.

2011

- **20-Feb-11**
  Jazeera Airways grabs largest market share on operated routes in 2010.
- **22-Feb-11**
  Jazeera Airways announces record net profit of KD2 million for Q4, 2010.
- **06-Apr-11**
  Jazeera Airways announces delivery dates for four brand new Airbus A320s, to be delivered by 2014.
- **02-May-11**
  Jazeera Airways receives IOSA certification by IATA for having world class operational standards.
- **03-May-11**
  Jazeera Airways announces record net profit of KD1.1 million for Q1, 2011.
- **18-May-11**
  Jazeera Airways launches first flight to Cairo.
- **07-Jun-11**
  Jazeera Airways joins IATA, becoming its 238th airline-member.
- **20-Jun-11**
  Jazeera Airways expands CFM56-5B powered A320 fleet with $80 million engines order.
- **08-Aug-11**
  Jazeera Airways announces record net profit of KD2.2 million for Q2, 2011.
- **31-Oct-11**
  Jazeera Airways announces record net profit of KD6.1 million for the first 9-months of 2011.

2012

- **March**
  Took delivery of a new Airbus A320, the 12th addition to Jazeera Airways Group's fleet.
- **March**
  Launched Android and iOS native booking apps.
- **April**
  Launched non-stop flights between Kuwait and the Iraqi city of Najaf, the first commercial service between the two countries in 22 years.
- **May**
  Following the record-breaking earnings of 2011, bonus shares issued to shareholders.
- **June**
  Introduced self check-in kiosks at Kuwait International Airport, the first and only airline with a self check-in service.
- **December**
  Ranked world leader in OTP as tracked by US-based FlightStats
- **December**
  Rights issue completed, oversubscribed 2.25 times.

The Management Team

STEFAN PICHLER

Chief Executive Officer

Stefan joined Jazeera Airways Group in June 2009 as CEO, accountable for the commercial, operational and financial performance in addition to being responsible for future growth strategies.

Prior to joining Jazeera Airways Group, Stefan had served as Chief Commercial Officer at Virgin Blue and was responsible for the transformation from a low cost carrier to a "new world" network airline including the start-up of long haul operations.

Stefan was also formerly the Chairman and CEO of Thomas Cook AG where he built the company from a German tour operator to the second biggest global leisure group. Prior to Thomas Cook, Stefan had Senior and Executive roles with Deutsche Lufthansa AG. In his career, he also served as a non-executive director of some major international corporations.

ABDULLAH AL-HUDAID

Vice President - Maintenance and Engineering

With over 33 years experience in aircraft maintenance, engineering, material and quality assurance, Abdulla joined Jazeera Airways Group in 2004 as part of the airline's start-up team and led the process of aircraft customization and definition from the initial stage (start-up) to inception.

Today, Abdulla is responsible and accountable for the management of continuing airworthiness program of Jazeera Airways fleet as required by Kuwait DGCA. In addition, he is managing the service providers in Kuwait, outstations, and overhaul organizations as well as during the production phases of the aircraft up to and including acceptance and delivery from Airbus in Toulouse and Hamburg.

Prior to joining Jazeera Airways Group, Abdulla was Director of Maintenance and Engineering at Yemenia Airways.

ALI FAIROOZ

Vice President - Ground Operations & Product

Ali joined Jazeera Airways Group in 2004 as part of the airline's start-up team, bringing with him over 30 years experience in ground operations and passenger services. His responsibilities at Jazeera Airways cover network-wide airport operations, product enhancements, ground handling, catering, and in-flight services.

Prior to joining Jazeera Airways Group, Ali was a member of the AirArabia start-up team, where he was also responsible for sales and marketing, and British Airways.

DONALD HUBBARD

Chief Financial Officer

Donald is a Chartered Accountant with over 25 years in commercial finance and has been with Jazeera Airways since June 2010. Today Donald is Group CFO and leads on finance and funding matters in addition to managing the day-to-day financial activities for the company.

His past experience includes senior financial management positions in telecommunications, physical security and IT spreading across Southern Africa, Asia, the UK and the Middle East.

Before joining Jazeera Airways Group, Donald was the Finance Director of AirArabia since startup in 2003, and later AirArabia's Director of Strategy and Planning. He was also the founding CEO responsible for setting up AirArabia's Nepal hub.

CAPT. FALAH HAMOUD AL-SHAMMARI

Vice President - Operations

With over 34 years experience in aviation, Falah is responsible for flight operations management, flight planning, performance, operational control, and crew scheduling in accordance with the requirements of Jazeera Airways AOC, international legal requirements and CAAs regulations.

At Jazeera Airways, Falah was instrumental in the establishment of the company's pilot training department and securing manpower and other operational resources necessary to support the company's operations and growth.

Prior to joining Jazeera Airways, Captain Falah had a 30-year career with Kuwait Airways. Captain Al Shimmery is one of the leading aviation experts in the region and a leader in his field.

MARTIN AEBERLI

Vice President - Network and Revenue Management

Martin joined the Jazeera Airways team in February 2010 with over 15 years experience in pricing and planning in the airline industry. At Jazeera Airways, Martin is responsible for the areas of network planning, scheduling, pricing, and revenue management. Martin had a lead role in the redesign of the airline's network for the Turn-Around Plan.

Martin's 17-year career in the airline industry started with Swissair in 1994 and subsequently went on to hold senior management positions with Swiss International Airlines, Swiss Federal Railways, Luxair and Qatar Airways. His last post prior to joining Jazeera Airways in 2010 was Head of Network Planning at Qatar Airways.

BADER N AL-MERSHED

Vice President - Industry Affairs

With over 25 years experience in the air transport industry, Bader joined Jazeera Airways in 2004 as part of the core start-up team that structured and established the airline in 2005. Between 2005 and 2010, Bader was instrumental in obtaining traffic rights to over 28 destination in the Middle East, North Africa, and South East Asia.

Today, Bader is responsible for legal counsel and negotiations with relevant governmental departments to ensure that the company's needs and requirements across the network are met in compliance with different regulatory authorities at all times.

Prior to joining Jazeera Airways, Bader was the Director of Air Transport at The Directorate General of Civil Aviation of Kuwait, where he led and participated in various governmental bilateral negotiations.

RAFIK BOGHDADY

Vice President - Sales

Rafik has over 31 years experience in sales and aviation. At Jazeera Airways, Rafik leads sales across all distribution channels and segments and is responsible for ancillary revenues, sales cost control, corporate sales network-wide, and travel trade relations. Rafik had a leading role in the setup of the company's franchise offices across the network and in introducing Jazeera Airways Holidays

Prior to joining Jazeera Airways, Rafik spent years in a leading management role at Deutsche Lufthansa AG in both Kuwait and Egypt.

CAPT. NASSER AL-AJMI

Vice President - Training

Captain Nasser is the senior training pilot and deck crew training, overseing all flight training operations.

Capt Al-Ajmi is one of the leading training experts in the region who joined Jazeera Airways following a 30-year career with Kuwait Airways.

Our Business in Bullets

Launched in October 2005, Jazeera Airways is the largest carrier serving the Middle East and the neighboring region from Kuwait. The airline's business model is based on a point-to-point operation, with a unique positioning of delivering value in price, service, and amenities for short-haul travel - all while maintaining a lean cost structure.

Simple business
We believe that simple and efficient business is good business, and we employ this in everything we do from operations to sales. We operate a single fleet of new Airbus A320 aircraft with high aircraft utilization.

Profit before growth
Route expansion seems to be integral to our industry, however route profit maximization is of greater importance to Jazeera Airways. Our commitment to this principle has yielded great results over the years and has distinguished our financial performance in comparison to peers. We continue to eye expansion in a prudent and disciplined manner.

High Demand routes
Our route network is carefully planned, with an average flight time of 2.5 hours, and optimized on an ongoing basis to ensure maximization of a relevant commercial offering and profit.

Easy booking. Easy paying.
Sales and distribution is one of our strongest success pillars. Customers can book and pay for seats through a variety of high-tech and low-tech channels. Our website currently generates the majority of sales averaging a contribution between 50% to 55% in any given month. Customers can also book through travel agents across the Middle East, through our call centre and their mobile devices through especially designed native applications and mobile web interfaces.

We know who we are
Jazeera Airways knows its product, its USPs, its markets and its customers. This understanding is key to our resilience and success. We continue to invest into our brand equity and enhance it in Kuwait and across our markets.

Human Capital Development
The only asset that does not appear on our balance sheet. We will continually invest in our people with a strong belief in career planning and rewarding excellence.

MOST ON-TIME IN THE WORLD IN 2012

We are the most on-time airline in the world in 2012 with 93.7% of our flights arriving on-time, as ranked by global tracker, FlightStats. Your airline of choice also sustained the best on-time performance in the Middle East for the third year in-a-row. No other airline in the region does more to get you to your destination on time.

NUMBER ONE

ON TIME FLIGHTS

2012 Financial Report

2012 Financial Report

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Jazeera Airways KSC
Kuwait

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Jazeera Airways K.S.C. ("the Ultimate Parent Company") and its subsidiaries ("together called the Group"), which comprise the consolidated statement of financial position as at 31 December 2012, and the consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

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

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity›s preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2012, and their financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

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 Commercial Companies Law No. 25 of 2012 and by the Ultimate 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 No. 25 of 2012 or of the Ultimate Parent Company's Articles of Association have occurred during the year ended 31 December 2012 that might have had a material effect on the business of the Group or on its consolidated financial position.

Bader A. Al-Wazzan	Dr. Saud Hamad Al-Humaidi
Licence No. 62A	Licence No.51A
Deloitte & Touche	Dr. Saud Al-humaidi & Partners
Al-Fahad Al-Wazzan & Co.	Member of Baker Tilly International

Kuwait
06 February 2013

Consolidated Statement of Financial Position as at 31 December 2012

	Kuwaiti Dinars		
	Note	2012	2011
ASSETS			
Non- current Assets			
Property and equipment	4	140,869,217	148,063,532
Advance for maintenance		3,479,883	6,341,901
Deposits	5	860,803	668,086
Goodwill	6	3,443,481	3,443,481
		148,653,384	158,517,000
Current Assets			
Inventories, expendable parts and supplies		221,930	184,656
Trade and other receivables	7	1,475,625	1,772,132
Cash and bank balances	8	47,887,598	15,602,306
		49,585,153	17,559,094
Total assets		198,238,537	176,076,094
LIABILITIES AND EQUITY			
Equity			
Attributable to Ultimate Parent Company's shareholders			
Share capital	9	24,200,000	22,000,000
Share capital – rights issue	9	17,800,000	-
Legal reserve	10	2,737,593	1,306,107
Retained earnings		14,278,364	3,966,471
Foreign currency translation reserve		(991,311)	(1,398,586)
		58,024,646	25,873,992
Non-controlling interest		357	287
Total equity		58,025,003	25,874,279
Non-current liabilities			
Term loans	11	76,197,067	62,755,014
Post employment benefits		1,466,608	1,283,808
Aircraft lease maintenance reserve		-	7,695,720
Security deposits from lessees		1,260,448	1,251,580
Due to a related party	12	-	7,762,926
Advance received from lessee	13	8,177,821	1,362,441
Deferred purchase consideration	14	-	27,628,553
		87,101,944	109,740,042
Current liabilities			
Term loans	11	17,572,209	8,054,062
Due to banks	15	114,621	12,489,752
Due to a related party	12	2,234,495	-
Trade and other payables	16	10,941,060	13,647,583
Deferred revenue		7,249,205	6,270,376
Deferred purchase consideration	14	15,000,000	-
		53,111,590	40,461,773
Total liabilities and equity		198,238,537	176,076,094

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

Marwan Marzouk Boodai
Chairman

Consolidated Statement of Income - Year ended 31 December 2012

	Kuwaiti Dinars		
	Note	2012	2011
Revenue	17	62,603,224	57,794,625
Operating costs	18	(40,346,025)	(39,379,780)
Profit from operations		22,257,199	18,414,845
Other income		628,307	734,480
General and administrative expenses	19	(3,747,057)	(3,562,589)
Restructuring costs		-	(156,066)
Finance costs		(4,682,645)	(5,114,642)
Foreign currency (loss)/ gain		(140,947)	768,320
Profit before contribution to taxes		14,314,857	11,084,348
Contribution to Zakat Tax		(69,327)	(137,145)
Kuwait Foundation for the Advancement of Sciences		(128,834)	(45,418)
National Labour Support Tax		(173,317)	(346,705)
Profit for the year		13,943,379	10,555,080
Attributable to:			
Shareholders of the Ultimate Parent Company		13,943,379	10,555,080
Earnings per share (fils) – Basic and Diluted	20	38.37	29.24

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

Consolidated Statement of Comprehensive Income - Year ended 31 December 2012

Kuwaiti Dinars	2012	2011
Profit for the year	13,943,379	10,555,080
Other comprehensive income:		
Exchange differences on translating foreign operations	407,275	(116,791)
Total comprehensive income for the year	14,350,654	10,438,289
Attributable to:		
Shareholders of the Ultimate Parent Company	14,350,654	10,438,289

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

Consolidated Statement of Changes in Shareholders' Equity – Year ended 31 December 2012

Kuwaiti Dinars

	Equity attributable to the Ultimate Parent Company's Shareholders							
	Share capital	Share capital - rights issue	Legal reserve	Equity transaction costs	Retained earnings/ (accumulated deficit)	Foreign currency translation reserve	Non controlling interest	Total equity
At 1 January 2012	22,000,000	-	1,306,107	-	3,966,471	(1,398,586)	287	25,874,279
Total comprehensive income for the year	-	-	-	-	13,943,379	407,275	-	14,350,654
Issue of bonus shares	2,200,000	-	-	-	(2,200,000)	-	-	-
Issue of right shares	-	17,800,000	-	-	-	-	-	17,800,000
Acquisition during the year	-	-	-	-	-	-	70	70
Transfers	-	-	1,431,486	-	(1,431,486)	-	-	-
At 31 December 2012	24,200,000	17,800,000	2,737,593	-	14,278,364	(991,311)	357	58,025,003
At 1 January 2011	22,000,000	-	801,461	(46,079)	(6,037,884)	(1,281,795)	287	15,435,990
Total comprehensive income for the year	-	-	-	-	10,555,080	(116,791)	-	10,438,289
Transfers	-	-	504,646	46,079	(550,725)	-	-	-
At 31 December 2011	22,000,000	-	1,306,107	-	3,966,471	(1,398,586)	287	25,874,279

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

Consolidated Statement of Cash Flows –Year ended 31 December 2012

	Note	Kuwaiti Dinars 2012	2011
Cash flows from operating activities			
Profit for the year		13,943,379	10,555,080
Adjustments for:			
Depreciation		5,969,169	5,310,769
Finance costs		4,682,645	5,114,642
Foreign exchange loss/ (gain)		140,947	(768,320)
Provision for post employment benefits		250,000	251,307
Operating profit before working capital changes		24,986,140	20,463,478
(Increase)/ decrease in inventories		(37,274)	16,043
(Increase)/ decrease in deposits		(192,717)	3,825
Decrease/ (increase) in trade and other receivables		296,507	(133,036)
Decrease in trade and other payables		(2,706,523)	(366,674)
(Decrease)/ increase in aircraft lease maintenance reserve		(7,695,720)	2,534,012
Increase/ (decrease) in deferred revenue		978,829	(2,440,460)
Post employment benefits paid		(67,200)	(64,141)
Net cash from operating activities		15,562,042	20,013,047
Cash flows from investing activities			
Purchase of property and equipment (net)		(1,363,700)	(410,783)
Refund of advance paid for acquisition of aircraft		3,987,158	-
Decrease in advance for maintenance		2,862,018	-
Increase in time deposits with banks		(1,404,300)	(1,302,639)
Increase in advance received from lessee		6,815,380	1,053,436
Change in non-controlling interest		70	-
Net cash from/ (used in) investing activities		10,896,626	(659,986)
Cash flows from financing activities			
Repayment of deferred purchase consideration		(14,183,033)	-
Proceeds from/ (repayment of) term loans (net)		22,819,253	(7,229,778)
Repayment of overdraft		(12,375,131)	(94,443)
Repayment of loan from related party		(5,528,431)	(2,076,399)
Proceeds from issuance of right shares		17,800,000	-
Finance costs paid		(3,128,165)	(3,455,990)
Net cash from/ (used in) financing activities		5,404,493	(12,856,610)
Net increase in cash and cash equivalents		31,863,161	6,496,451
Cash and cash equivalents at			
beginning of year		12,014,657	5,643,197
effects of exchange rate changes on cash and cash equivalents		(982,169)	(124,991)
end of year	8	42,895,649	12,014,657

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

Notes to the Consolidated Financial Statements - 31 December 2012

1. Constitution and activities

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

The Ultimate Parent Company has the following subsidiaries:

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

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

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

These consolidated financial statements were authorised for issue by the Board of Directors of the Ultimate Parent Company on 06 February 2013 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 29.

2.2 Accounting policies

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

IFRS 7 Financial Instruments: Disclosures — Transfer of financial assets (effective 1 July 2011)
The amendment requires additional disclosure about financial assets that have been transferred but not derecognized to enable the users of the financial statements to understand the relationship with those assets that have not been derecognized and their associated liabilities. In addition, the amendment requires disclosures about the entity's continuing involvement in derecognized assets to enable the users to evaluate the nature of, and risks associated with such involvement. (The Group does not have any assets with these characteristics and hence there has been no effect on the presentation of its consolidated financial statements).

IAS 12 Income Taxes (Amendment) – Deferred Taxes: Recovery of Underlying Assets (effective 1 January 2012)

The amendment clarifies the determination of deferred tax on investment property measured at fair value and introduces a rebuttable presumption that deferred tax on investment property measured using the fair value model in IAS 40 should be determined on the basis that its carrying amount will be recovered through sale. It includes the requirement that deferred tax on non-depreciable assets that are measured using the revaluation model in IAS 16 should always be measured on a sale basis. The amendment is effective for annual periods beginning on or after 1 January 2012 and has no effect on the Group's financial position, performance or its disclosures.

The application of other IASB Standards and IFRIC Interpretations effective this year do not have material impact on the consolidated financial statements of the Group.

Standards issued but not yet effective

The following IASB Standards have been issued/amended but are not yet mandatory, and have not been adopted by the Group:
IFRS 7 Disclosures — Offsetting Financial Assets and Financial Liabilities — Amendments to IFRS 7 (effective 1 January 2013)

IFRS 9 Financial Instruments: Classification and Measurement (effective 1 January 2015)

IFRS 10 Consolidated Financial Statements (effective 1 January 2013)

IFRS 13 Fair Value Measurement (effective 1 January 2013)

IAS 1 Financial Statement Presentation – Presentation of Items of Other Comprehensive Income (effective 1 July 2012)

IAS 19 Employee Benefits (Revised) (effective 1 January 2013)

IAS 32 Offsetting Financial Assets and Financial Liabilities — Amendments to IAS 32 (effective 1 January 2014)

The major changes are as follows:
IFRS 7 Disclosures — Offsetting Financial Assets and Financial Liabilities — Amendments to IFRS 7

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

Notes to the Consolidated Financial Statements - 31 December 2012

Group's financial position or performance and become effective.
IFRS 9 'Financial Instruments': Classification and Measurement
The standard was issued in November 2009 and becomes effective for annual years beginning on or after 1 January 2015. IFRS 9 improves the ability of the users of the financial statement to assess the amount, timing and uncertainty of future cash flows of the entity by replacing many financial instrument classification categories, measurement and associated impairment methods. The application of IFRS 9 will result in amendments and additional disclosures relating to financial instruments and associated risks.

IFRS 10 Consolidated Financial Statements

IFRS 10 replaces the consolidation guidance in IAS 27 Consolidated and Separate Financial Statements and SIC-12 Consolidation - Special Purpose Entities by introducing a single consolidation model for all entities based on control, irrespective of the nature of the investee (i.e., whether an entity is controlled through voting rights of investors or through other contractual arrangements as is common in special purpose entities). Under IFRS 10, control is based on whether an investor has 1) power over the investee; 2) exposure or rights, to variable returns from its involvement with the investee; and 3) the ability to use its power over the investee to affect the amount of the returns.

IFRS 13 Fair Value Measurement

IFRS 13 replaces the guidance on fair value measurement in existing IFRS accounting literature with a single standard. IFRS 13 defines fair value, provides guidance on how to determine fair value and requires disclosures about fair value measurements. However, IFRS 13 does not change the requirements regarding which items should be measured or disclosed at fair value.

IAS 1 Financial Statement Presentation:

The amendments to IAS 1 change the grouping of items presented in other comprehensive income. Items that could be reclassified (or 'recycled') to profit or loss at a future point in time (for example, upon derecognition or settlement) would be presented separately from items that will never be reclassified.

IAS 19 Employee Benefits (Revised)

Numerous changes or clarifications are made under the amended standard. Among these numerous amendments, the most important changes are removing the corridor mechanism and making the distinction between short-term and other long-term employee benefits based on expected timing of settlement rather than employee entitlement. These amendments are not expected to impact the Group's financial position or performance.

IAS 32 Offsetting Financial Assets and Financial Liabilities — Amendments to IAS 32

These amendments clarify the meaning of "currently has a legally enforceable right to set-off". The amendments also clarify the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. These amendments are not expected to impact the Group's financial position or performance.

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

2.3 Business Combinations

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

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

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

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

2.4 Consolidation

Subsidiaries are those enterprises, including special purpose entities, controlled by the Group. 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 off 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.

Notes to the Consolidated Financial Statements - 31 December 2012

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

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

2.5 Financial instruments

Classification

In the normal course of business the Group uses financial instruments, principally deposits, trade and other receivables, cash and cash equivalents, term loans, aircraft lease maintenance reserve, due to a related party, deferred purchase consideration, due to banks, trade and other payables and derivatives.

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

Recognition/derecognition

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

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

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

Measurement

Financial instruments

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

Loans and receivables

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

Financial liabilities

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

Financial guarantees

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

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

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

Derivative financial instruments and hedging activities

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

Fair value hedge

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

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

Cash flow hedge

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

When the hedged cash flow affects the consolidated statement of income, the gain or loss on the hedging instrument is 'recycled' in the corresponding income or expense line of the consolidated statement of income. When a hedging instrument expires, or is sold, terminated, exercised, or when a hedge no longer meets the criteria for hedge

Notes to the Consolidated Financial Statements - 31 December 2012

accounting, any cumulative gain or loss existing in shareholders' equity at that time remains in shareholders' equity and is recognized when the hedged forecast transaction is ultimately recognized in the consolidated statement of income. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in shareholders' equity is immediately transferred to the consolidated statement of income.

Impairment

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

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

2.6 Property and equipment

Property and equipment are stated at historical cost less accumulated depreciation and accumulated provisions for impairment, if any. The cost of property and equipment consists of their purchase price and other directly attributable costs incurred 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.

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	25
Rotables	2 - 3
Vehicles	5

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

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

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

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

2.7 Goodwill

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

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

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

Assets are grouped at the lowest levels for which there are separately identifiable cash flows, known as cash generating units for the purpose of assessing impairment of goodwill and intangible assets. If the recoverable amount of the cash generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata, on the basis of the carrying amount of each asset in the unit. That relating to goodwill cannot be reversed in a subsequent period. Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and risk specific to the asset for which the estimates of future cash flows have not been adjusted. The Group prepares formal five year plans for its businesses. These plans are used for the value in use calculation. Long range growth rates are used for cash flows into perpetuity beyond the five year period. Fair value less costs to sell is determined using valuation techniques and considering the outcome of recent transactions for similar assets in the same industry in the same geographical region.

2.8 Inventories, expendable parts and supplies

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

2.9 Cash and cash equivalents

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

Notes to the Consolidated Financial Statements - 31 December 2012

2.10 Accounting for leases

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

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

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

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

2.11 Manufacturers' credits

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

2.12 Post employment benefits

The Parent Company is liable under Kuwait Labour Law to make payments under defined benefit plans payable to employees at cessation of employment.
This liability, which is unfunded, represents the amount payable to employees as a result of involuntary termination on the date of statement of financial position and approximates the present value of the final obligation.

2.13 Revenue recognition

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

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

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

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

2.14 Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset is capitalised as part of the cost of that asset. Capitalisation of borrowing costs is suspended during extended periods in which active development is interrupted. Capitalisation of borrowing costs is ceased when substantially all the activities necessary to prepare the qualifying asset for its intended use are completed. Other finance costs are recognized as expenditure in the consolidated statement of income in the period in which they are incurred.

2.15 Foreign currency translation

The functional currency of an entity is the currency of the primary economic environment in which it operates and in the case of the Ultimate Parent Company it is the Kuwaiti Dinar and in the case of subsidiaries it is their respective national currencies or the applicable foreign currency.
Foreign currency transactions are recorded at the rates of exchange prevailing on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the date of consolidated statement of financial position are translated to Kuwaiti Dinars at the rates of exchange prevailing on that date. Resultant gains and losses are taken to the consolidated statement of income.
The income and cash flow statements of foreign operations are translated into the Ultimate Parent Company's reporting currency at average exchange rates for the year and their statement of financial position are translated at exchange rates prevailing on the date of the consolidated statement of financial position. Exchange differences arising from the translation of the net investment in foreign operations (including goodwill, long term receivables or loans and fair value adjustments arising on business combinations) are taken to the consolidated statement of comprehensive income. When a foreign operation is sold, any resultant exchange differences are recognized in the consolidated statement of income as part of the gain or loss on sale.

2.16 Provisions for liabilities

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

2.17 Income taxes

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

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

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

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

2.18 Contingencies

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

3. Special purpose entity

The Intermediate Parent Company has three subsidiaries, Jazeera Leasing Company (JLC), Sahaab Aircraft Leasing Company - 1 (SALC - 1) and Sahaab Aircraft Leasing Company - 2 (SALC - 2), Cayman Island companies, incorporated with an authorised capital of USD 1,000, USD 50,000 and USD 50,000 respectively. The issued and fully paid up capital as of 31 December 2012 are USD 1,000, USD 1 and USD 250 respectively, equivalent to KD 287, KD 0.276 and KD 70. JLC , SALC-1 and SALC -2 are Special Purpose Entities ("SPE") fully owned by third parties and are set up for the sole purpose of arranging finance for acquiring aircraft and engines and for leasing them to the Intermediate Parent Company under finance leases. JLC, SALC - 1 and SALC - 2 have been consolidated in this financial information in accordance with Interpretation - SIC-12 'Consolidation - Special Purpose Entities' as the Intermediate Parent Company obtains all of the benefits of its activities.

Sahaab Aviation LLC ("Trustor") has created "Sahaab Trust" in association with Wells Fargo Bank Northwest National Association ("Owner Trustee"), a national banking association organised and existing under the laws of the United States of America. Sahaab Trust is a Special Purpose Entity ("SPE") set up for the sole purpose of ensuring regulatory requirement of ownership of aircraft by a citizen of the United States of America. Sahaab Trust has been consolidated in this interim financial information in accordance with Interpretation - SIC-12 'Consolidation - Special Purpose Entities' as Sahaab Aviation LLC obtains all of the benefits of its activities.

Notes to the Consolidated Financial Statements - 31 December 2012

4. Property and equipment

Kuwaiti Dinars

	Aircraft and engines	Leasehold improvements	Furniture & equipment	Vehicles	Capital work-in-progress	Total
Cost						
As at 31 December 2010	123,949,355	623,735	1,264,483	10,624	44,281,159	170,129,356
Additions	170,812	-	52,508	1,069	503,961	728,350
Transfers	3,829,299	2,000	269,803	-	(4,101,102)	-
Transfer to advances	-	-	-	-	(6,341,901)	(6,341,901)
Exchange adjustment	(298,029)	-	-	-	(24,600)	(322,629)
As at 31 December 2011	127,651,437	625,735	1,586,794	11,693	34,317,517	164,193,176
Additions	6,600	-	145,770	-	1,211,330	1,363,700
Transfers	14,586,058	2,175	52,776	-	(14,641,009)	-
Refund of advance	-	-	-	-	(3,987,158)	(3,987,158)
Exchange adjustment	1,200,236	-	4	-	329,795	1,530,035
As at 31 December 2012	143,444,331	627,910	1,785,344	11,693	17,230,475	163,099,753
Depreciation						
As at 31 December 2010	9,653,546	357,270	804,460	8,661	-	10,823,937
Charge for the year	4,943,220	100,892	265,240	1,417	-	5,310,769
Exchange adjustment	(5,062)	-	-	-	-	(5,062)
As at 31 December 2011	14,591,704	458,162	1,069,700	10,078	-	16,129,644
Charge for the year	5,565,874	97,548	304,552	1,195	-	5,969,169
Exchange adjustment	131,719	-	4	-	-	131,723
As at 31 December 2012	20,289,297	555,710	1,374,256	11,273	-	22,230,536
Net book value						
As at 31 December 2012	123,155,034	72,200	411,088	420	17,230,475	140,869,217
As at 31 December 2011	113,059,733	167,573	517,094	1,615	34,317,517	148,063,532

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

Kuwaiti Dinars

	2012	2011
Operating costs	5,567,069	4,944,637
General and administrative expenses	402,100	366,132
	5,969,169	5,310,769

5. Deposits

This represents deposit, denominated in US Dollars, with a lender of term loan. The effective interest rate as at 31 December 2012 is 0.095% (31 December 2011: 0.082%).

6. Goodwill

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

Notes to the Consolidated Financial Statements - 31 December 2012

7. Trade and other receivables

Kuwaiti Dinars

	2012	2011
Trade receivables	441,147	501,942
Provision for impairment	(127,390)	(110,660)
Net trade receivables	313,757	391,282
Prepayments	613,044	428,059
Deposits	416,430	263,129
Other receivables	88,589	604,076
Staff receivables	43,805	85,586
	1,475,625	1,772,132

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 2012, trade receivables amounting to KD 313,757 (31 December 2011: KD 391,282) 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 2012, trade receivables of KD 127,390 (31 December 2011: KD 110,660) were past due and impaired and fully provided for. The other classes within trade and other receivables do not contain past due or impaired assets.

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

Kuwaiti Dinars

	2012	2011
Kuwaiti Dinars	601,005	892,051
Bahraini Dinars	10,136	9,434
Egyptian Pounds	226,014	219,192
US Dollars	447,485	444,909
UAE Dirham	14,573	19,850
Indian Rupees	23,392	58,232
Others	153,020	128,464
	1,475,625	1,772,132

8. Cash and bank balances

Kuwaiti Dinars

	2012	2011
Cash on hand	23,868	16,180
Current account with banks	29,729,850	9,210,129
Time deposits with banks	13,141,931	2,788,348
Cash & cash equivalents in the statement of cash flows	42,895,649	12,014,657
Time deposits with banks whose original maturity period exceeds three months	4,991,949	3,587,649
	47,887,598	15,602,306

The effective interest rate on time deposits as of 31 December 2012 was 0.47% to 2.5% (31 December 2011: 0.75%).

Notes to the Consolidated Financial Statements - 31 December 2012

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

Kuwaiti Dinars		
	2012	2011
Kuwaiti Dinars	27,193,893	1,745,982
US Dollars	20,077,826	13,467,790
UAE Dirham	15,483	36,594
Indian Rupees	3,776	487
Others	596,620	351,453
	47,887,598	15,602,306

9. Share capital

The Extraordinary General Meeting of shareholders held on 13 May 2010 resolved to increase the authorised share capital of the Ultimate Parent Company from KD 22,000,000 to KD 42,000,000 through rights issue of 200,000,000 ordinary shares at 150 fils per share including a premium of 50 fils per share. Subsequently, the ordinary general meeting of shareholders held on 27 September 2010 resolved to revise the rights issue price from 150 fils per share to 100 fils per share and the Amiri Decree approving the increase was issued on 08 August 2012. The Board of Directors resolved to limit the rights issue to KD 17,800,000 comprising of 178,000,000 shares of 100 fils each.

The Annual General Assembly meeting held on 25 April 2012 approved the distribution of bonus shares amounting to KD 2,200,000 for the financial year ended 31 December 2011 in the ratio of 1 share for every 10 shares held by the registered shareholders as of the date of the Annual General Assembly meeting.

Accordingly, the authorised share capital of the Ultimate Parent Company as at 31 December 2012 is KD 42,000,000 (31 December 2011: KD 22,000,000) comprising of 420,000,000 shares of 100 fils each (31 December 2011 - 220,000,000 shares of 100 fils each), and the issued and fully paid up share capital of the Ultimate Parent Company, is KD 24,200,000, paid in cash (31 December 2011: KD 22,000,000) comprising of 242,000,000 shares of 100 fils each (31 December 2011 - 220,000,000 shares of 100 fils each).

The rights issue was open for subscription during the period 17th to 31st December 2012, and an amount of KD 40,003,586 was collected as share application money as of 31 December 2012. The excess application money amounting to KD 22,203,586 is lying in a designated share application collection account with a bank in Kuwait. The Ultimate Parent Company has ceased to have operating rights over this bank account as it has transferred these rights to the Issue Manager with effect from 31 December 2012, for refunding.

Subsequently, the Board of Directors in their meeting on 16 January 2013 allotted 178,000,000 shares to the eligible subscribers.

10. Reserves

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

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

Notes to the Consolidated Financial Statements - 31 December 2012

11. Term loans

Kuwaiti Dinars

	2012	2011
Term loans are repayable as follows:		
Not later than 1 year	17,572,209	8,054,062
Later than 1 year and not later than 2 years	23,571,487	8,216,732
Later than 2 years and not later than 5 years	40,784,328	38,024,022
Over 5 years	11,841,252	16,514,260
	76,197,067	62,755,014
	93,769,276	70,809,076

This includes three loans as follows:

a) Term loans of KD 71.11 million (31 December 2011: KD 70.81 million), which represent senior loans arranged through JLC, SALC-1, SALC-2 and Owner Trustee. They are denominated in US Dollars and represent amounts due to a local bank and a consortium of European banks. The effective interest rate as of 31 December 2012 was 1.30% to 6.52% (31 December 2011: 1.34% to 6.52%) and these term loans are secured by a first priority charge/pledge over the shares of JLC, SALC-1 and SALC-2 and a first priority registered aircraft mortgage over each aircraft.

b) Term loan of KD 12.66 million (31 December 2011: Nil) denominated in US Dollars represents amounts due to a local commercial bank. This facility is fully guaranteed by the Ultimate Parent Company. This facility is repayable in three equal instalments of USD 15 million each and the final instalment is due on 30 June 2014. The effective interest rate as at 31 December 2012 was 3.22%.

c) Term loan of KD 20 million denominated in Kuwaiti Dinar represents facility from a local commercial bank, out of which KD 10 million (31 December 2011: Nil) has been availed as of 31 December 2012. This facility is secured by a pledge of the shares of the Intermediate Parent Company. The effective interest rate as at 31 December 2012 was 4.2%.

12. Due to a related party

This represents short term unsecured credit facility from a related party, which is repayable by 30 June 2013. The effective interest rate as of 31 December 2012 was 5% (31 December 2011: 5.5%).

13. Advance received from lessee

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

14. Deferred purchase consideration

This represents the balance amount payable in the acquisition of the Intermediate Parent Company, Al Sahaab Aircraft Leasing Company W.L.L.

15. Due to banks

This represents unsecured overdraft facility of USD 407 thousand (2011: USD 44.82 million) from a local commercial bank. The effective interest rate as of 31 December 2012 was 2.47% (31 December 2011: 3.25%).

Notes to the Consolidated Financial Statements - 31 December 2012

16. Trade and other payables

Kuwaiti Dinars

	2012	2011
Trade payables	5,299,297	6,872,952
Accrued expenses	2,301,753	2,670,288
Tax payable	2,570,525	3,442,268
Staff leave payable	688,715	574,710
Others	80,770	87,365
	10,941,060	13,647,583

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

Kuwaiti Dinars

	2012	2011
Kuwaiti Dinars	6,739,463	7,947,938
UAE Dirham	404,227	450,147
Euro	442,128	98,122
Indian Rupees	2,048	3,812
US Dollars	1,265,147	1,612,429
Others	2,088,047	3,535,135
	10,941,060	13,647,583

17. Revenue

Kuwaiti Dinars

	2012	2011
Passenger revenue	52,320,446	47,602,302
Ancillary revenue	3,734,571	3,557,364
Lease rental	6,548,207	6,634,959
	62,603,224	57,794,625

18. Operating costs

Kuwaiti Dinars

	2012	2011
Staff costs	5,121,699	5,160,991
Depreciation	5,567,069	4,944,637
Aircraft fuel and maintenance	18,489,665	18,721,794
Overflying, landing and ground handling charges	5,190,136	5,081,670
Insurance	515,471	466,088
Lease maintenance	2,691,141	2,547,649
Others	2,770,844	2,456,951
	40,346,025	39,379,780

Notes to the Consolidated Financial Statements - 31 December 2012

19. General and administrative expenses

Kuwaiti Dinars	2012	2011
Staff costs	1,828,919	1,716,054
Rent	111,202	102,827
Professional and consultancy	215,522	219,600
Travel	83,412	85,805
Marketing	767,538	736,618
Depreciation	402,100	366,132
Others	338,364	335,553
	3,747,057	3,562,589

The number of personnel employed by the Group as of 31 December 2012 was 426 (31 December 2011: 419).

20. Earnings per share

Kuwaiti Dinars

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:

	2012	2011
Earnings for the year (in Kuwaiti Dinar)	13,943,379	10,555,080
Weighted average number of shares outstanding	363,419,360	360,994,475
Earnings per share (fils) – Basic and Diluted	38.37	29.24

Earnings per share was 47.98 fils for the year ended 31 December 2011 before retrospective adjustment to the number of shares following the bonus and rights issue in 2012.

21. 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	2012	2011
Transactions		
Sale of tickets	2,239,645	1,998,790
Administration and distribution expenses	360,914	617,175
Key management compensation		
Salaries and other employment benefits	703,442	709,563

22. 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.

Notes to the Consolidated Financial Statements - 31 December 2012

23. Segment information

The Group derives their revenue primarily from operation of passenger airline service and leasing of aircraft and engines. The segment information provided to the key management for the reportable segments for the year ended 31 December 2012 is as follows:

Kuwaiti Dinars

	31 December 2012			31 December 2011		
	Passenger airline service	Leasing of aircraft	Total	Passenger airline Service	Leasing of aircraft	Total
Segment revenue	56,055,018	15,047,980	71,102,998	50,993,966	14,173,540	65,167,506
Less: Intersegment revenue	-	(8,499,774)	(8,499,774)	-	(7,372,881)	(7,372,881)
Revenue from external customers	56,055,018	6,548,206	62,603,224	50,993,966	6,800,659	57,794,625
Reportable segment Profit before contribution to taxes	8,425,973	5,888,884	14,314,857	5,339,668	5,744,680	11,084,348

Reportable segment's assets and liabilities: Kuwaiti Dinars

	31 December 2012			31 December 2011		
	Passenger airline service	Leasing of aircraft	Total	Passenger airline Service	Leasing of aircraft	Total
Total assets	35,740,643	162,497,894	198,238,537	17,355,310	158,720,784	176,076,094
Allocated liabilities	31,400,455	93,441,601	124,842,056	45,131,396	76,912,598	122,043,994
Un allocated liabilities	-	-	15,371,478	-	-	28,157,821
Total liabilities	31,400,455	93,441,601	140,213,534	45,131,396	76,912,598	150,201,815

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

24. Derivatives

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

25. Contingent liabilities and Commitments

The Group has issued bank guarantee to regulatory agencies and third party service providers amounting to KD 2,078,369 (31 December 2011: KD 939,568).

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

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

The Group is contractually committed to the acquisition of three aircraft (31 December 2011: four) with a list price of approximately KD 59,083,500 (31 December 2011: KD 78,020,000). These aircraft have to be acquired over a period of two years.

26. Operating lease income

The future minimum lease rent receivable on the operating lease is KD 36,188,826 (31 December 2011: KD 41,118,212) and is receivable as follows:

	Kuwaiti Dinars	
	2012	2011
Not later than one year	5,375,790	5,316,642
Later than one year but not later than five years	20,856,118	21,266,568
Later than five years	9,956,918	14,535,002
	36,188,826	41,118,212

27. Financial risk management

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

The significant risks that the Group is exposed to are discussed below:
(a) Market risk
(i) Foreign currency risk

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

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

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

If as at 31 December 2012, 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 2012, is shown below:

	Kuwaiti Dinars			
	Impact on profit		Impact on equity	
Currency	2012	2011	2012	2011
US Dollar	(3,251,111)	(3,579,103)	(2,968,195)	(1,045,203)
UAE Dirham	(18,709)	(19,685)	-	-
Others	(75,963)	(143,491)	-	-
Net impact	(3,345,783)	(3,742,279)	(2,968,195)	(1,045,203)

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

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

The Group's interest rate risk arises from deposits, bank borrowings and term loans. Borrowings at variable rates expose the Group to cash flow interest rate risk. Borrowings at fixed rates expose the Group to fair value interest rate risk. The Group's borrowings as of 31 December 2012 are exposed to variable rates of interest.

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

Notes to the Consolidated Financial Statements - 31 December 2012

At 31 December 2012, if interest rates at that date had been 50 basis points higher with all other variables held constant, profit for the year would have been lower by KD 460,619 (31 December 2011: KD 420,088).

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

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

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

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

	Kuwaiti Dinars	
	2012	2011
Advance for maintenance	3,479,883	6,341,901
Deposits	860,803	668,086
Trade and other receivables, excluding prepayments	862,581	1,344,073
Cash equivalents	47,863,730	15,586,126
	53,066,997	23,940,186

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

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

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

Notes to the Consolidated Financial Statements - 31 December 2012

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

	Kuwaiti Dinars			
	Less than 1 Year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
31 December 2012				
Term Loans	17,882,431	24,498,869	66,686,056	12,903,842
Deposits	-	-	-	1,260,448
Due to related party	2,257,827	-	-	-
Deferred purchase consideration	15,029,904	-	-	-
Due to banks	114,621	-	-	-
Trade and other payables	10,941,060	-	-	-
Advance received from lessees	-	-	8,177,821	-
Bank Guarantee	2,078,369	-	-	-
	48,304,212	24,498,869	76,124,325	12,903,842
31 December 2011				
Term Loans	8,054,062	8,506,816	43,459,379	17,979,578
Deposits	-	-	-	1,251,580
Due to related party	-	8,232,726	-	-
Deferred purchase consideration	-	29,843,099	-	-
Due to banks	12,489,752	-	-	-
Trade and other payables	13,647,583	-	-	-
Advance received from lessees	-	-	1,362,441	-
Bank Guarantee	939,568	-	-	-
	35,130,965	46,582,641	46,073,400	17,979,578

28. 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 2012, the gearing ratio was 52% (31 December 2011: 80%).

29. 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 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 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.

Notes to the Consolidated Financial Statements - 31 December 2012

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.

30. Comparative figures

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

On our 7th anniversary we express our gratefulness to you, our valuable guests, who have supported us in every step of our journey. In our continuous efforts to bring you greater value and better services, we accomplished a series of achievements redefining your travel experiences. We dedicate our success to you.