YEAR OF THE BRAND

Jazeera Airways | Annual Report 2017

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2017 FINANCIAL HIGHLIGHTS

KD 56.6 MILLION

OPERATING REVENUE
+7.3% VS. FY2016

KD 7.7 MILLION

OPERATING PROFIT
-12.1% VS. FY2016

KD 8.2 MILLION

NET PROFIT
-23.7% VS. FY2016

11.2%

PASSENGER GROWTH

ON-TIME PERFORMANCE

93%

2017 FINANCIAL STATEMENTS

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INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS

Report on the Audit of Consolidated Financial Statements

Opinion
We have audited the consolidated financial statements of Jazeera Airways K.S.C.P. ("the Parent Company") and its subsidiary (collectively "the Group"), which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2017, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion
We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities, under those standards, are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters
Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each key audit matter below, our description of how our audit addressed the matter is provided in that context.
Revenue recognition
The Group recognises revenue from sale of passenger tickets in income when a passenger has flown or on expiry of ticket validity.

The amount and timing of revenue recognition involves complex information technology systems (IT) for tickets booked, utilised and expired. We have, therefore, considered revenue recognition as a key audit matter. The accounting policy for revenue recognition for passenger revenue is set out in note 2.12 to the consolidated financial statements.

We have evaluated the design and implementation of the key controls over revenue recognition combined with appropriate substantive tests and analytical procedures. In addition, information technology audit specialist members of the audit team have performed the audit of the automated controls surrounding revenue recognition.

Other information included in the Group's 2017 Annual Report
Management is responsible for the other information. Other information consists of the information included in the Group's 2017 Annual Report, other than the consolidated financial statements and our auditor's report thereon.

We obtained the report of the Parent Company's Board of Directors, prior to the date of our auditor's report, and we expect to obtain the remaining sections of the Annual Report after the date of our auditor's report.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained during the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Our opinion on the consolidated financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements
Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Jazeera Airways K.S.C.P.
Kuwait

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS (Continued)

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements (Continued)
In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those Charged with Governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements
Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists, related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate to Those Charged with Governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide to Those Charged with Governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated to Those Charged with Governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current year and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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 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 Companies' Law No. 1 of 2016, and its executive regulations; and by the Parent Company's Memorandum

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS (Continued)

Report on Other Legal and Regulatory Requirements (Continued)

of Incorporation and Articles of Association, as amended; that an inventory was duly carried out; and that, to the best of our knowledge and belief, no violations of the Companies' Law No. 1 of 2016, and its executive regulations; or of the Parent Company's Memorandum of Incorporation and Articles of Association, as amended, have occurred during the year ended 31 December 2017 that might have had a material effect on the business of the Parent Company or on its financial position.

Talal Y. Al-Muzaini
Licence No. 209A
Deloitte & Touche
Al-Wazzan & Co.

Kuwait
8 February 2018

Consolidated Statement of Financial Position as at 31 December 2017

Kuwaiti Dinars

	Note	**2017**	2016
ASSETS			
Non-current assets			
Property and equipment	3	13,769,407	5,624,192
Advances for maintenance	4	12,848,229	10,432,847
Security deposit with lessors		2,644,147	2,482,320
		29,261,783	18,539,359
Current assets			
Inventories		234,735	222,624
Trade and other receivables	5	3,938,226	5,508,594
Cash and bank balances	6	22,778,406	29,441,328
		26,951,367	35,172,546
Total assets		56,213,150	53,711,905
LIABILITIES AND EQUITY			
Equity			
Attributable to Ultimate Parent Company's shareholders			
Share capital	7	20,000,000	20,000,000
Legal reserve	8	3,596,897	2,735,709
Retained earnings		14,600,026	14,225,922
Total equity		38,196,923	36,961,631
Non-current liabilities			
Post employment benefits		2,409,724	2,494,102
Provision for maintenance	9	1,717,131	1,194,848
		4,126,855	3,688,950
Current liabilities			
Trade and other payables	10	9,950,434	9,584,620
Deferred revenue		3,938,938	3,476,704
		13,889,372	13,061,324
Total liabilities and equity		56,213,150	53,711,905

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

Marwan Marzouk Boodai
Chairman

Consolidated Statement of Income - Year ended 31 December 2017

Kuwaiti Dinars

	Note	**2017**	2016
Revenue	11	56,611,376	52,754,535
Operating costs	12	(44,857,612)	(40,286,445)
Operating profit		11,753,764	12,468,090
Other income		760,082	1,755,741
General and administrative expenses	13	(4,041,475)	(3,696,273)
Finance costs		(12,396)	(9,414)
Foreign currency gain/(loss)		151,908	(1,659,932)
Foreign currency translation reserve reclassified to statement of income	14	-	2,427,421
Profit before contributions and taxes		8,611,883	11,285,633
Zakat expense		(85,453)	(111,100)
Contribution to Kuwait Foundation for the Advancement of Sciences		(77,507)	(101,571)
National Labour Support Tax		(213,631)	(277,750)
Profit for the year		8,235,292	10,795,212
Attributable to:			
Shareholders of the Parent Company		8,235,292	10,795,212
Earnings per share (fils)	15		
Basic		41.18	53.98

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

Consolidated Statement of Comprehensive Income - Year ended 31 December 2017

Kuwaiti Dinars

	2017	2016
Profit for the year	8,235,292	10,795,212
Other comprehensive income		
Other comprehensive income to be reclassified to profit or loss in subsequent periods	-	-
Total comprehensive income for the year	8,235,292	10,795,212
Attributable to:		
Shareholders of the Ultimate Parent Company	8,235,292	10,795,212

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

Consolidated Statement of Changes in Shareholders' Equity - Year ended 31 December 2017

Kuwaiti Dinars

Equity attributable to the Ultimate Parent Company's Shareholders

	Share capital	Legal reserve	Retained earnings	Foreign currency translation reserve	Total equity
At 1 January 2017	20,000,000	2,735,709	14,225,922	-	36,961,631
Total comprehensive income for the year	-	-	8,235,292	-	8,235,292
Transfer	-	861,188	(861,188)	-	-
Dividend – 2016 (Note 7)	-	-	(7,000,000)	-	(7,000,000)
At 31 December 2017	20,000,000	3,596,897	14,600,026	-	38,196,923
At 1 January 2016	20,000,000	1,607,146	7,559,273	2,427,421	31,593,840
Total comprehensive income for the year	-	-	10,795,212	-	10,795,212
Foreign currency translation reserve reclassified to statement of income (Note 14)	-	-	-	(2,427,421)	(2,427,421)
Transfers	-	1,128,563	(1,128,563)	-	-
Dividend – 2015 (Note 7)	-	-	(3,000,000)	-	(3,000,000)
At 31 December 2016	20,000,000	2,735,709	14,225,922	-	36,961,631

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

Consolidated Statement of Cash Flows - Year ended 31 December 2017

Kuwaiti Dinars

	Note	2017	2016
Cash flows from operating activities			
Net profit for the year		8,235,292	10,795,212
Adjustments for:			
Depreciation	3	837,019	638,746
Finance costs		12,396	9,414
Foreign exchange (gain) /loss		(151,908)	1,659,932
Provision for post employment benefits		418,339	265,698
Foreign currency translation reserve reclassified to statement of income	14	-	(2,427,421)
Operating profit before working capital changes		9,351,138	10,941,581
(Increase)/decrease in inventories		(12,111)	7,441
Increase in trade and other receivables		(1,276,308)	(351,585)
Increase/(decrease) in provision for maintenance		522,283	(533,469)
Increase/(decrease) in trade and other payables		517,722	(3,857,119)
Increase/(decrease) in deferred revenue		462,234	(1,758,160)
Post-employment benefits paid		(502,717)	(441,331)
Net cash from operating activities		9,062,241	4,007,358
Cash flows from investing activities			
Purchase of property and equipment (net of disposal)	3	(6,135,558)	(1,138,450)
Increase in advance for maintenance		(2,415,382)	(1,761,130)
(Increase)/decrease in security deposit with lessors		(161,827)	485,728
Net cash used in investing activities		(8,712,767)	(2,413,852)
Cash flows from financing activities			
Dividend paid		(7,000,000)	(3,000,000)
Finance costs paid		(12,396)	(9,414)
Net cash used in financing activities		(7,012,396)	(3,009,414)
Net decrease in cash and cash equivalents		(6,662,922)	(1,415,908)
Cash and cash equivalents at			
beginning of year		29,441,328	30,857,236
effects of exchange rate changes on balances held in foreign currencies		-	-
end of year	6	22,778,406	29,441,328

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

Notes to the Consolidated Financial Statements - 31 December 2017

1. Constitution and activities

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

The objects of the Ultimate Parent Company are:
- Air transportation services without the luxury services.
- Carry out all air transportation and other air services and all other related activities including people air transportation, cargo, goods and mails in Kuwait and abroad.
- Provide aircraft and other related asset purchasing services in favour of others and coordinate with the manufacturers.
- Provide both operating and financing lease services as needed and required by the clients "aviation companies".
- Market the aircraft to cover the medium and long-term needs of the aviation companies that ask for such services.
- Assist aviation companies to market their aircraft through sale or lease.
- Engage in providing and financing the technical support and various assets management services to aviation companies.
- Assist in co-investment processes specialized in the aviation industry.
- Invest whether partially or wholly in supplying aircraft, engines and spare parts as per needs of the clients "aviation companies" and manufacturers.
- Provide all aircraft related services to aviation companies and others whether in Kuwait or abroad, such as: handling, maintenance and other services.
- Booking tickets and passengers' services.
- Supply and deal in delivering and managing all services and products required by aviation sector, in order to properly carry out operations and maintain, support and provide aircraft customs brokerage services.
- Owning real estate and movable property to conduct its operations within the limits as stipulated by law.
- Providing services of financing aircraft purchase projects (in whole or in part) in light of the evaluation studies and determining the factors of risks associated with such projects.
- Establishing and utilizing aircraft service stations, warehouses, hangars, workshops, factories, as well as all machineries, devices and equipment related to the company's purposes.
- Investing in fields of air transportation of passengers, goods, facilities and utilities required to serve the company's purposes or its achievement.
- Founding and establishing branches and agencies of the company in Kuwait and abroad as well as conducting the businesses of ground, technical and commercial agency of Arabian and foreign airlines inside Kuwait and abroad.
- Providing service of tourism, travel and freight and conducting all its related businesses including land conveyance, holidays and flights' integrated services, car rental with or without a driver, as well as all touristic businesses related to the company's purposes, in addition to holding celebrations, competitions, exhibitions, currency exchange transactions and selling goods and products on the company's aircraft, offices and premises.
- Providing services of management and marketing in addition to the consultancy services related to the field of aircraft industry.
- Conducting all air cargo businesses inside and outside Kuwait within the limits as stipulated by law.
- Conducting all businesses of transporting, handling, distributing and customs clearance of goods related to air cargo.
- Establishing aviation, wireless studies, engineering, air and ground services institutes, in addition to training the technical personnel in the field of aviation and qualifying the Kuwaiti citizens in order to assume the technical, administrative and commercial businesses required to achieve the company's purposes.
- Owning and granting any privileges, leases or investments, as well as outsourcing any businesses or other rights related aircraft.
- Investing surplus funds in investment and real estate portfolios managed by specialized companies or entities.

The Ultimate Parent Company has the following subsidiaries:

Name of the Company	Country of Incorporation	Percentage of Holding	
		2017	2016
Al Sahaab Aviation Services W.L.L.	Kuwait	99.99%	99.99%

The remaining shareholding in the above subsidiary is held by a party for the beneficial interest of the Company.
The Parent Company and the subsidiary are together referred to in these consolidated financial position as the Group.
The address of the registered office of the Group is Kuwait International Airport, P.O. Box 29288, Safat 13153, Kuwait.
These consolidated financial statements were authorised for issue by the Board of Directors of the Group on 8 February 2018 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 23 .

2.2 Changes in accounting policies and disclosures
Effective for the current year

The accounting policies used in the preparation of these consolidated financial statements are consistent with those used in the previous year. Amendments to IFRSs which are effective for accounting period starting 1 January 2017 did not have any material impact on the accounting policies, financial positions or performance of the Company.

Standards and interpretations issued but not yet adopted

The following IFRS have been issued but are not yet effective and have not been early adopted by the Group. The Group intends to adopt them when they become effective.

IFRS 9 'Financial Instruments':

IFRS 9 'Financial Instruments' replaces IAS 39 Financial Instruments: Recognition and Measurement and is effective for annual periods beginning on or after 1 January 2018. IFRS 9 impacts the classification and measurement of financial assets and financial liabilities, impairment of financial assets and hedge accounting.

The primary impact on the Group relates to the provisioning for future credit losses on its financial assets and the requirement of certain additional disclosures.

The Group will adopt IFRS 9 from the effective date of 1 January 2018, apply it retrospectively and recognize on that date any difference between the previous carrying amount and the carrying amount as at 1 January 2018 in opening retained earnings. The Group will not restate prior periods.

Based on currently available information, the Group does not expect the adoption and application of IFRS 9 will have a material impact on the Group. This is subject to changes as the Group is continuing to analyze that and will disclose the actual impact in its annual consolidated financial statements as of 31 December 2018 that includes the effects of it application from the effective date.

IFRS 15 'Revenue from Contracts with Customers'

In May 2014, the IASB issued IFRS 15 'Revenue from Contracts with Customers', effective for periods beginning on 1 January 2018 with early adoption permitted. IFRS 15 defines principles for recognizing revenue arising from contracts with customers and establishes a five-step model for that. Under IFRS 15, revenue will be recognized as goods and services are transferred, to the extent that the transferor anticipates entitlement to consideration in exchange for those goods and services. The standard also specifies a comprehensive set of disclosure requirements regarding the nature, extent and timing as well as any uncertainty of revenue and corresponding cash flows with customers.

The Group will adopt IFRS 15 from the effective date of 1 January 2018 and apply the cumulative effect approach by retrospectively adjusting retained earnings on 1 January 2018. The Group will not restate prior periods.

Based on currently available information, the Group does not expect the adoption and application of IFRS 15 will have a material impact on the Group. This is subject to changes as the Group is continuing to analyze that and will disclose the actual impact in its annual consolidated financial statements as of 31 December 2018 that includes the effects of it application from the effective date.

IFRS 16 'Leases'
IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted provided the new revenue standard, IFRS 15, is applied on the same date.

2.2 Changes in accounting policies and disclosures (Continued)
IFRS 16 does not significantly change the accounting for leases for lessors. However, it does require lessees to recognise most leases on their consolidated statement of financial position as lease liabilities, with the corresponding right-of-use assets. Lessees must apply a single model for all recognised leases, but will have the option not to recognise 'short-term' leases and leases of 'low-value' assets. Generally, the profit or loss recognition pattern for recognised leases will be similar to today's finance lease accounting, with interest and depreciation expense recognised separately in the consolidated statement of profit or loss and other comprehensive income.

Lessees must adopt IFRS 16 using either a full retrospective or a modified retrospective approach. The Group does not anticipate early adopting IFRS 16 and is currently evaluating its impact.

Other new standards or amendments to existing standard 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 consideration transferred for the acquisition is measured as the fair values of the assets transferred, equity interests issued and liabilities incurred or assumed at the date of the exchange. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. 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 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.

An indemnification received from the seller in a business combination for the outcome of a contingency or uncertainty related to all or part of a specific asset or liability that is recognized at the acquisition date at its acquisition-date fair value is recognized as an indemnification asset at the acquisition date at its acquisition-date fair value.

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
The Group consolidates the financial statements of the Group and subsidiaries (i.e. investees that it controls) and investees controlled by its subsidiaries.

The Group controls an investee if and only if the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee, and
- The ability to use its power over the investee to affect its returns.

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee;
- Rights arising from other contractual arrangements;
- Voting rights and potential voting rights;

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 Group until the date that control ceases.

2.4 Consolidation (Continued)
Non-controlling interest in an acquiree is stated at the non-controlling interest's proportionate share in the recognized amounts of the acquiree's identifiable net assets at the acquisition date and the non-controlling interest's share of changes in the equity since the date of the combination. Total comprehensive income is attributed to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. Changes in the Group's ownership interest in a subsidiary that do not result in loss of control are accounted for as equity transactions. The carrying amounts of the controlling and non-controlling interests are adjusted to reflect the changes in their relative interest in the subsidiary and any difference between the amount by which the non-controlling interests is adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to the Group's shareholders. Non-controlling interest is presented separately in the consolidated statements of financial position and profit or loss. The non-controlling interests are classified as a financial liability to the extent there is an obligation to deliver cash or another financial asset to settle the non-controlling interest.

Consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances based on latest audited financial statements of subsidiaries. Intra Group balances, transactions, income, expenses and dividends are eliminated in full. Profits and losses resulting from intra Group transactions that are recognized in assets are eliminated in full. IntraGroup losses that indicate an impairment is recognized in the consolidated financial statements.

When the Group 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. Any investment retained is recognized at fair value at the date when control is lost. Any resulting difference along with amounts previously directly recognized in equity is transferred to the consolidated statement of income.

Goodwill

Goodwill arising in a business combination is computed as the excess of the aggregate of: the consideration transferred; the non-controlling interests proportionate share in the recognized amounts of the acquiree's net identifiable assets at the acquisition date, 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 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 an entity include the carrying amount of goodwill relating to the entity or the portion sold.

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 to bringing them up 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 & equipment	3-5
Engines	15
Rotables	2-3
Vehicles	5

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

Rotables 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 residual value, useful lives and methods of depreciation are reviewed, and adjusted if appropriate, at each financial year end.

2.5 Property and equipment (Continued)

Manufacturers' credits

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

2.6 Impairment of non-financial assets

If there is an indication that the carrying value of a non-financial asset such as property and equipment is greater that its recoverable amount, it is tested for impairment and the asset is written down to its recoverable amount. Goodwill, if any, is tested, at least annually, for impairment.

The recoverable amount is determined for an individual asset unless the asset does not generate cash inflows that are largely independent of those from other assets or group of assets. In that case, they 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 property and equipment and goodwill.

The 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 four to 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 four to 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.

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. An impairment loss is recognized immediately in the consolidated profit or loss unless the relevant assets are carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease to the extent of any previously recognized revaluation gain.

For non-financial assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceeds the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the consolidated statement of profit or loss. That relating to goodwill cannot be reversed in a subsequent period.

2.7 Financial instruments

Classification

In the normal course of business the Group uses financial instruments, principally trade and other receivables, cash and bank balances and trade and other payables.

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

Recognition/derecognition

A financial asset or a financial liability is recognized when the Group becomes a party to the contractual provisions of the instrument. A financial asset (in whole or in part) is derecognized when the contractual rights to receive cash flows from the financial asset has expired or the Group has transferred substantially all risks and rewards of ownership and has not retained control. If the Group has retained control, it continues to recognize 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 settlement date accounting. Changes in fair value between the trade date and settlement date are recognized in the consolidated statement of profit or loss or in the consolidated statement of comprehensive income in accordance with the policy applicable to the related instrument. 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.

2.7 Financial instruments (Continued)
Measurement

Financial instruments
All financial assets and financial liabilities are initially measured at fair value (which includes transaction cost).

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

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

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

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 determined based on the net present value of estimated future cash flows, including amounts recoverable from guarantees and collateral, discounted at the financial asset's original effective interest rate. An impairment loss is recogonised in the consolidated statement of income.

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

Offsetting financial assets and financial liabilities
Financial assets and financial liabilities are offset and reported on a net basis in the accompanying consolidated statement of financial position when a legally enforceable right to set off such amounts exists and when the Group intends to settle on a net basis or to realise the assets and settle the liabilities simultaneously.

2.8 Inventories
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 original 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.

2.11 Post employment benefits
The Group is liable under Kuwait Labour Law to make payments under defined benefit plans payable to employees at cessation of employment.

2.11 Post employment benefits (Contiuned)
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.

2.12 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.

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

2.13 Borrowing costs
Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of the cost of the asset. Borrowing costs are recognized as an expense in the period in which they are incurred, except to the extent that they are capitalised.

2.14 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 Group, it is the Kuwaiti Dinar and in the case of subsidiary it is their respective national currencies or the applicable foreign currency.

Foreign currency transactions are recorded at the rates of exchange prevailing on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the date of consolidated statement of financial position are translated to Kuwaiti Dinars at the rates of exchange prevailing on that date. Resultant gains and losses are taken to the consolidated statement of income.

2.15 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.

The Group, as a lessee, has a contractual obligation to repair and maintain leased aircraft to a level that meets specified redelivery conditions that aircraft airframes, engines, landing gear and auxiliary power units must meet at the end of the lease term. This requires the Group to schedule periodic maintenance for engine performance restoration and aircraft checks over the lease term to conform to aircraft manufacturer and regulatory specifications. The Group estimates the related maintenance costs based on the contractual reserve rates per hour or cycle in the related lease agreement and recognizes that amount in the statement of income for actual hours or cycles flown. This is subject to adjustment based on actual cost and engineering technical estimates derived from actual and estimated aircraft and engine usage to the next related maintenance check.

2.16 Fair value measurement
Fair values

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible to by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

2.16 Fair value measurement (Continued)
Fair values (Continued)

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities.
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable.
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

For financial instruments quoted in an active market, fair value is determined by reference to quoted market prices. Bid prices are used for assets and offer prices are used for liabilities.

For unquoted financial instruments, fair value is determined by reference to the market value of a similar investment, discounted cash flows, other appropriate valuation models or brokers' quotes.

For financial instruments carried at amortized cost, the fair value is estimated by discounting future cash flows at the current market rate of return for similar financial instruments.

For assets and liabilities that are recognized in the consolidated financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

For the purpose of fair value disclosures, the Group determines classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

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

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

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

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

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

Notes to the Consolidated Financial Statements - 31 December 2017

3. Property and equipment

Kuwaiti Dinars

	Engines & rotables	Leasehold improvements	Furniture & equipment	Vehicles	Capital work-in-progress	Total
Cost						
As at 31 December 2015	5,083,293	1,303,817	2,100,913	28,986	46,315	8,563,324
Additions	36,943	1,450	29,937	-	1,070,120	1,138,450
Transfers	-	820,074	-	-	(820,074)	-
As at 31 December 2016	5,120,236	2,125,341	2,130,850	28,986	296,361	9,701,774
Additions	-	400	38,583	-	8,945,261	8,984,244
Transfers	3,431,593	-	-	-	(3,431,593)	-
Disposal	-	-	(2,067)	-	-	(2,067)
As at 31 December 2017	8,551,829	2,125,741	2,167,366	28,986	5,810,029	18,683,951
Depreciation						
As at 31 December 2015	565,518	829,235	2,029,322	14,761	-	3,438,836
Charge for the year	409,929	181,290	43,183	4,344	-	638,746
As at 31 December 2016	975,447	1,010,525	2,072,505	19,105	-	4,077,582
Charge for the year	496,103	299,691	36,882	4,343	-	837,019
Disposal	-	-	(57)	-	-	(57)
As at 31 December 2017	1,471,550	1,310,216	2,109,330	23,448	-	4,914,544
Net book value						
As at 31 December 2017	7,080,279	815,525	58,036	5,538	5,810,029	13,769,407
As at 31 December 2016	4,144,789	1,114,816	58,345	9,881	296,361	5,624,192

Capital work in progress mainly represents cost of new airport terminal building under construction at Kuwait.

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

	Kuwaiti Dinars	
	2017	2016
Operating costs	500,446	414,273
General and administrative expenses	336,573	224,473
	837,019	638,746

4. Advance for maintenance

This represents advances given to service providers for future maintenance of aircrafts.

5. Trade and other receivables

	Kuwaiti Dinars	
	2017	2016
Trade receivables	662,321	547,258
Provision for impairment	(152,956)	(152,956)
Net trade receivables	509,365	394,302
Prepayments	804,960	902,046
Deposits	534,572	467,899
Staff receivables	-	6,695
Other receivables	2,089,329	3,737,652
	3,938,226	5,508,594

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 2017, trade receivables amounting to KD 509,365 (31 December 2016: KD 394,302) 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 2017, trade receivables of KD 152,956 (31 December 2016: KD 152,956) were past due and impaired and fully provided for. The other classes within trade and other receivables do not contain past due or impaired assets.

Other receivables as of 31 December 2016 includes KD 2,531,442, which was used for acquisition of an equipment during the year.

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

	Kuwaiti Dinars	
	2017	2016
Kuwaiti Dinars	672,788	596,061
US Dollars	2,419,225	4,331,288
Egyptian Pounds	218,731	247,078
UAE Dirham	23,090	15,191
Euro	30,396	29,113
Others	573,996	289,863
	3,938,226	5,508,594

6. Cash and bank balances

	Kuwaiti Dinars	
	2017	2016
Cash on hand	20,711	26,803
Current account with banks	3,637,712	2,570,201
Time deposits with banks	19,119,983	26,844,324
	22,778,406	29,441,328

The effective interest rate on time deposits as of 31 December 2017 was 1.6% to 13.25% (31 December 2016: 1.45% to 13%).

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

	Kuwaiti Dinars	
	2017	2016
Kuwaiti Dinars	22,035,347	26,945,116
US Dollars	201,029	146,178
UAE Dirham	110,066	64,385
Egyptian Pounds	76,977	1,904,381
Euro	49,816	48,484
Others	305,171	332,784
	22,778,406	29,441,328

7. Share capital

The authorised, issued and fully paid up share capital of the Parent Company as at 31 December 2017 is KD 20,000,000 (31 December 2016: KD 20,000,000) comprising of 200,000,000 shares of 100 fils each (31 December 2016: 200,000,000 shares of 100 fils each).

Dividend
The Annual General Assembly of the shareholders of the Parent Company held on 30 April 2017 approved the distribution of cash dividend of 35 fils per share to the shareholders, amounting to KD 7,000,000 for the year ended 31 December 2016 (31 December 2015: KD 3,000,000).

Proposed dividend
The Board of Directors of the Group has proposed a cash dividend of 35 fils per share, amounting to KD 7,000,000 for the year ended 31 December 2017 (31 December 2016: KD 7,000,000). Such dividend, if approved by the Annual General Assembly, will be payable to the registered shareholders as of the date of the Annual General Assembly.

8. Reserves

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

Voluntary reserve
The Parent Company's Articles of Association stipulates that the Board of Directors shall propose appropriations to voluntary reserve, which should be approved by the shareholders. During the year, the Board of Directors did not propose any transfer to voluntary reserve. There is no restriction on the distribution of voluntary reserve.

9. Provision for maintenance

The Group estimates a provision for the maintenance of leased aircraft and related engines, landing gear and auxiliary power units based on its commitments as a lessee in the aircraft operating lease agreements.

10. Trade and other payables

	Kuwaiti Dinars	
	2017	2016
Trade payables	3,201,463	2,259,189
Accrued expense	3,697,461	4,044,360
Tax payable	2,266,215	2,444,077
Staff leave payable	665,463	671,526
Others	119,832	165,468
	9,950,434	9,584,620

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

	Kuwaiti Dinars	
	2017	2016
Kuwaiti Dinars	4,430,072	5,370,045
US Dollars	3,600,701	2,017,949
UAE Dirham	387,497	382,885
Egyptian Pounds	304,676	418,812
Euro	194,778	156,229
Others	1,032,710	1,238,700
	9,950,434	9,584,620

11. Revenue

	Kuwaiti Dinars	
	2017	2016
Passenger revenue	52,280,298	48,772,452
Ancillary revenue	4,331,078	3,982,083
	56,611,376	52,754,535

12. Operating costs

Kuwaiti Dinars

	2017	2016
Staff costs	6,731,690	6,474,337
Depreciation	500,447	414,273
Aircraft fuel and maintenance	13,863,994	11,286,168
Overflying, landing and ground handling charges	6,974,806	6,381,074
Insurance	358,992	377,498
Lease rental	9,221,027	9,100,127
Lease maintenance (see note below)	3,695,992	3,388,315
Others	3,510,664	2,864,653
	44,857,612	40,286,445

13. General and administrative expenses

Kuwaiti Dinars

	2017	2016
Staff costs	2,109,701	1,956,104
Rent	169,827	164,670
Professional and consultancy	125,686	134,802
Travel	80,127	60,901
Marketing	747,953	682,203
Depreciation	336,574	224,473
Others	471,607	473,120
	4,041,475	3,696,273

The number of personnel employed by the Group as of 31 December 2017 was 540 (31 December 2016: 482).

14. Foreign currency translation reserve reclassified to statement of income

Kuwaiti Dinars

	2017	2016
Due to change in functional currency	-	2,078,399
Due to discontinuance of foreign operations	-	349,022
	-	2,427,421

This represents cumulative amount of foreign currency exchange difference that was reclassified from equity to the consolidated statement of income on dissolution of Sahaab Aviation LLC, a wholly owned subsidiary.

15. Earnings per share

Earnings per share is calculated based on the earnings attributable to the equity shareholders of the Group for the year and the weighted average number of shares outstanding, as follows:

	2017	2016
Earnings for the year (in Kuwaiti Dinar)	8,235,292	10,795,212
Weighted average number of shares outstanding	200,000,000	200,000,000
Earnings per share (fils) – Basic and Diluted	41.18	53.98

16. 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

	2017	2016
Balance		
Due from related parties	-	40,708
Due to related parties	2,360	-
Transactions		
Sales and services	377,705	691,746
General and administrative expenses	132,903	114,641
Key management compensation		
Salaries and other employment benefits	712,900	554,541

17. Taxes

The Group has exemptions from tax liability under bilateral tax agreement with countries to which it operates passenger flights. However, the Group is contingently liable for any taxes that may finally be determined by the taxation authorities of those countries.

The Group is liable for alternate minimum tax on sale of four aircraft owned by Sahaab Aviation LLC, incorporated in the United States of America. In 2016, the Group paid this tax based on tax return filed and is awaiting the final tax assessment order.

18. Segment information

The Group's sole operating segment is the operation of a passenger airline service.

19. Contingent liabilities and commitments

Kuwaiti Dinars

	2017	2016
Capital Commitments	7,392,562	-
Bank guarantees	4,961,983	6,404,586
	12,354,545	6,404,586

20. Operating lease expense

The future minimum lease rent payable on aircraft operating leases is KD 51,201,928 (31 December 2016: KD 61,179,632) and is payable as follows:

Kuwaiti Dinars

	2017	2016
Not later than one year	9,114,601	9,245,983
Later than one year but not later than five years	25,612,861	27,737,950
Later than five years	16,474,466	24,195,699
	51,201,928	61,179,632

This does not include the contingent rent payable based on future market interest rates.

21. 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. 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 2017, Kuwaiti Dinars had weakened against the major currencies by 5% with all other variables held constant the net impact on the profit/equity, as of 31 December 2017, is shown below:

Kuwaiti Dinars

	Impact on profit		Impact on equity	
Currency	2017	2016	2017	2016
US Dollar	(49,022)	122,976	-	-
UAE Dirham	(12,717)	(15,165)	-	-
Euro	(5,728)	(3,932)	-	-
Egyptian Pounds	(448)	86,632	-	-
Others	(7,677)	(30,803)	-	-
Net impact	(75,592)	159,708	-	-

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

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

Notes to the Consolidated Financial Statements - 31 December 2017

The Group's interest rate risk arises from time deposits with banks.

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 wherever necessary.

At 31 December 2017, if interest rates at that date had been 50 basis points higher with all other variables held constant, profit for the year would have been higher by KD 95,600 (31 December 2016: profit would have higher by KD 134,222).

A 50 basis points decrease in the interest rates at the date of statement of financial position would have had the equal but the opposite effect on profit for the year.

(iii) Equity price risk
Equity price risk is the risk that the value of financial instruments will fluctuate as a result of changes in market prices, whether these changes are caused by factors specific to individual instrument or its issuer or factors affecting all instruments, traded in the market.

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 manages this risk by closely monitoring actual and forecasted jet fuel cost. The Group may use jet fuel 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.

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

Kuwaiti Dinars

	2017	2016
Advance for maintenance	12,848,229	10,432,847
Trade and other receivables, excluding prepayments and other receivables	1,043,937	868,896
Cash equivalents (bank deposits)	22,757,695	29,414,525
	36,649,861	40,716,268

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

The Group's trade receivables are substantially secured by bank guarantees and largely comprise of amounts receivable from reputed travel agents. Concentration of credit risk with respect to trade receivables is 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. 5.

(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 financial liabilities of the Group mature within a period of 12 months.

22. 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 2017 and 31 December 2016, the Group did not have any borrowing.

23. 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 estimates were based. The areas where estimates and assumptions are significant to the financial statements, or areas involving a higher degree of judgement, are:

Leased aircraft maintenance costs
The Group incurs liabilities for maintenance costs in respect of its leased aircraft during the course of the lease term. A charge is made in the consolidated profit or loss each month based on the number of flight hours or cycles used to build up an accrual to cover the cost of heavy-duty maintenance checks when they occur. Additional maintenance costs for aircraft engines are considered for accrual based on the engineering technical estimates of operational requirements. This requires a significant level of judgment to determine the estimated flying hours and cycles up to the next due and planned checks and the related cost at that time.

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.

Accruals for aircraft flying costs
The management accrues for the landing, parking, ground handling, and other charges applicable for each airport in which the Group operates flights on a monthly basis. These estimates are based on the rate of charges applicable to each airport based on the agreements and recent invoices received for the services obtained. Similarly, accruals for overflying charges are estimated based on the agreement entered with each country. Actual charges may differ from the charges accrued and the differences are accounted for, on a prospective basis.

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