Jazeera Airways K.S.C.

FLYING THROUGH 2010

ANNUAL REPORT

Consolidated Financial Statements
And Independent Auditor's Report

jazeeraairways.com

Contents

Jazeera Airways cabin crew

Chairman's letter

Jazeera Airways Group Headline Results (KD)

	Revenue	Net
Q1'10	9.3 m	(4.5 m)
Q2 '10	8.5 m	(4.7 m)
Q3'10	14.1 m	4.4 m
Q4'10	10.7 m	2.0 m

	2009	2010
Revenue	46.1 m	42.6 m
Cost	51.5 m	37.3 m
Gross operating P/L	(5.4 m)	5.3 m
Net P/L	(8.2 m)	(2.8 m)
Gross profit margin	(11.7%)	12.4%
EBITDA	(4.5 m)	7.1 m
EBITDA margin	(9.8%)	16.7%

With TAP, we were able to register two consecutive quarters of profits at both the operating level and the net level in Q3 and Q4 for the first time on record.

Fellow Shareholders,

We closed the year 2010 with a net loss of KD 2.8 million, which was a KD 5.4 million improvement over 2009's net loss of KD 8.2 million. However, that is not our highlight for the year. Our performance in 2010 was about more than just reducing losses. It was about turning around our business and bringing it back to profitability. As we all know, Jazeera Airways had a track record of profitability that was established from year one until we registered our first full year loss in 2009. In my letter to you I will take you through the challenges we faced in 2009 and 2010, and the measures we took to turn around the business in what we called the Turn-Around Plan.

The year 2009 was a challenging year on all fronts. Starting with the H1N1 scare that impacted travel, and then the forced closure of our Dubai hub operations due to changes in UAE regulations. But we managed through them. Then in the second half, we witnessed a steep increase in capacity on the routes we served. The impact of the dumped capacity was so severe that by end of 2009, 44% of the seats flown by our competitors on the routes we served were, in fact, flown empty. This was a major challenge for our industry, but it was an untold story. So when we announced a net loss of KD 8.2 million for 2009, spectators from outside the industry were taken by surprise, but those of us in the industry knew that something had to be done to manage the excess capacity in our market. And since we have no control over others, we looked internally.

In February of 2010, we acquired Sahaab Aircraft Leasing to utilize it for the redeployment of some of Jazeera Airways' excess capacity to other international markets. The acquisition proved invaluable and started generating revenues immediately for the Group, since Jazeera Airways was already a Sahaab customer. Shortly after the acquisition, Sahaab acquired more customers, successfully placing five aircraft with world-class airlines, four of which with Virgin America and one with Sri lankan Airlines.

However, by end of the first quarter, the capacity issue increased in severity and more capacity was dumped in the market by other local and regional players. This continued to impact the Group's bottom line, as seen in the Group's first half results. At that point, it was clear that we had to take a more holistic approach to protect the airline from these external challenges and that's when we aimed at re-aligning the business to the prevalent market environment and to bring the company back to profitability. This plan was called the Turn-Around Plan (TAP).

TAP was implemented in May 2010, and included asset redeployment, staff reductions, rigorous cost management, network/market alignment and enhanced commercial offerings, which was rolled out over several months.

Chairman's letter

The Plan began yielding results immediately and above expectations. Just three months into it, Jazeera Airways Group closed its best performing quarter in history by reporting a net profit of KD 4.4 million for the third quarter.

Six months into the plan, Jazeera Airways closed the fourth quarter with a KD 2 million profit. This was the first time that Jazeera Airways closed two consecutive quarters with positive results at the net and operating levels. The earnings were a clear sign to the market that the airline is well into sustaining profitability.

By year-end, the airline carried 1.3 million passengers in total, 15% of Kuwait International Airport passengers, on a total of 14,276 flights across its network that includes high-demand business, leisure, family, and weekend destinations such as, Dubai, Bahrain, Beirut, Alexandria, Amman, Damascus, Istanbul, Sharm El Sheikh, Doha, Assiut, Aleppo, Deir Ezzor, Luxor, Mashhad, Sohag, Jeddah and Riyadh.

TAP worked to ensure that we have a profitable business every quarter. We now have the right capacity, the right network, the right cost structure and the flexibility to weather both business and political turbulence, and above all, we have a world class aviation team. That's what makes Jazeera special. I would like to thank our team for their hard work and dedication, for without them the success of TAP wouldn't have been possible.

Looking forward, it goes without saying that we plan to continue being profitable in each and every quarter of 2011, to grow the gap between us and our competitors, and to see the full effect of Sahaab's contribution to our bottom line in 2011 and the years to come.

Marwan M. Boodai
Chairman

CEO's letter

Dear Shareholders,

Last year was a milestone year for Jazeera Airways, and more so in the second half. Thanks to the team efforts deployed under our TAP mandate, our second half load factors increased by 11% to 66%, compared to the same period in 2009. The average yield improved by 40 % from KD 24.44 to KD 34.44 in second half of 2010, also against the same period in 2009.

By year-end, Jazeera Airways was the market leader on most of the routes we operated, which is even more remarkable since we had significant capacity reductions. This means that we punched above our weight in attracting customers, due to an improved network and sales and marketing capabilities. This report will shed more light on the commercial, operational and management measures taken to execute our Turn-Around Plan (TAP).

Despite a challenging environment, we continued to build up a stronger and more balanced multi-channel sales network. We focused on creating a strong retail footprint and retail dominance in our key distribution markets. This included boosting our own sales set up and starting GDS distribution in key markets as well as growing our franchise offices. By the end of 2010, travel agency sales contributed around 30% of our total sales, up from 6% in 2009 - a clear indicator for the success of these efforts.

Despite significant overcapacity of government owned airlines on some of our major routes, we were also able to drive the average yield up above KD 30 in the second half of 2010, for the first time since 2008. This was a significant achievement, and it was a result of simplified fare structures and value-add services, together with a more sophisticated revenue management.

Today, our value proposition is hard to beat by any competitor. For Economy Class guests, our offering now includes year-round competitive fares, free meals for all passengers, and up to 40 KGs in checked-in baggage allowance. And our Business Class guests benefit from exclusive check-in at all airports, Business Lounge access, a menu a-la-carte food selection on board, and very attractive fares. So, we enable our business travelers to travel more for less money – and benefit from our best-in-class 95% On-Time Performance.

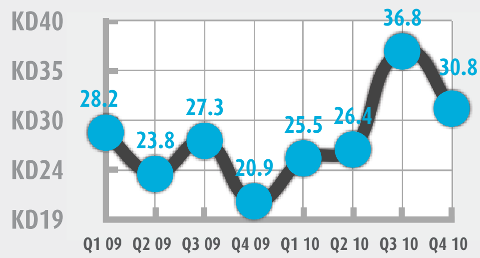
2010 Vs. 2009

2010	2009
Focused on profitable routes	Operated some loss-making routes
Market dominance of profitable routes	Competing in no-win scenarios
Less passengers, sustainable quarterly profit	More passengers, yet quarterly losses

TAP Achievements

- ✓ Two consecutive profitable quarters at 'operating' and 'net' levels
- ✓ Solid network, profitable routes
- ✓ High aircraft utilization
- ✓ High yield
- ✓ Increasing load factors
- ✓ Reduced cost

TAP Enhancement of average yield



	2009	2010	Change
Q1	28.2	25.5	(10%)
Q2	23.8	26.4	+11%
Q3	27.3	36.8	+35%
Q4	20.9	30.8	+47%

2010 Vs. 2009 Financial highlights

	Net P/L	Revenue			Operating P/L			Capacity		
	2010	2009	2010	Change	2009	2010	Change	2009	2010	Change
Q1	(4.5 m)	10 m	9.7 m	(7%)	(1.5 m)	(3.3 m)	(121%)	625 k	721 k	15%
Q2	(4.7 m)	10.1 m	8.5 m	(16%)	(2.5 m)	(1.8 m)	+26%	701 k	595 k	(15%)
Q3	4.4 m	15.9 m	14.1 m	(12%)	0.7 m	3.4 m	+427%	861 k	516 k	(40%)
Q4	2.0 m	10 m	10.7 m	+7%	(6.6 m)	2.7 m		928 k	429 k	(54%)

CEO's letter

We restructured our network with TAP and increased reach by reducing density, which is the smartest way to cope with overcapacity in the market. In parallel, we were rigorously cutting loss making routes and focussed on profit making routes that fall within a two-hour range from our home base in Kuwait. This enabled us to increase our aircraft utilization and to reduce our operating cost base. Together with the revenue improvements highlighted above, cost cutting was a key cornerstone in the execution of our turn around program. And it will remain our focus for the year ahead.

Last but not least, we needed to promote management excellence together with an increased level of accountability for every manager. It was a key success factor of TAP to engage and commit the management to tackle accountability for each of their areas and for a common company goal. We introduced detailed management KPI and a dashboard to monitor everyone on a weekly basis. We also created four different task forces to steer the business, monitor execution on weekly basis based on the strategies set by the board. These task forces tackle commercial and operational decisions as well as marketing, product/service enhancements and insure successful strategy implementation. The positive results are clearly seen in our second half performance.

We now enter 2011 with the right capacity, a smart and resilient network, and a tight cost structure to ensure that we will have a profitable business performance in every quarter.

Looking ahead, we will maintain the current capacity in the market in 2011 as we target serving 1.3 million passengers throughout our existing network. Our yields and load factors look promising so far, even with political turmoil in the region.

Stefan Pichler
Chief Executive Officer

The year in review

Overcapacity, TAP, and the results

2009 Losses, first full year losses on record.

H1 2010 losses, TAP introduced.

Best H2 since 2008, Return to profitability with two consecutive quarters of profits at both net and operating levels for the first time in our history.

END OF 2009 - ALARMING OVERCAPACITY

By end of 2009, on all of the destinations we serve 44% of seats offered by all airlines flew empty.

FEB, 2010 - SAHAAB ACQUIRED

Jazeera Airways acquires Sahaab Aircraft Leasing for KD 25m effective Jan 1, 2010.

Q2, 2010 - MORE CAPACITY DUMPED

Q2 2010, 7% more dumped capacity in market by new players.

MAY, 2010 - TAP ROLLS OUT

Turn-Around Plan measures introduced. Workforce cut by 30%, loss making routes dropped, network optimized for short-haul, 2-hour flights. Our own excess capacity remarketed via Sahaab Aircraft Leasing.

SEP, 2010 - SAHAAB IN EFFECT

Sahaab Leases 4 A320s to Virgin America, contract valued at USD 155m.

Q3, 2010 - BEST QUARTER ON RECORD

Return to profitability with a net profit of KD 4.4 million, best quarter in history. Sahaab leases aircraft to Sri Lankan Airlines.

Q4, 2010 - CONTINUED PROFITABILITY

Another profitable quarter with KD 2 million in net profit.

Auditors' Report

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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 2010, 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 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.

Deloitte.

Deloitte & Touche
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Jazeera Airways KSC
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INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS (Continued)

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2010, 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 of 1960, as amended, 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 of 1960, as amended, or of the Ultimate Parent Company's Articles of Association have occurred during the year ended 31 December 2010 that might have had a material effect on the business of the Group or on its consolidated financial position.

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Deloitte & Touche
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Nasser Abdullah Al Muqait
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Al Ahli Bureau
Certified Accountants

Kuwait
22 February 2011

Consolidated Statement of Financial Position - as of 31 December 2010

	Note	Kuwaiti Dinars 2010	2009
ASSETS			
Non- current Assets			
Property and equipment	4	159,305,419	26,895,107
Due from a related party		-	28,558,252
Deposits	5	691,560	-
Goodwill	29	3,443,481	-
		163,440,460	55,453,359
Current Assets			
Due from a related party		-	12,879,103
Inventories, expendable parts and supplies		200,699	161,601
Trade and other receivables	6	1,639,096	1,932,088
Cash and cash equivalents	7	7,908,558	3,311,644
		9,748,353	18,284,436
Total assets		173,188,813	73,737,795
LIABILITIES AND EQUITY			
Equity			
Attributable to Ultimate Parent Company's shareholders			
Share capital	8	22,000,000	21,998,746
Legal reserve	9	801,461	801,461
Equity transaction costs		(46,079)	(46,079)
Accumulated deficit		(6,037,884)	(3,233,317)
Foreign currency translation reserve		(1,281,795)	-
		15,435,703	19,520,811
Non-controlling interest		287	348
Total equity		15,435,990	19,521,159
Non-current liabilities			
Term loans	10	71,060,338	13,772,274
Post employment benefits		1,096,642	663,118
Aircraft lease maintenance reserve	11	5,161,708	3,531,771
Deposits		1,259,780	-
Due to a related party	12	9,839,325	-
Deferred purchase consideration	29	25,969,901	-
		114,387,694	17,967,163
Current liabilities			
Term loans	10	7,746,836	1,372,556
Due to banks	13	12,584,195	12,336,552
Trade and other payables	14	14,323,262	13,759,024
Deferred revenue		8,710,836	8,781,341
		43,365,129	36,249,473
Total liabilities and equity		173,188,813	73,737,795

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

Marwan Marzouk Boodai
Chairman

Consolidated Statement of Income - Year ended 31 December 2010

	Note	Kuwaiti Dinars	
		2010	2009
Revenue	15	42,562,524	46,093,074
Operating costs	16	(37,282,979)	(51,497,943)
Profit/ (loss) from operations		5,279,545	(5,404,869)
Other income		1,029,193	2,723,611
General and administrative expenses	17	(4,302,809)	(4,426,606)
Restructuring costs	18	(1,878,050)	-
Finance costs		(4,832,444)	(1,727,414)
Foreign currency gain		1,899,998	631,458
Loss for the year		(2,804,567)	(8,203,820)
Attributable to:			
Shareholders of the Ultimate Parent Company		(2,804,567)	(8,203,820)
Loss per share (fils) – Basic and Diluted	19	(12.75)	(37.29)

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

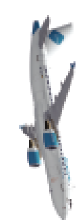
Consolidated Statement of Comprehensive Income - Year ended 31 December 2010

	Kuwaiti Dinars	
	2010	2009
Loss for the year	(2,804,567)	(8,203,820)
Other comprehensive income :		
Exchange differences on translating foreign operations	(1,281,795)	-
Total comprehensive income for the year	(4,086,362)	(8,203,820)
Attributable to:		
Shareholders of the Ultimate Parent Company	(4,086,362)	(8,203,820)

Consolidated Statement of Changes Shareholders' in Equity – Year ended 31 December 2010

	Kuwaiti Dinars						
	Equity attributable to the Ultimate Parent Company's Shareholders					Non controlling interest	Total equity
	Share capital	Legal reserve	Equity transaction costs	Retained earnings/ (accumulated deficit)	Foreign currency translation reserve		
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)	-	-	-
Total comprehensive income for the year	-	-	-	(8,203,820)	-	-	(8,203,820)
Acquisitions during the year	-	-	-	-	-	72	72
At 31 December 2009	21,998,746	801,461	(46,079)	(3,233,317)	-	348	19,521,159
At 1 January 2010	21,998,746	801,461	(46,079)	(3,233,317)	-	348	19,521,159
Disposal during the year (net)	-	-	-	-	-	(61)	(61)
Sale of fractional shares	1,254	-	-	-	-	-	1,254
Total comprehensive income for the year	-	-	-	(2,804,567)	(1,281,795)	-	(4,086,362)
At 31 December 2010	22,000,000	801,461	(46,079)	(6,037,884)	(1,281,795)	287	15,435,990

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



Consolidated Statement of Cash Flows – Year ended 31 December 2010

	Note	Kuwaiti Dinars 2010	2009
Cash flows from operating activities			
Loss for the year		(2,804,567)	(8,203,820)
Adjustments for:			
Depreciation		5,060,498	1,962,528
Finance costs		4,832,444	1,727,414
Post employment benefits		433,524	205,898
Gain on foreign currency revaluation		(1,899,998)	(631,458)
Profit/ (loss) from operations before working capital changes		5,621,901	(4,939,438)
Increase in inventories		(39,098)	(15,592)
Decrease/ (increase) in trade and other receivables		292,992	(170,469)
Increase in trade and other payables		150,602	6,137,163
(Decrease)/ increase in deferred revenue		(70,505)	3,046,739
Decrease in receivables from a related party		-	3,124,818
Increase in aircraft lease maintenance reserve		1,629,937	3,373,690
Net cash from operating activities		7,585,829	10,556,911
Cash flows from investing activities			
Acquisition of property and equipment		(13,722,900)	(4,864,130)
Cash from subsidiary on acquisition	29	701,424	-
Increase in deposits (net)		(367,972)	(1,287,143)
Effects of translations of foreign operations		1,281,795	-
Proceeds from issue of fractional shares		1,254	-
Change in non-controlling interest		(61)	-
Net cash used in investing activities		(12,106,460)	(6,151,273)
Cash flows from financing activities			
Proceeds from/ (repayment of) term loans		814,950	(4,064,969)
Proceeds from bank overdraft		247,643	189,116
Finance costs paid		(4,832,444)	(1,727,414)
Effects of exchange rate changes		1,899,998	593,632
Proceeds from related party loan		9,839,325	-
Net cash from/ (used in) financing activities		7,969,472	(5,009,635)
Net increase/ (decrease) in cash and cash equivalents		3,448,841	(603,997)
Cash and cash equivalents at			
beginning of year		1,982,475	2,548,646
Effects of exchange rate changes on cash and cash equivalents		211,881	37,826
end of year	7	5,643,197	1,982,475

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

Notes to the Consolidated Financial Statements - 31 December 2010

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.

During the year, the Ultimate Parent Company acquired 100% share capital of Al Sahaab Aircraft Leasing Company WLL (the "Intermediate Parent Company"), a Kuwaiti limited liability company engaged in leasing of aircraft and engines, for a deferred consideration, (the fair value of which as of 31 December 2010 is KD 25,969,901) which is payable by 02 December 2012. The acquisition is effective from 01 January 2010.

On 28 May 2010, Sahaab Aviation LLC, a limited liability company, was incorporated under the laws of the State of Delaware, United States of America. The initial contribution and paid up capital as of 31 December 2010 is USD 1, equivalent to KD 0.290 which is held by the Intermediate Parent Company. Sahaab Aviation LLC, along with a US banking association has created a trust which beneficially owns aircrafts on behalf of Sahaab Aviation LLC.

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 22 February 2011 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 28.

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 adoption of the following new and amended Standards and Interpretations that are effective from 1 January 2010:

IFRS 3 (Revised) : Business Combinations
IFRS 8 (Amended) : Operating Segments
IAS 17 (Amended) : Leases
IAS 27 (Amended) : Consolidated and separate financial statements
IAS 36 (Amended) : Impairment of Assets
IAS 38 (Amended) : Intangible Assets
IAS 39 (Amended) : Financial Instruments: Recognition and Measurement

The adoption of the above Standards did not have any material impact on the consolidated financial statements of the Group.

The following new and revised Standards have been issued but are not yet effective and have not been early adopted by the Group:

IAS 32 (Amended) : Financial Instruments: Presentation – Classification of Rights Issues (effective 01 January 2011)

The definition of a financial liability was amended to classify rights issues for a fixed amount of foreign currency (and certain options or warrants) as equity instruments in cases where such rights are given pro rata to all of the existing owners of the same class of an entity's non-derivative equity instruments, or to acquire a fixed number of the entity's own equity instruments for a fixed amount in any currency. This amendment will have no significant impact on the consolidated financial statements of the Group.

IAS 24 (Revised) : Related Party Transactions (effective 01 January 2011)

It clarifies the definition of a related party to simplify the identification of such relationships and to eliminate inconsistencies in its application. The revised Standard introduces a partial exemption of disclosure requirements for government related entities. The Group does not expect any material impact on its financial position or performance.

IFRS 9 : Financial Instruments: Classification and Measurement (effective 01 January 2013)

This Standard will replace IAS 39 in its entirety on its effective date. IFRS 9 establishes principles for the financial reporting of financial assets that will present relevant and useful information to users of the financial statements for their assessment of the amounts, timing and uncertainty of the entity's future cash flows. The Accounting Technical Committee of the Ministry of Commerce and Industry in Kuwait decided during December 2009 to postpone earlier application of this Standard until further notice.

Improvements to IFRS

In May 2010, IASB issued amendments to various Standards and Interpretations as part of its annual improvements project. These amendments have not been adopted as they become effective for annual periods beginning on or after 1 January 2011.

The application of the above Standards will be made in the consolidated financial statements when these Standards and Interpretations become effective and are not expected to have a material impact on the consolidated financial statements of the Group.

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.

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.

In accordance with International Accounting Standard (IAS) 39, 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".

Notes to the Consolidated Financial Statements - 31 December 2010

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 expires. 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.

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 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 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 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 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 and 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.

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 comprehensive 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 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 ruling at the year-end. 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 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 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 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.

Notes to the Consolidated Financial Statements - 31 December 2010

3. Special purpose entity

During the year, the Ultimate Parent Company's subsidiaries, Jazeera Leasing Company - 2 (JLC-2) and Jazeera Leasing Company - 3 (JLC -3), have been derecognised from consolidation as the Ultimate Parent Company ceased to obtain all of the benefits of its activities.

Intermediate Parent Company has two subsidiaries: Jazeera Leasing Company (JLC) and Sahaab Aircraft Leasing Company -1 (SALC -1), Cayman Island companies, incorporated with an authorised capital of USD 1,000 and USD 50,000 respectively. The issued and fully paid up capital as of 31 December 2010 is USD 1,000 and USD 1 respectively, equivalent to KD 287 and KD 0.290 respectively and are fully owned by third parties. JLC and SALC-1 are Special Purpose Entities ("SPE") 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 and SALC-1 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. The Trustor leases aircraft in the United States of America through Sahaab Trust. Sahaab Trust has been consolidated in this 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 2010

4. Property and equipment

	Kuwaiti Dinars					
	Aircraft and engines	Leasehold improvements	Furniture & equipment	Vehicles	Capital work-in-progress	Total
Cost						
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
On acquisition of subsidiary	90,390,763	-	425	-	37,706,128	128,097,316
Additions	8,072,203	131	100,234	-	5,550,332	13,722,900
Transfers	3,978,910	65,970	140,600	-	(4,185,480)	-
Disposals	-	-	(1,302)	-	-	(1,302)
Exchange adjustment	(1,397,187)	-	-	-	122,396	(1,274,791)
As at 31 December 2010	123,949,355	623,735	1,264,483	10,624	44,281,159	170,129,356
Depreciation						
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
On acquisition of subsidiary	3,083,990	-	59	-	-	3,084,049
Charge for the year	4,741,692	98,704	218,125	1,977	-	5,060,498
Disposals	-	-	(1,037)	-	-	(1,037)
Exchange adjustment	(9,699)	-	-	-	-	(9,699)
As at 31 December 2010	9,653,546	357,270	804,460	8,661	-	10,823,937
Net book value						
As at 31 December 2010	114,295,809	266,465	460,023	1,963	44,281,159	159,305,419
As at 31 December 2009	21,067,103	299,068	437,213	3,940	5,087,783	26,895,107

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

	Kuwaiti Dinars	
	2010	2009
Operating costs	4,743,669	1,724,176
General and administrative expenses	316,829	238,352
	5,060,498	1,962,528

Capital work-in-progress includes pre-payments of KD 6,310,538 (31 December 2009: KD 4,610,157) for aircraft maintenance.

5. Deposits

This represents deposit with a lender of term loan. The effective interest rate as at 31 December 2010 ranged from 0.104% to 0.105% (31 December 2009: nil).

6. Trade and other receivables

	Kuwaiti Dinars	
	2010	2009
Trade receivables	557,610	871,402
Provision for impairment	(110,660)	(110,660)
Net trade receivables	446,950	760,742
Prepayments	536,714	569,131
Deposits	262,104	172,886
Accrued receivables	274,843	313,013
Staff receivables	118,485	116,316
	1,639,096	1,932,088

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 2010, trade receivables of KD 446,950 (31 December 2009: KD 760,742) 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 2010, trade receivables of KD 110,660 (31 December 2009: 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	
	2010	2009
Kuwaiti Dinars	357,596	508,688
Bahraini Dinars	2,216	71,147
Indian Rupees	6,087	23,875
Egyptian Pounds	55,185	56,846
US Dollars	95,519	41,044
Others	41,007	169,802
	557,610	871,402

7. Cash and cash equivalents

	Kuwaiti Dinars	
	2010	2009
Cash on hand	12,523	16,192
Current account with banks	5,630,674	1,966,283
Cash and bank balances:	5,643,197	1,982,475
Time deposits with banks whose original maturity period exceeds three months	2,265,361	1,329,169
	7,908,558	3,311,644

The effective interest rate on time deposits as of 31 December 2010 was 1.5% to 2% (31 December 2009: 1.5% to 2%).

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

	Kuwaiti Dinars	
	2010	2009
Kuwaiti Dinars	1,191,420	1,595,939
US Dollars	6,559,617	1,508,876
UAE Dirham	21,000	60,736
Indian Rupees	2,129	3,001
Others	134,392	143,092
	7,908,558	3,311,644

8. Share capital

During the year, the Ultimate Parent Company sold existing unsubscribed 12,538 fractional shares in the open market.

Accordingly, the issued and fully paid up capital of the Ultimate Parent Company as of 31 December 2010 is KD 22,000,000, paid in cash (31 December 2009 : KD 21,998,746) comprising of 220,000,000 shares of 100 fils each (31 December 2009 - 219,987,462 shares of 100 fils each).

The extra-ordinary general meeting of share holders held on 13 May 2010 resolved to further increase the authorised and issued share capital of the Ultimate Parent Company by KD 20,000,000 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. The capital increase is subject to an Amiri Decree approval, which is pending as of the reporting date.

9. 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. The legal reserve can be utilized only for distribution of a maximum dividend of up to 5% in years when the retained earnings are inadequate for this purpose. In the absence of profits during the year, no amount was appropriated to legal reserve (2009 : Nil).

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. In the absence of profits for the year, the Board of Directors has not proposed any appropriations to voluntary reserve (2009 : Nil). There is no restriction on the distribution of voluntary reserve.

10. Term loans

	Kuwaiti Dinars	
	2010	2009
Term loans are repayable as follows:		
Not later than 1 year	7,746,836	1,372,556
Later than 1 year and not later than 2 years	7,843,642	1,371,701
Later than 3 year and not later than 5 years	35,928,113	6,418,477
Over 5 years	27,288,583	5,982,096
	71,060,338	13,772,274
	78,807,174	15,144,830

The term loans are senior loans and are arranged through JLC, SALC-1 and Owner Trustee. They are denominated in US Dollars and represent amounts due to a local bank and a consortium of European banks. Interest on term loans are based on 3months/6 months LIBOR. The effective interest rate as of 31 December 2010 was 1.24% to 6.52% (31 December 2009 – 2.32% to 5.50%).

The term loans are secured by a first priority charge/pledge over the shares of JLC and SALC-1 and a first priority registered aircraft mortgage over each aircraft.

11. Aircraft lease maintenance reserve

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

12. Due to a related party

This represents short term unsecured credit facility from a related party, which is repayable by 30 June 2012. This carries an interest rate of Central Bank of Kuwait's Discount Rate (CBDR) plus 3%. The effective interest rate as of 31 December 2010 was 5.5% (31 December 2009: Nil).

13. Due to banks

This represents unsecured overdraft facility of USD 45 million (2009: USD 45 million) from a local commercial bank which carries an interest rate of 1.25% over funding cost. The effective interest rate as of 31 December 2010 was 3.31% to 5.75% (2009: 3.13% to 5.5%)

14. Trade and other payables

	Kuwaiti Dinars	
	2010	2009
Trade payables	9,438,284	8,709,568
Accrued expenses	2,917,037	3,568,530
Tax payable	1,062,215	814,175
Staff leave payable	511,163	569,437
Deposit for aircraft maintenance	309,005	-
Others	85,558	97,314
	14,323,262	13,759,024

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

	Kuwaiti Dinars	
	2010	2009
Kuwaiti Dinars	6,882,857	7,014,908
UAE Dirham	122,231	69,076
Euro	163,669	189,786
Indian Rupees	51,897	79,819
US Dollars	1,073,529	817,888
Others	1,144,101	538,091
	9,438,284	8,709,568

15. Revenue

	Kuwaiti Dinars	
	2010	2009
Passenger revenue	36,758,575	41,660,400
Ancillary revenue	3,808,301	4,432,674
Lease rental	1,995,648	-
	42,562,524	46,093,074

16. Operating costs

	Kuwaiti Dinars	
	2010	2009
Staff costs	6,253,292	8,185,683
Depreciation	4,743,669	1,724,176
Aircraft fuel and maintenance	16,877,253	19,254,811
Overflying, landing and ground handling charges	6,672,001	9,741,817
Insurance	463,634	562,934
Lease rental and maintenance	788,216	10,499,609
Others	1,484,914	1,528,913
	37,282,979	51,497,943

17. General and administrative expenses

	Kuwaiti Dinars	
	2010	2009
Staff costs	1,457,112	1,594,362
Rent	119,838	131,146
Professional and consultancy	458,890	94,763
Travel	43,509	101,049
Marketing	1,165,934	1,346,752
Depreciation	316,829	238,352
Others	740,697	920,182
	4,302,809	4,426,606

The number of personnel employed by the Group as of 31 December 2010 was 421 (31 December 2009: 620).

18. Restructuring costs

During the year the Group's management decided to right size its operations. Accordingly, costs of operations which have been restructured and are not expected to recur in future periods have been classified separately.

19. Loss per share

Loss per share is calculated based on the loss attributable to the equity shareholders of the Ultimate Parent Company for the year and the weighted average number of shares outstanding, as follows:

	Kuwaiti Dinars	
	2010	**2009**
Loss for the year (in Kuwaiti Dinar)	(2,804,567)	(8,203,820)
Weighted average number of shares outstanding	219,994,775	219,987,462
Loss per share (fils) – Basic and Diluted	(12.75)	(37.29)

20. 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	
	2010	**2009**
Transactions		
Sale of tickets	1,878,849	1,735,626
Novation of aircraft purchase agreement	-	40,042,231
Aircraft lease rental	-	8,992,842
Administration and distribution expenses	213,680	322,487
Key management compensation		
Salaries and other employment benefits	631,319	608,400
Board of Directors' remuneration	-	35,000

21. 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.

22. 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 2010 is as follows:

	Kuwaiti Dinars					
	31 December 2010			31 December 2009		
	Passenger airline service	Leasing of aircraft	Total	Passenger airline Service	Leasing of aircraft	Total
Segment revenue	40,516,519	12,560,088	53,076,607	46,093,074	-	46,093,074
Less: Intersegment revenue	-	(10,514,083)	(10,514,083)	-	-	-
Revenue from external customers	40,516,519	2,046,005	42,562,524	46,093,074	-	46,093,074
Reportable segment (loss)/ profit	(7,818,789)	5,014,222	(2,804,567)	(8,203,820)	-	(8,203,820)

Reportable segment's assets and liabilities:

	Kuwaiti Dinars					
	31 December 2010			31 December 2009		
	Passenger airline service	Leasing of aircraft	Total	Passenger airline service	Leasing of aircraft	Total
Total assets	84,687,940	88,500,873	173,188,813	73,737,795	-	73,737,795
Allocated liabilities	47,014,770	84,768,152	131,782,922	54,216,636	-	54,216,636
Un allocated liabilities	-	-	25,969,901	-	-	-
Total liabilities	47,014,770	84,768,152	157,752,823	54,216,636	-	54,216,636

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.

23. Derivatives

The Group has hedged part of its interest rate risk from floating rate liabilities using interest rate options. As at 31 December 2010, interest rate options with an aggregate notional amount of US Dollar 23,982,776 and a positive fair value of Kuwaiti Dinar 88,812 were designated as hedging instrument in a cash flow hedge.

24. Contingent liabilities and Commitments

The Group has issued bank guarantee to regulatory agencies and third party service providers amounting to KD 917,767 (31 December 2009 : KD 916,967). 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 twenty nine aircraft (31 December 2009 : thirty) with a list price of approximately KD 569,821,000 (31 December 2009 : KD 602,490,000) over a period of four years.

25. Operating lease income

The future minimum lease rent receivable on the operating lease is KD 46,797,889 (31 December 2009: nil) and is receivable as follows.

	Kuwaiti Dinars	
	2010	2009
Not later than one year	5,355,756	-
Later than one year but not later than five years	21,423,024	-
Later than five years	20,019,109	-
	46,797,889	-

26. 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 2010, Kuwaiti Dinars had weakened against the major currencies by 5% with all other variables held constant the net impact on the loss/equity, as of 31 December 2010, is shown below:

	Kuwaiti Dinars			
	Impact on loss		Impact on equity	
	2010	2009	2010	2009
Currency				
US Dollar	(2,636,866)	951,635	832,122	-
UAE Dirham	(4,483)	1,527	-	-
Indian Rupees	(2,184)	(2,647)	-	-
Others	(54,327)	(6,805)	-	-
Net impact	(2,697,860)	943,710	832,122	-

A 5% strengthening of the Kuwaiti Dinars against the above currencies would have had the equal but the opposite effect on loss/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 short-term deposits, bank borrowings and term loans. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. During 2010 and 2009, the Group's borrowings at variable rates were denominated in US Dollar.

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.

At 31 December 2010, if interest rates at that date had been 50 basis points higher with all other variables held constant, loss for the year would have been higher by KD 456,957 (2009 - KD 136,407).

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 loss for the year.

(iii) Equity price risk

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

Notes to the Consolidated Financial Statements - 31 December 2010

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

	Kuwaiti Dinars	
	2010	2009
Due from a related party	-	41,437,355
Deposits	691,560	-
Trade and other receivables, excluding prepayments	1,102,382	1,362,957
Cash equivalents	7,896,035	3,295,452
	9,689,977	46,095,764

Cash equivalents represents current and short term deposits with banks which are rated A+ to BBB- 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. 6.

(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.

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 2010				
Term Loans	7,746,836	8,090,459	39,370,229	29,667,790
Deposits	-	-	1,259,780	-
Due to related party	-	10,665,951	-	-
Deferred purchase consideration	-	29,291,716	-	-
Due to banks	12,584,195	-	-	-
Trade and other payables	14,014,257	-	309,005	-
Bank Guarantee	917,767	-	-	-
31 December 2009				
Term Loans	1,372,556	1,439,624	7,373,257	6,873,590
Deposits	-	-	-	-
Due to related party	-	-	-	-
Deferred purchase consideration	-	-	-	-
Due to banks	12,336,552	-	-	-
Trade and other payables	13,759,024	-	-	-
Bank Guarantee	916,967	-	-	-

Notes to the Consolidated Financial Statements - 31 December 2010

27. 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 2010 the gearing ratio was 89% (31 December 2009: 55%).

28. 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.

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.

Notes to the Consolidated Financial Statements - 31 December 2010

29. Business combinations

During the year, the Ultimate Parent Company acquired 100% share capital of Al Sahaab Aircraft Leasing Company W.L.L, a Kuwaiti Limited Liability Company engaged in leasing of aircraft and engines, for a total consideration of KD 25,552,422, which was payable by 30 September 2010. On 1 September 2010, the parties agreed to extend the date of settlement of purchase consideration to 02 December 2012 and to charge interest at the rate of CBDR plus 4%.

	Kuwaiti Dinars
Fair value of deferred consideration	24,459,787
Amortised finance cost	1,092,635
	25,552,422
Finance cost from 1 October 2010 to 31 December 2010	417,479
Deferred payment obligation as at 31 December 2010	25,969,901

The following are the provisional values assigned to the identifiable assets and liabilities acquired on the effective date of acquisition of Al Sahaab Aircraft leasing Company WLL, pending finalisation of the purchase price allocation.

	Fair value Kuwaiti Dinars
Cash and cash equivalents	701,424
Property and equipment	125,013,267
Trade and other payables	(413,636)
Borrowings	(62,847,394)
Due to related parties	(41,437,355)
Provisional value of net assets	21,016,306
Purchase consideration settled in cash	-
Cash and cash equivalents in subsidiary acquired	701,424
Cash inflow on acquisition	701,424
Deferred purchased consideration (fair value)	24,459,787
Less: provisional value of net assets acquired	(21,016,306)
Goodwill arising on acquisition	3,443,481

Goodwill represents the excess of cost of acquisition over Group's interest in the fair value of the identifiable assets and liabilities acquired from Al Sahaab Aircraft Leasing Company WLL.

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.