

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

**Interim Condensed Consolidated Financial Information (Unaudited)  
and  
Independent Auditors' Review Report  
30 June 2014**

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## INDEPENDENT AUDITORS' REVIEW REPORT TO THE BOARD OF DIRECTORS

### Report on Review of Interim Condensed Consolidated Financial Information

#### *Introduction*

We have reviewed the accompanying condensed consolidated statement of financial position of Jazeera Airways K.S.C.P ("the Ultimate Parent Company") and its subsidiaries' (together called "the Group") as at 30 June 2014 and the related condensed consolidated statements of income, comprehensive income, changes in equity and cash flows for the six month period then ended. Management is responsible for the preparation and presentation of this interim condensed consolidated financial information in accordance with International Accounting Standard 34 - Interim Financial Reporting. Our responsibility is to express a conclusion on this interim condensed consolidated financial information based on our review.

#### *Scope of Review*

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

#### *Conclusion*

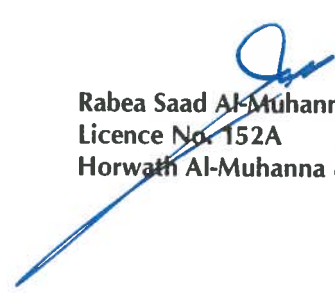
Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial information is not prepared, in all material respects, in accordance with International Accounting Standard 34 - Interim Financial Reporting.

#### **Report on other Legal and Regulatory Requirements**

Furthermore, based on our review, the interim condensed consolidated financial information is in agreement with the books of account of the Ultimate Parent Company. We further report that, to the best of our knowledge and belief, we have not become aware of any material violations of the Companies' Law No. 25 of 2012, as amended, or of the Memorandum of Incorporation and Articles of Association of the Ultimate Parent Company during the six month period ended 30 June 2014, that might have had a material effect on the business of the Group or on its consolidated financial position.

  
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Kuwait  
23 July 2014

  
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Condensed Consolidated Statement of Financial Position (Unaudited) as at 30 June 2014

	Note	Kuwaiti Dinars		
		30 June 2014 (Unaudited)	31 December 2013 (Audited)	30 June 2013 (Unaudited)
<b>ASSETS</b>				
<b>Non-current Assets</b>				
Property and equipment	4	160,130,095	154,039,205	149,283,011
Advance for maintenance		4,829,279	3,797,061	4,600,346
Deposits		1,183,853	863,830	874,240
Goodwill		3,443,481	3,443,481	3,443,481
		<u>169,586,708</u>	<u>162,143,577</u>	<u>158,201,078</u>
<b>Current Assets</b>				
Inventories, expendable parts and supplies		219,281	210,229	230,005
Trade and other receivables		2,306,911	1,392,372	2,011,485
Cash and bank balances	5	59,640,039	43,263,789	46,114,850
		<u>62,166,231</u>	<u>44,866,390</u>	<u>48,356,340</u>
<b>Total assets</b>		<u>231,752,939</u>	<u>207,009,967</u>	<u>206,557,418</u>
<b>LIABILITIES AND EQUITY</b>				
<b>Equity</b>				
<b>Attributable to Ultimate Parent Company's shareholders</b>				
Share capital	6	42,000,000	42,000,000	42,000,000
Legal reserve		4,482,688	4,482,688	2,737,593
Retained earnings		27,795,272	29,206,674	21,769,759
Foreign currency translation reserve		(800,071)	(883,218)	91,438
		<u>73,477,889</u>	<u>74,806,144</u>	<u>66,598,790</u>
<b>Non-controlling interests</b>		428	428	428
<b>Total equity</b>		<u>73,478,317</u>	<u>74,806,572</u>	<u>66,599,218</u>
<b>Non-current liabilities</b>				
Term loans	7	102,570,544	80,537,379	90,464,221
Post employment benefits		1,922,989	1,743,934	1,655,321
Security deposits from lessees		1,703,400	1,513,204	1,589,546
Advance received from lessee		11,396,105	9,791,498	9,420,131
		<u>117,593,038</u>	<u>93,586,015</u>	<u>103,129,219</u>
<b>Current liabilities</b>				
Term loans	7	19,318,195	21,215,398	14,457,417
Due to banks	8	835,153	295,250	430,660
Trade and other payables		9,898,703	9,221,207	10,433,238
Deferred revenue		10,629,533	7,885,525	11,507,666
		<u>40,681,584</u>	<u>38,617,380</u>	<u>36,828,981</u>
<b>Total liabilities and equity</b>		<u>231,752,939</u>	<u>207,009,967</u>	<u>206,557,418</u>

The accompanying notes are an integral part of this interim condensed consolidated financial information.



Marwan Marzouk Boodai  
Chairman

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Condensed Consolidated Statement of Income (Unaudited) -  
Six months ended 30 June 2014

	Note	Kuwaiti Dinars			
		Three months ended 30 June		Six months ended 30 June	
		2014	2013	2014	2013
Revenue		15,485,470	16,086,674	29,289,016	30,746,172
Operating costs		(10,808,866)	(10,162,660)	(20,778,748)	(19,436,073)
<b>Operating profit</b>		<b>4,676,604</b>	<b>5,924,014</b>	<b>8,510,268</b>	<b>11,310,099</b>
Other income		210,768	126,543	340,452	266,149
Administrative expenses		(1,111,249)	(982,262)	(2,121,171)	(1,839,982)
Finance costs		(858,835)	(887,557)	(1,667,068)	(1,823,286)
Foreign exchange gain/ (loss)		19,625	(86,241)	57,670	(69,518)
Profit before contribution to taxes		2,936,913	4,094,497	5,120,151	7,843,462
Zakat expense		(30,313)	(41,771)	(52,992)	(80,422)
Contribution to Kuwait Foundation for the Advancement of Sciences		(26,432)	(36,850)	(46,081)	(70,591)
National Labour Support Tax		(75,781)	(104,427)	(132,480)	(201,054)
<b>Profit for the period</b>		<b>2,804,387</b>	<b>3,911,449</b>	<b>4,888,598</b>	<b>7,491,395</b>
<b>Attributable to:</b>					
Shareholders of the Ultimate Parent Company		2,804,387	3,911,449	4,888,598	7,491,395
<b>Earnings per share (fils) - Basic &amp; Diluted</b>	9	<b>6.68</b>	<b>9.31</b>	<b>11.64</b>	<b>17.84</b>

The accompanying notes are an integral part of this interim condensed consolidated financial information.

Condensed Consolidated Statement of Comprehensive Income (Unaudited) -  
Six months ended 30 June 2014

	Kuwaiti Dinars			
	Three months ended 30-June		Six months ended 30-June	
	2014	2013	2014	2013
Profit for the period	2,804,387	3,911,449	4,888,598	7,491,395
<i>Other comprehensive income to be reclassified to profit or loss in subsequent periods:</i>				
Exchange differences on translating foreign operations	211,376	239,827	83,147	1,082,749
<b>Total comprehensive income for the period</b>	<b>3,015,763</b>	<b>4,151,276</b>	<b>4,971,745</b>	<b>8,574,144</b>
<b>Attributable to:</b>				
Shareholders of the Ultimate Parent Company	<u>3,015,763</u>	<u>4,151,276</u>	<u>4,971,745</u>	<u>8,574,144</u>

The accompanying notes are an integral part of this interim condensed consolidated financial information.

Condensed Consolidated Statement of Changes in Equity (Unaudited) - Six months ended 30 June 2014

	Kuwaiti Dinars						Total equity
	Equity attributable to the Ultimate Parent Company's Shareholders						
	Share capital	Share capital - rights issue	Legal reserve	Retained earnings	Foreign currency translation reserve	Non-controlling interest	
At 1 January 2014	42,000,000	-	4,482,688	29,206,674	(883,218)	428	74,806,572
Total comprehensive income for the period	-	-	-	4,888,598	83,147	-	4,971,745
Dividend – 2013	-	-	-	(6,300,000)	-	-	(6,300,000)
At 30 June 2014	42,000,000	-	4,482,688	27,795,272	(800,071)	428	73,478,317
At 1 January 2013	24,200,000	17,800,000	2,737,593	14,278,364	(991,311)	357	58,025,003
Total comprehensive income for the period	-	-	-	7,491,395	1,082,749	-	8,574,144
Issue of right shares	17,800,000	(17,800,000)	-	-	-	-	-
Acquisition during the period	-	-	-	-	-	71	71
At 30 June 2013	42,000,000	-	2,737,593	21,769,759	91,438	428	66,599,218

The accompanying notes are an integral part of this interim condensed consolidated financial information.

**Condensed Consolidated Statement of Cash Flows (Unaudited) - Six months ended 30 June 2014**

	Kuwaiti Dinars	
	30 June 2014 (Unaudited)	30 June 2013 (Unaudited)
Note		
<b>Cash flows from operating activities</b>		
Profit for the period	4,888,598	7,491,395
<i>Adjustments for:</i>		
Depreciation	3,828,537	3,162,798
Finance costs	1,667,068	1,823,286
Foreign exchange (gain)/ loss	(57,670)	69,518
Provision for post employment benefits	270,000	200,000
Operating profit before working capital changes	<u>10,596,533</u>	<u>12,746,997</u>
Increase in inventories	(9,052)	(8,075)
Increase in deposits	(320,023)	-
Increase in trade and other receivables	(914,539)	(535,860)
Increase/ (decrease) in trade and other payables	605,466	(1,463,957)
Increase in deferred revenue	2,744,008	4,258,461
Post employment benefits paid	(90,945)	(11,287)
Net cash from operating activities	<u>12,611,448</u>	<u>14,986,279</u>
<b>Cash flows from investing activities</b>		
Purchase of property and equipment (net)	(10,053,758)	(9,513,785)
Increase in advance for maintenance	(1,032,218)	(1,120,463)
Increase in time deposits with banks	(3,084,515)	(10,777,624)
Increase in advance received from lessee	1,604,607	1,242,310
Change in non-controlling interest	-	71
Net cash used in investing activities	<u>(12,565,884)</u>	<u>(20,169,491)</u>
<b>Cash flows from financing activities</b>		
Repayment of deferred purchase consideration	-	(15,000,000)
Proceeds from term loans	50,307,739	18,565,900
Repayment of term loans	(30,171,777)	(7,413,538)
Proceeds from overdraft	539,903	246,521
Increase in security deposits from lessees	190,196	329,098
Repayment of loan from related party	-	(2,234,495)
Dividend paid	(6,300,000)	-
Finance costs paid	(1,537,368)	(867,151)
Net cash from/ (used in) financing activities	<u>13,028,693</u>	<u>(6,373,665)</u>
<b>Net increase/ (decrease) in cash and cash equivalents</b>	<u>13,074,257</u>	<u>(11,556,877)</u>
<b>Cash and cash equivalents at</b>		
beginning of period	36,986,579	42,895,649
effects of exchange rate changes on cash and cash equivalents	217,478	(993,495)
end of period	5 <u>50,278,314</u>	<u>30,345,277</u>

The accompanying notes are an integral part of this interim condensed consolidated financial information.



## 1. Constitution and activities

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

The Ultimate Parent Company has the following subsidiaries:

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

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

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

The address of the registered office of the Ultimate Parent Company is Kuwait international Airport, State of Kuwait. The number of personnel employed by the Group as of 30 June 2014 was 437 (31 December 2013: 428, 30 June 2013:406).

This interim consolidated financial information was approved for issue by the Board of Directors on 23 July 2014.

## 2. Basis of preparation and significant accounting policies

The accounting policies used in the preparation of the interim condensed consolidated financial information for the period are consistent with those used in the preparation of the annual consolidated financial statements for the year ended 31 December 2013, except adoption of the following new Standards and amendments, which are applicable to the Group:

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

These amendments are effective for annual periods beginning on or after 1 January 2014 and provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under IFRS 10. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. The adoption of this Standard has not resulted in any impact on the financial position or performance of the Group.

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

The amendments clarify the meaning of "currently has a legally enforceable right to set-off" and also clarify the application of the IAS 32 offsetting criteria to settlement systems (such as central clearing house systems) which apply gross settlement mechanisms that are not simultaneous. The adoption of this Standard has not resulted in any impact on the financial position or performance of the Group.

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

These amendments remove the unintended consequences of IFRS 13 on the disclosures required under IAS 36. In addition, these amendments require disclosure of the recoverable amounts for the assets or CGUs for which impairment loss has been recognised or reversed during the period. The adoption of this Standard has not resulted in any material additional disclosures. The Group has adopted these amendments with effect

from 1 January 2014.

Other amendments to IFRSs which are effective for annual accounting period starting from 1 January 2014 did not have any material impact on the accounting policies, financial position or performance of the Group.

#### **Standards issued but not yet effective**

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

##### *IFRS 9: Financial Instruments: Classification and Measurement*

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

##### *IFRS 15 – Revenue from Contracts with customers*

IFRS 15 was issued by IASB on 28 May 2014 is effective for annual periods beginning on or after 1 January 2017. IFRS 15 supersedes IAS 11 – Construction Contracts and IAS 18 – Revenue along with related IFRIC 13, IFRIC 18 and SIC 31 from the effective date. This new standard would remove inconsistencies and weaknesses in previous revenue recognition requirements, provide a more robust framework for addressing revenue issues and improve comparability of revenue recognition practices across entities, industries, jurisdictions and capital markets. The Group is in the process of evaluating the effect of IFRS 15 and do not expect any significant impact on adoption of this standard.

This interim condensed consolidated financial information does not contain information and disclosures required for complete consolidated financial statements prepared in accordance with International Financial Reporting Standards. In the opinion of the management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Results for the six months period ended 30 June 2014 are not necessarily indicative of the results that may be expected for the year ending 31 December 2014. For further information, refer to the consolidated financial statements and notes thereto included in the consolidated financial statements of the Group for the year ended 31 December 2013.

## **2.1 Consolidation**

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

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

Notes to the Interim Condensed Consolidated Financial Information (Unaudited) – 30 June 2014

3. Special purpose entity

The Intermediate Parent Company has four subsidiaries, Jazeera Leasing Company (JLC), Sahaab Aircraft Leasing Company - 1 (SALC-1), Sahaab Aircraft Leasing Company - 2 (SALC-2) and Sahaab Aircraft Leasing Company - 3 (SALC-3), Cayman Island companies, incorporated with an authorised capital of USD 1,000, USD 50,000, USD 50,000 and USD 250 respectively. The issued and fully paid up capital as of 30 June 2014 are USD 1,000, USD 1, USD 250 and USD 250 respectively, equivalent to KD 287, KD 0.276, KD 70 and KD 71. JLC, SALC-1, SALC-2 and SALC-3 are Special Purpose Entities ("SPE") fully owned by third parties and are set up for the sole purpose of arranging finance for acquiring aircraft and engines and for leasing them to the Intermediate Parent Company under finance leases. JLC, SALC-1, SALC-2 and SALC-3 have been consolidated in these consolidated financial statements in accordance with IFRS 10 "Consolidated Financial Statements".

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

4. Property and equipment

	Kuwaiti Dinars					Total
	Aircraft & engines	Leasehold improvements	Furniture & equipment	Vehicles	Capital work-in-progress	
<b>Cost</b>						
As at 31 December 2013	173,256,526	627,910	2,007,311	22,383	7,050,001	182,964,131
Additions	8,758,292	-	22,745	3,895	2,539,165	11,324,097
Transfer	8,968,131	607,583	-	-	(9,575,714)	-
Disposal	(2,103,484)	-	(2,755)	(4,424)	-	(2,110,663)
Exchange adjustment	(150,137)	-	-	-	(6,077)	(156,214)
As at 30 June 2014	<u>188,729,328</u>	<u>1,235,493</u>	<u>2,027,301</u>	<u>21,854</u>	<u>7,375</u>	<u>192,021,351</u>
<b>Depreciation</b>						
As at 31 December 2013	26,675,079	596,228	1,640,418	13,201	-	28,924,926
Charge for the period	3,650,052	21,209	156,012	1,264	-	3,828,537
Disposal	(833,195)	-	(2,705)	(4,424)	-	(840,324)
Exchange adjustment	(21,883)	-	-	-	-	(21,883)
As at 30 June 2014	<u>29,470,053</u>	<u>617,437</u>	<u>1,793,725</u>	<u>10,041</u>	<u>-</u>	<u>31,891,256</u>
<b>Net book value</b>						
As at 30 June 2014	<u>159,259,275</u>	<u>618,056</u>	<u>233,576</u>	<u>11,813</u>	<u>7,375</u>	<u>160,130,095</u>
As at 31 December 2013	<u>146,581,447</u>	<u>31,682</u>	<u>366,893</u>	<u>9,182</u>	<u>7,050,001</u>	<u>154,039,205</u>
As at 30 June 2013	<u>136,602,819</u>	<u>43,919</u>	<u>363,854</u>	<u>10,254</u>	<u>12,262,165</u>	<u>149,283,011</u>

Depreciation has been allocated in statement of income as follows:

	Kuwaiti Dinars		Kuwaiti Dinars	
	Three months ended 30 June		Six months ended 30 June	
	2014	2013	2014	2013
Operating costs	1,869,396	1,535,156	3,651,316	3,006,098
Administrative expenses	86,605	78,923	177,221	156,700
	<u>1,956,001</u>	<u>1,614,079</u>	<u>3,828,537</u>	<u>3,162,798</u>

Notes to the Interim Condensed Consolidated Financial Information (Unaudited) – 30 June 2014

5. Cash and bank balances

	Kuwaiti Dinars		
	30 June 2014 (Unaudited)	31 December 2013 (Audited)	30 June 2013 (Unaudited)
Cash on hand	31,600	34,289	27,047
Current account with banks	14,119,987	13,640,810	16,067,484
Time deposits with banks	36,126,727	23,311,480	14,250,746
Cash & cash equivalents in the statement of cash flows	50,278,314	36,986,579	30,345,277
Time deposits with banks whose maturity period exceeds three months	9,361,725	6,277,210	15,769,573
	<u>59,640,039</u>	<u>43,263,789</u>	<u>46,114,850</u>

The effective interest rate as of 30 June 2014 was 1.5% to 2% (31 December 2013: 1.31% to 2.5%, 30 June 2013: 1% to 2.5% ).

6. Share capital

The authorised, issued and fully paid up share capital of the Ultimate Parent Company as at 30 June 2014 is KD 42,000,000 (31 December 2013: KD 42,000,000; 30 June 2013: KD 42,000,000) comprising of 420,000,000 shares of 100 fils each (31 December 2013: 420,000,000 shares of 100 fils each; 30 June 2013: 420,000,000 shares of 100 fils each).

*Dividend*

The annual general meeting of the shareholders of the Ultimate Parent Company held on 20 March 2014 approved the distribution of cash dividend of 15 fils per share to the shareholders, amounting to KD 6,300,000 (31 December 2013: Nil, 30 June 2013: Nil).

7. Term loans

	Kuwaiti Dinars		
	30 June 2014 (Unaudited)	31 December 2013 (Audited)	30 June 2013 (Unaudited)
<i>Term loans are repayable as follows:</i>			
Not later than 1 year	19,318,195	21,215,398	14,457,417
Later than 1 year and not later than 2 years	21,187,001	17,246,331	34,631,329
Later than 2 year and not later than 5 years	64,394,149	47,754,126	41,483,490
Later than 5 years	16,989,394	15,536,922	14,349,402
	<u>102,570,544</u>	<u>80,537,379</u>	<u>90,464,221</u>
	<u>121,888,739</u>	<u>101,752,777</u>	<u>104,921,638</u>

This includes three loans as follows:

- Term loans of KD 82.38 million (31 December 2013: KD 79.06 million; 30 June 2013: KD 76.27 million), represent senior loans arranged through JLC, SALC-1, SALC-2, SALC-3 and Owner Trustee. They are denominated in US Dollars and represent amounts due to local banks and European banks. The effective interest rate as of 30 June 2014 was 1.18% to 6.52% (31 December 2013: 1.19% to 6.52%; 30 June 2013: 1.23% to 6.52%) and these term loans are secured by a first priority charge/pledge over the shares of JLC, SALC-1, SALC-2, SALC-3 and a first priority registered aircraft mortgage over each aircraft. These are repayable over a period up to 28 May 2025.
- Term loan of KD 19.97 million (31 December 2013: Nil; 30 June 2013: Nil) denominated in US Dollars represents facility from a local commercial bank. This facility is fully guaranteed by the Ultimate Parent Company. The effective interest rate as at 30 June 2014 was 1.98% (31 December 2013: Nil; 30 June 2013: Nil). This loan is repayable over a period up to 1 April 2017.

Notes to the Interim Condensed Consolidated Financial Information (Unaudited) – 30 June 2014

- c) Term loan of KD 3.38 million (31 December 2013: KD Nil; 30 June 2013: Nil million) denominated in US Dollars represents amounts due to a local commercial bank. This facility is fully guaranteed by the Ultimate Parent Company. The final instalment is due on 30 June 2018. The effective interest rate as at 30 June 2014 was 1.82% (31 December 2013: Nil; 30 June 2013: Nil).
- d) Term loan of KD 16.15 million (31 December 2013: KD Nil; 30 June 2013: Nil) denominated in Kuwaiti Dinar represents facility from a local commercial bank. This facility is secured by a pledge of the shares of the Intermediate Parent Company. The effective interest rate as at 30 June 2014 was 3.25% (31 December 2013: Nil; 30 June 2013: Nil). This loan is repayable over a period up to 31 March 2019.
- e) Term loan as of 31 March 2014 amounting to KD 16.95 million (31 December 2013: KD 18.46 million; 30 June 2013: KD 20 million) which was repayable over a period up to 19 December 2016 was fully paid on 19 June 2014.

8. Due to banks

This represents unsecured overdraft facility of USD 2.96 million (31 December 2013: USD 1.05 million, 30 June 2013: USD 1.51 million) from a local commercial bank. The effective interest rate as of 30 June 2014 was 1.85% (31 December 2013: 2.24%, 30 June 2013: 2.28%).

9. Earnings per share

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

	Three months ended 30 June (Unaudited)		Six months ended 30 June (Unaudited)	
	2014	2013	2014	2013
Earnings attributable to share holders of Ultimate Parent company	2,804,387	3,911,449	4,888,598	7,491,395
Weighted average number of issued shares	420,000,000	420,000,000	420,000,000	420,000,000
<b>Earnings per share (fils) – Basic &amp; Diluted</b>	<b>6.68</b>	<b>9.31</b>	<b>11.64</b>	<b>17.84</b>

10. Related party transactions and balances

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. 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 Group's management. Transactions and balances with related parties not disclosed elsewhere in this interim consolidated financial information are as follows:

	Kuwaiti Dinars			
	30 June 2014 (Unaudited)	31 December 2013 (Audited)	30 June 2013 (Unaudited)	
	<b>Balances</b>			
Due from related party	131,535	17,102	153,100	
	Kuwaiti Dinars			
	Three months ended 30 June		Six months ended 30 June	
	2014	2013	2014	2013
<b>Transactions</b>				
Sales and services	552,769	570,629	1,021,855	990,245
Administration and distribution expenses	39,223	22,232	59,129	41,376
<b>Key management compensation</b>				
Salaries and other employment benefits	127,390	127,261	257,305	251,692

Notes to the Interim Condensed Consolidated Financial Information (Unaudited) – 30 June 2014

11. 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 period ended 30 June 2014 is as follows:

	Kuwaiti Dinars											
	Three months period ended 30 June 2014 (Unaudited)			Three months period ended 30 June 2013 (Unaudited)			Six months period ended 30 June 2014 (Unaudited)			Six months period ended 30 June 2013 (Unaudited)		
	Passenger airline service	Leasing of aircraft and engines	Total	Passenger airline service	Leasing of aircraft and engines	Total	Passenger airline service	Leasing of aircraft and engines	Total	Passenger airline service	Leasing of aircraft and engines	Total
Segment revenue	13,972,145	3,476,232	17,448,377	14,555,765	3,606,203	18,161,968	26,407,772	7,196,309	33,604,081	27,549,947	7,458,864	35,008,811
Less: Intersegment revenue	-	(1,962,907)	(1,962,907)	-	(2,075,294)	(2,075,294)	-	(4,315,065)	(4,315,065)	-	(4,262,639)	(4,262,639)
Revenue from external customers	13,972,145	1,513,325	15,485,470	14,555,765	1,530,909	16,086,674	26,407,772	2,881,244	29,289,016	27,549,947	3,196,225	30,746,172
Reportable segment profit before contribution to taxes	2,248,504	688,409	2,936,913	2,966,929	1,127,568	4,094,497	3,483,475	1,636,676	5,120,151	5,244,395	2,599,067	7,843,462

Reportable segment's assets and liabilities:

	Kuwaiti Dinars											
	30 June 2014 (Unaudited)			31 December 2013 (Audited)			30 June 2013 (Unaudited)			30 June 2013 (Unaudited)		
	Passenger airline service	Leasing of aircraft and engine	Total	Passenger airline service	Leasing of aircraft and engine	Total	Passenger airline service	Leasing of aircraft and engine	Total	Passenger airline service	Leasing of aircraft and engine	Total
Total assets	48,271,810	183,481,129	231,752,939	27,168,790	179,841,177	207,009,967	32,600,812	173,956,606	206,557,418			
Allocated liabilities	39,009,721	119,033,348	158,043,069	36,543,130	94,882,716	131,425,846	43,215,629	96,390,504	139,606,133			
Unallocated liabilities	-	-	231,553	-	-	777,549	-	-	352,067			
Total liabilities	39,009,721	119,033,348	158,274,622	36,543,130	94,882,716	132,203,395	43,215,629	96,390,504	139,958,200			

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

**12. Derivatives**

The Group has hedged part of its interest rate risk from floating rate liabilities using interest rate options. As at 30 June 2014, interest rate options with an aggregate notional amount of KD 4,209,577 (31 December 2013: KD 4,784,416; 30 June 2013: KD 5,209,292) and a positive fair value of KD 47,750 (31 December 2013: KD 53,007; 30 June 2013: KD 58,922) were designated as hedging instrument in a cash flow hedge.

**13. Commitments and contingent liabilities**

The Group has issued bank guarantees to regulatory agencies and third party service providers amounting to KD 908,289 (31 December 2013: KD 2,068,651; 30 June 2013: KD 2,082,126).

The Ultimate Parent Company has also provided guarantee to JLC, 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.

**Operating lease income**

The future minimum lease rent receivable on the operating lease is KD 42,739,602 (31 December 2013: KD 30,858,279, 30 June 2013: 34,024,597) and is receivable as follows.

	Kuwaiti Dinars		
	30 June 2014 (Unaudited)	31 December 2013 (Audited)	30 June 2013 (Unaudited)
Not later than one year	7,651,351	5,383,041	5,455,926
Later than one year but not later than five years	27,023,274	20,072,269	20,758,913
Later than five years	8,064,977	5,402,969	7,809,758
	<u>42,739,602</u>	<u>30,858,279</u>	<u>34,024,597</u>