

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

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

Jazeera Airways K.S.C
Kuwait

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

Contents

	Page
Directors' Report	-
Independent Auditors' Report	1 - 2
Consolidated Statement of Financial Position	3
Consolidated Statement of Comprehensive Income	4
Consolidated Statement of Changes in Equity	5
Consolidated Statement of Cash Flows	6
Notes to the Consolidated Financial Statements	7 - 23

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Jazeera Airways K.S.C.
Kuwait

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Jazeera Airways K.S.C. (the "Parent Company") and its subsidiaries (together the "Group"), which comprise the consolidated statement of financial position as of 31 December 2009 and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the consolidated financial statements

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

Auditor's responsibility

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

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

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

Opinion

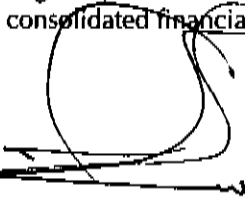
In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2009, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Jazeera Airways K.S.C.
Kuwait

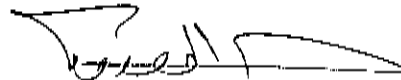
INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS (Continued)

Report on other Legal and Regulatory Requirements

Furthermore, in our opinion, proper books of accounts have been kept by the Parent Company, and the consolidated financial statements, together with the contents of the report of the Board of Directors relating to these consolidated financial statements, are in accordance therewith. We further report that we obtained all the information and explanations that we required for the purpose of our audit; and that the consolidated financial statements incorporate all information that is required by Commercial Companies Law of 1960, as amended, and by the Parent Company's Articles of Association; that an inventory was duly carried out; and that, to the best of our knowledge and belief, no violations of the Commercial Companies Law of 1960, as amended, or of the Articles of Association have occurred during the year ended 31 December 2009 that might have had a material effect on the business of the Group or on its consolidated financial position.



Bader A. Al-Wazzan
Licence No. 62A
PricewaterhouseCoopers



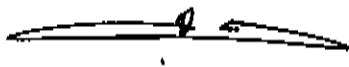
Nasser Abdullah Al Muqait
R.A.A. No. 9A
Al Ahli Bureau

Kuwait
25 March 2010

Consolidated Statement of Financial Position as of 31 December 2009

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

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


Marwan Marzouk Boodai
Chairman

Consolidated Statement of Comprehensive Income - Year ended 31 December 2009

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

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

Consolidated Statement of Changes in Equity – Year ended 31 December 2009

	Kuwaiti Dinars					Minority interest	Total equity
	Equity attributable to the Parent Company's Shareholders						
	Share capital	Legal reserve	Equity transaction costs	(accumulated deficit)/ retained earnings			
At 1 January 2009	19,998,860	801,461	(46,079)	6,970,389	276	27,724,907	
Issue of bonus shares	1,999,886	-	-	(1,999,886)	-	-	
Comprehensive expense for 2009	-	-	-	(8,203,820)	-	(8,203,820)	
Acquisitions during the year	-	-	-	-	72	72	
At 31 December 2009	<u>21,998,746</u>	<u>801,461</u>	<u>(46,079)</u>	<u>(3,233,317)</u>	<u>348</u>	<u>19,521,159</u>	
At 1 January 2008	19,998,860	335,509	(46,079)	2,987,881	292	23,276,463	
Comprehensive income for 2008	-	-	-	4,448,460	-	4,448,460	
Transfer to reserve	-	465,952	-	(465,952)	-	-	
(Disposals)/ acquisitions during the year (net)	-	-	-	-	(16)	(16)	
At 31 December 2008	<u>19,998,860</u>	<u>801,461</u>	<u>(46,079)</u>	<u>6,970,389</u>	<u>276</u>	<u>27,724,907</u>	

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

Consolidated Statement of Cash Flows –Year ended 31 December 2009

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

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

Notes to the Consolidated Financial Statements - 31 December 2009

1. Constitution and activities

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

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

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

These consolidated financial statements have been approved for issue by the Board of Directors on 25 March 2010 and are subject to the approval of shareholders at their forthcoming annual general meeting.

2. Basis of preparation and significant accounting policies

2.1 Basis of preparation

These consolidated financial statements have been prepared in conformity with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and Interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC). These consolidated financial statements are prepared under the historical cost basis of measurement. These consolidated financial statements have been presented in Kuwaiti Dinars.

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that may affect the reported amounts of assets and liabilities and disclosure of contingent assets and contingent liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. It also requires management to exercise its judgment in the process of applying the accounting policies. The areas involving a high degree of judgment or complexity or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 25.

Changes in accounting policies

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

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

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

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

Notes to the Consolidated Financial Statements - 31 December 2009

IFRS 7: Financial Instruments: Disclosure (amended):

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

IFRS 8 'Operating segments':

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

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

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

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

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

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

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

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

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

The Group's current liabilities exceed current assets (excluding deferred revenue) by KD 9,183,696 (31 December 2008: KD 6,619,585). These consolidated financial statements have been prepared on a going concern basis as the Board of Directors and management expect the cash flow position to continually improve and the Group to continue to receive financial support from shareholders and lenders.

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

2.2 Business Combinations

A business combination is the bringing together of separate entities or businesses into one reporting entity as a result of one entity, the acquirer, obtaining control of one or more other businesses. The purchase method of accounting is used to account for business combinations. The cost of acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of the exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination (net assets acquired in a business combination) are measured initially at the fair values at the acquisition date, irrespective of the extent of any minority interest.

Notes to the Consolidated Financial Statements - 31 December 2009

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

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

The Group separately recognizes the contingent liabilities of an acquiree at the acquisition date, if its fair value can be measured reliably.

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

2.3 Consolidation

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

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

2.4 Financial instruments

Classification and measurement

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

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

Loans and receivables

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

Financial liabilities/ equity

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

Notes to the Consolidated Financial Statements - 31 December 2009

Financial guarantees

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

Derivative financial instruments and hedging activities

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

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

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

If such derivative transactions, while providing effective economic hedges under the Group's risk management policies do not qualify for hedge accounting under IAS 39, they are treated as derivatives held for trading. Derivatives with positive fair values (unrealised gains) are included in other receivables and derivatives with negative fair values (unrealised losses) are included in other payables. The resultant gains and losses are included in the consolidated statement of comprehensive income.

Recognition and de-recognition

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

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

All 'regular way' purchase and sale of financial assets are recognized using settlement date accounting. Changes in fair value between the trade date and settlement date are recognized in the consolidated statement of comprehensive income in accordance with the policy applicable to the related instruments. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulations or conventions in the market place.

Fair values

The fair value of financial instruments carried at amortised cost is estimated by discounting the future contractual cash flows at the current market interest rates for similar financial instruments.

Amortised cost

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

Notes to the Consolidated Financial Statements - 31 December 2009

Impairment

A financial asset is impaired if its carrying amount is greater than its estimated recoverable amount. An assessment is made at each financial position date to determine whether there is objective evidence that a specific financial asset or a group of similar assets may be impaired. If such evidence exists, the asset is written down to its recoverable amount. The recoverable amount of an interest bearing instrument is determined based on the net present value of future cash flows discounted at original effective interest rates; and of an equity instrument is determined with reference to market rates or appropriate valuation models. Any impairment loss is recognised in the consolidated statement of comprehensive income.

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

2.5 Property and equipment

Property and equipment are stated at historical cost less accumulated depreciation and accumulated provisions for impairment, if any. The cost of property and equipment consists of their purchase price and other directly attributable costs incurred up to bringing them to operating condition and ready for their intended use. The cost of aircraft and engines also includes borrowing costs incurred, until substantially all the activities necessary to prepare the asset for its intended use are complete.

Upon acquisition of new aircraft, an inspection component is recognised for the estimated costs of performing regular major inspections of engines and airframe. This is treated as a separate asset and its cost is reduced from the original cost of the aircraft and engines, as its useful life is different from that of the aircraft or the engine to which it relates. The cost of property and equipment less estimated residual values is depreciated on straight-line basis over their estimated useful lives as follows:

	Years
Leasehold improvements	5
Furniture & equipments	3 - 5
Aircraft and engines	23
Rotables	2 - 3
Vehicles	5

The cost of the inspection component is depreciated over 5,000 to 20,000 flying hours, being the normal period between inspections. The cost of each subsequent major inspection is capitalised and the remaining cost, if any, of the previous inspection is written off.

Capital work-in-progress is stated at cost and includes advance payments made in respect of aircraft maintenance commitments. When the asset is ready for its intended use, it is transferred from capital work-in-progress to the appropriate category under property and equipment and is depreciated from that date.

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

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

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

2.6 Inventories, expendable parts and supplies

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

Notes to the Consolidated Financial Statements - 31 December 2009

2.6 Cash and cash equivalents

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

2.7 Non-current assets held for sale

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

2.8 Accounting for leases

Where the Group is the lessee

Operating lease

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

Finance lease

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

Sale and lease back

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

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

2.9 Manufacturers' credits

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

2.10 Post employment benefits

The Parent Company is liable under Kuwait Labour Law to make payments under defined benefit plans payable to employees at cessation of employment.

This liability, which is unfunded, represents the amount payable to employees as a result of involuntary termination on the financial position date and approximates the present value of the final obligation.

Notes to the Consolidated Financial Statements - 31 December 2009

2.11 Revenue recognition

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

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

2.12 Borrowing costs

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

2.13 Foreign currency translation

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

2.14 Provisions for liabilities

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

2.15 Contingencies

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

3. Special purpose entity

The Parent Company's subsidiary, Jazeera Leasing Company - 2 (JLC-2), was incorporated with a share capital of USD 1,000 equivalent to KD 276 (2008: KD 276) and is fully owned by a third party. JLC - 2 is a Special Purpose Entity ("SPE") set up for the sole purpose of arranging finance for acquiring aircraft and engines and for leasing them to the Parent Company under finance leases. JLC -2 has been consolidated in these financial statements in accordance with Interpretation - SIC-12 'Consolidation - Special Purpose Entities' as the Parent Company obtains all of the benefits of its activities.

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

Notes to the Consolidated Financial Statements - 31 December 2009

4. Property and equipment

	Kuwaiti Dinars					Total
	Aircraft and engines	Leasehold improvements	Furniture & equipment	Vehicles	Capital work-in-progress	
Cost						
As at 31 December 2007	68,830,039	341,428	589,208	10,624	12,885,283	82,656,582
Additions	89,547	13,215	82,652	-	47,758,898	47,944,312
Transfers	22,736,643	151,545	23,482	-	(22,911,670)	-
Sale	(68,756,000)	-	(474)	-	-	(68,756,474)
Transferred as "held for sale"	(22,736,643)	-	-	-	-	(22,736,643)
As at 31 December 2008	163,586	506,188	694,868	10,624	37,732,511	39,107,777
Additions	4,437	51,446	329,658	-	4,478,589	4,864,130
Transfers	-	-	-	-	(37,123,317)	(37,123,317)
Transferred from "held for sale"	22,736,643	-	-	-	-	22,736,643
As at 31 December 2009	22,904,666	557,634	1,024,526	10,624	5,087,783	29,585,233
Depreciation						
As at 31 December 2007	6,684,097	74,844	282,718	2,434	-	7,044,093
Charge for the year	4,262,358	85,075	161,796	2,125	-	4,511,354
Disposal	(10,827,660)	-	(189)	-	-	(10,827,849)
As at 31 December 2008	118,795	159,919	444,325	4,559	-	727,598
Charge for the year	1,718,768	98,647	142,988	2,125	-	1,962,528
As at 31 December 2009	1,837,563	258,566	587,313	6,684	-	2,690,126
Net book value						
As at 31 December 2009	21,067,103	299,068	437,213	3,940	5,087,783	26,895,107
As at 31 December 2008	44,791	346,269	250,543	6,065	37,732,511	38,380,179

Depreciation has been allocated in statement of income as follows:

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

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

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

5. Due from a related party

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

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

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

Notes to the Consolidated Financial Statements - 31 December 2009

6. Non current assets classified as held for sale

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

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

7. Trade and other receivables

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

The carrying value of trade and other receivables approximates its fair value.

Trade receivables outstanding for less than three months are not considered as past due. As of 31 December 2009, trade receivables of KD 760,742 (31 December 2008: KD 864,039) are neither past due nor impaired. These relate to a number of independent customers for whom there is no recent history of default. Furthermore these trade receivables are fully secured by bank guarantees. As of 31 December 2009, trade receivables of KD 110,660 (31 December 2008: KD 110,660) were past due and impaired and fully provided for. The other classes with in trade and other receivables primarily consist of staff receivables which are neither past due nor impaired.

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

	Kuwaiti Dinars	
	2009	2008
Kuwaiti Dinars	508,688	525,058
Bahraini Dinars	71,147	54,790
Indian Rupees	23,875	40,373
Egyptian Pounds	56,846	53,863
US Dollars	41,044	45,106
Others	169,802	255,509
	871,402	974,699

