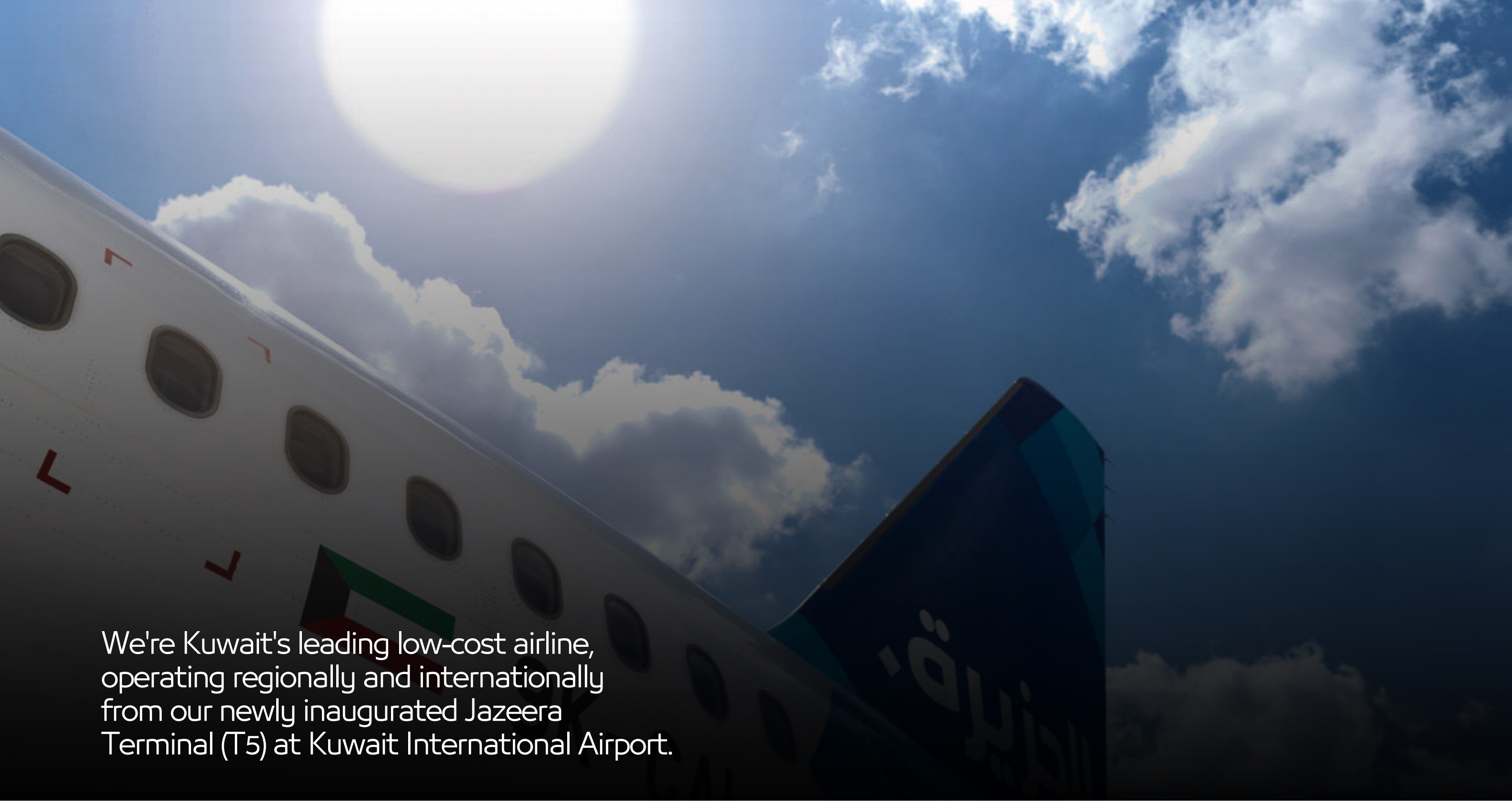
الجزيرة.
Jazeera.

2018 ANNUAL REPORT

GROWTH OPPORTUNITIES FROM A STABLE BUSINESS

jazeeraairways.com


We're Kuwait's leading low-cost airline, operating regionally and internationally from our newly inaugurated Jazeera Terminal (T5) at Kuwait International Airport.

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Jazeera Airways in a Nutshell

Our Airline

Founded in April 2004 as the first non-government-owned airline in the Middle East, Jazeera Airways has established itself as a national airline of Kuwait and is today a publicly-traded company listed on the Kuwaiti stock exchange. From its first flight in 2005, Jazeera Airways brought around a revolution in the travel industry in Kuwait and the Middle East region, offering competitive fares and advanced services that made travelling easier, faster and more accessible to travelers.

Passengers in 2018

1,987,285

+46.4% from 2017

Our Terminal 5

- **3.5** million passengers capacity annually
- **4,750** sqm total area
- **2,500** sqm retail and duty free
- **350** parking spaces
- **12** check-in counters
- **8** self-check-in kiosks
- **1,200** baggage handled per hour
- **90** meters from parking to boarding
- **4** boarding gates

Our Fleet

9 aircraft

We operate a fleet of Airbus A320s and an Airbus A320neo, the first to be operated in the Middle East. Each aircraft is fitted with the signature Haeco leather seats and a two-class cabin.

A320 neo

- Significant fuel savings up to 18% over traditional engines.
- Allows more flying time expanding flying radius to +6hrs.
- Improved customer experience due to lower noise.

Business Class

Business travelers enjoy priority service, check-in and boarding, highly flexible tickets, a complimentary menu, access to the business lounge and 50kg in baggage allowance.

Economy Class

With its competitive fares and offering, travelers enjoy a seamless experience from check-in to boarding, 30kg in baggage allowance and a great network of destinations.

Our Network

27 destinations

Middle East, India and Europe.

and growing...

Our Products and Services

Website and Mobile App
The state-of-the-art website and mobile app provides an easy interface to make bookings and check-in online at the click of a button.

Park & Fly
Park & Fly is ideal for passengers who opt to leaving their car at the airport for a nominal fee per day.

Jazeera Screens
The wireless inflight entertainment service is available on all flights for free.

Jazeerati
The loyalty program is frills free and rewards our frequent flyers with a free one-way ticket for every ten flights taken within a year.

Jazeera Magazine
The inflight bilingual magazine reveals the best kept secrets and latest happenings in the cities served by Jazeera Airways.

Jazeera Cafe
The on-board menu offers passengers a wide selection of meals and beverages, including coffee by leading brands.

Our Human Capital

The success of Jazeera Airways is led by a diverse and strong team of over 640 employees working across the airline's network and ensuring day in day out that each customer is attended to.

645
employees
+19.4% from 2017

30%
female employees

240
cabin crew
+52.9% from 2017

116
deck crew
+63.4% from 2017

Our Outlook

As the airline continues to expand, Jazeera Airways prepares to take delivery of three new A320neo aircraft in 2019 and to introduce new destinations in the Indian sub-continent, the Middle East and Europe.

Chairman's Letter

Dear Shareholders,

2018 was a transformational year for Jazeera Airways and its business as we continued to deliver on our strategy by expanding and diversifying our product and service offer, and grasping new opportunities that enable us to maintain our track-record performance of positive earnings year after year since Q3 2010.

The year in review: Grasping new opportunities to sustain growth

There is no doubt that the highlight of the year was the inauguration of our new dedicated Jazeera Terminal. The Terminal had been a long sought after operational facility that we've invested efforts to develop as it would enable us to enhance the travel experience we provide to our customers, independently from the set logistics in the main terminal of the Kuwait International Airport.

The impact was immediate. Our passengers enjoyed a faster travel experience from parking to check-in to boarding through our dedicated gates, away from the congestion of the main terminal, especially during the summer season.

Jazeera Airways also took delivery of the first A320neo to be delivered and operated in the Middle East, and the first of four A320neo aircraft on order. The introduction of the fuel-saving and new noise-reduction engine aircraft to our growing fleet supports our continued network expansion to cover destinations that increase our flying radius from Kuwait up to 6.5 hours. In 2019, we will commence flights to London Gatwick with the A320neo.

Caption: Chairman Marwan Boodai during the inauguration ceremony of Jazeera Terminal (T5) at Kuwait Intenational Airport on May 2018.

Operating out of Kuwait, it was only natural to expand our network to serve one of the two largest expatriate communities in the country, the first being the Egyptian community, which we already serve with six routes, and the second, the Indian community. We continued to expand in 2018 to serve the one million Indian nationals in Kuwait to Kochi, Ahmedabad, Mumbai and New Delhi.

Up until last year, routes between India and Kuwait were underserved and competing regional airlines offering one-stop connectivity between Kuwait and India have historically taken market share from our local customer-base. Our strategy to expand with direct flights between both countries has satisfied a latent demand in the market and provided direct flights between both countries. The launch of these new routes had an immediate impact on demand and market shares. This is what we call the Jazeera Effect. Our CEO will provide further insights on the impact on demand and market shares.

With these new routes, Jazeera Airways took the opportunity to increase frequency to key destinations, connecting passengers from India to destinations such as Saudi Arabia and other Gulf countries, particularly Qatar.

Today, not only is Jazeera Airways carrying passengers point to point to and from Kuwait, but it is expanding its network traffic, routing passengers through the Kuwait hub to their ultimate destinations. The contribution of connecting traffic has increased from 3% in 2017 to 18% by the end of 2018.

These expansions were complemented by supporting services that enhanced and created new ancillary sources of revenue, increasing revenue from ancillary services by 40.8% from 2017.

> "The Terminal had been a long sought after operational facility that we've invested efforts to develop as it would enable us to enhance the travel experience we provide to our customers, independently from the set logistics in the main terminal of the Kuwait International Airport."

Positive earnings, zero debt

Jazeera Airways ended the year with a record increase in the number of passengers, growing by 46.4% year-on-year, and a significant increase in aircraft utilization by 25.3% to reach 13:06 hours, an increase in the number of departures by 39.9% to 16,194 departures and a high load factor of 75.2%.

Our operating revenue stood at KWD82.4 million, a 45.5% increase from 2017, our net profit at KWD6.7 million whereas our operational profit stood at KWD6.8 million. The net profit and operational profit include KWD1.5 million one-off costs related to irregular events and a KWD534 thousand in operating loss related to facilities' operations.

Yield stood at KWD40.8, slightly lower than historical trends. With the launch of new routes during the year, we offered discounted rates in an aim to acquire market share and customer loyalty. Yield was also affected by an overcapacity in the regional market and the introduction of a new low-cost carrier in the local market for nine months of the year.

The airline also registered non-recurring events that impacted our bottom line. During the year, Kuwait International Airport witnessed a total shutdown of operations twice during Q4 2018, each exceeded 12 hours due to bad weather conditions. Cochin International Airport was also affected by heavy floods that parked one of our aircraft for over three days. Our fleet was also subject to two bird strikes and an operational incident, requiring maintenance. These non-recurring events costed KWD1.5 million.

Marco-economic challenges persisted during the year. Fuel prices continued their upward trend since late 2017, regional overcapacity lingered while local currencies in Turkey and India, two countries served by Jazeera Airways, fell significantly during the year. Jazeera Airways also continued to operate in a highly competitive environment, where the majority of airlines are government-owned.

Despite these headwinds, our airline's positive earnings are the result of a series of investments in opportunities and customer-centric services that aimed at increasing our capacity, diversifying our customer-base and tapping into new sources of revenue, which enabled Jazeera Airways to strengthen its operational-base and sustain profitability along the way.

KWD **82.4** million
in operating revenue
+45.4% from 2017

KWD **6.7** million
in net profit

KWD **6.8** million
in operating profit

KWD **40.8**
in average yield

Caption: Jazeera Terminal (T5) at Kuwait Intenational Airport during the inauguration in May 2018.

Board recommendation

We are also pleased to announce that the Board of Directors has recommended cash dividend of KD7 million, subject to Shareholders' approval at the annual general meeting (AGM).

Our outlook for 2019

Our objective for 2019 is to continue expanding our network, and subsequently tap into new segments of customers. We plan to introduce routes to new destinations in Europe, India, Pakistan, Bangladesh and the Gulf. The expansion will be supported with the delivery of three new A320neo aircraft, as part of a plan to increase our fleet to over 20 aircraft by 2022.

Financially, we are looking into hedging against fuel price fluctuations to reduce costs and sustain stability as we move forward. Our home-country Kuwait is foreseen to remain a stable economy in 2019. Standard & Poor's Financial Services has reaffirmed its 'AA/A-1+' rating on long- and short-term foreign and local currency sovereign credit ratings of the country.

As we complete 14 years of innovation, reliability and a growing business that has successfully weathered through global and regional economic challenges, we are very proud of our achievements, the efforts and hard work of everyone at Jazeera Airways. We take this opportunity to thank our shareholders for their continued trust in our strategy and vision for the long-term, and our customers for their loyalty and choosing to fly Jazeera Airways every time.

Sincerely,

Marwan M. Boodai

> **"Our objective for 2019 is to continue expanding our network. We plan to introduce routes to new destinations in Europe, India, Pakistan, Bangladesh and the Gulf. The expansion will be supported with the delivery of three new A320neo aircraft, as part of a plan to increase our fleet to over 20 aircraft by 2022."**

Chief Executive Officer's Letter

Dear Shareholders,

Jazeera Airways ended 2018 with a stronger foundation to its business model having expanded to new routes with high demand, introducing our new Terminal, improving our sales and distribution, implementing a cost optimization program and aggressively investing in new opportunities that add more value to our customers, shareholders and partners.

Expanding our network, catering to a large customer-base

We focused in 2018 on expanding into the Indian Subcontinent, introducing Kochi, Ahmedabad, Mumbai and New Delhi. As the Chairman has previously highlighted, routes between India and Kuwait were underserved and the one million Indian nationals who call Kuwait home turned to competing regional airlines offering one-stop connectivity between Kuwait and India.

Our expansion to these destinations had an immediate impact on our market shares and number of passengers flying directly from Kuwait to India.

The Jazeera Effect on routes between Kuwait and India was clear in 2018.

The number of passengers between Kuwait and Ahmedabad increased by 33%, with Jazeera Airways grabbing a 42% market share. Number of passengers also grew on routes between Kuwait and Hyderabad, Kochi and Mumbai by 343%, 23% and 15% respectively, with Jazeera Airways grabbing 87%, 27% and 13% market shares respectively. During the year, other airlines did not increase their capacity on these routes, clearly indicating that Jazeera's launch of flights, and subsequently increasing seat capacity has redirected passengers previously choosing connecting flights to fly on our direct routes. New Delhi was operational in the last two weeks of the year. *

With our customer-base expanding as well, Jazeera Airways grabbed the opportunity to serve connecting passengers from India to destinations such as Saudi Arabia and other Gulf countries, particularly Qatar. We have increased our daily flights frequency to both Jeddah and Qatar and continued to offer convenient timings for transiting customers.

The connectivity opportunity expanding as well with the launch of flights to Medinah in the Kingdom of Saudi Arabia, which we serve during the religious tourism season.

Catering to an increased demand for touristic destinations that are close from the Middle East region, we launched flights to Tbilisi, Georgia, and ended the year with a 43% market share on the route.

By year-end, Jazeera Airways was no longer merely a point-to-point airline, but routing passengers through the Kuwait hub to their next destination on our airline. The contribution of connecting traffic has increased from 3% in 2017 to 18% in 2018. Total number of passengers grew by a record 46.4% year-on-year to reach close to two million passengers.

Expanding our fleet, investing in efficiency

Jazeera Airways has taken delivery of two new aircraft in 2018, one of which is the first Airbus A320neo aircraft to arrive in the Middle East.

The first of four A320neo aircraft committed, the new aircraft supports our continued network expansion to cover destinations that increase our flying radius from Kuwait up to 6.5 hours. In 2019, we will commence flights to London Gatwick with the A320neo. The fuel-saving and new noise-reduction engine aircraft is also part of our strategy to invest in efficiency as part of our cost optimization program.

We've also optimized our aircraft utilization by

* Source: Annual statistics issues by the Kuwait Directorate General of Civil Aviation for 2018.

29.5% to reach 13:6 hours, supporting an increase in number of departures by 39.9% to 16,194 departures.

Expanding our facilities, inaugurating our dedicated Terminal

Inaugurated in May 2018, our dedicated terminal at Kuwait International Airport is a significant game-changer for our operations and customer experience.

One of only a few terminals owned and operated by an airline in the world, the Jazeera terminal, Terminal 5 (T5) was designed to facilitate the journey of our customers and provide them with a fast and efficient travel experience with state-of-the-art facilities that offer passengers advanced self-service check-in options, a modern design to ease the flow of passengers, retail offerings, ample parking spaces, and most importantly, a quick and simple 90-meter journey from parking to boarding.

Expanding our services, increasing revenue from ancillary sources

Complementing our customer-centric approach, we continued to invest in innovative services that not only give choices to our customers and add value to their experience traveling with Jazeera Airways, but also create new ancillary sources of revenue. We have launched a new on-board menu, Jazeera Café, offering wide selection of food and beverages in Economy Class, inaugurated the duty free and other retail shops at the Terminal, introduced Jazeera Screens in-flight entertainment system and seat reservation fares for priority seating. By producing these revenue-generating innovations we are able to maintain our low fare proposition but also provide differentiation in the market.

Maintaining industry standards of operations

In parallel to our focus on expanding our product offering, we remained committed to maintaining our high standards of operational efficiency, safety standards and control systems. And in December 2018, Jazeera Airways was recertified by the IATA Operational Safety Audit (IOSA) Program, an international recognition of our operational management and control systems.

Engaging with our customers

The expansion into new destinations as well as the introduction of new services and facilities have enabled us to strengthen our product offering as we continued to introduce customer-centric products that cater to their needs. Our positioning has shifted from being a small national airline to a regional carrier and beyond, offering a smooth, simple and straight forward travel experience every time. We have focused our marketing on digital platforms, engaged with our customers through these channels, invested in our customer relations management tools to better serve them, and reinforced our low-cost value proposition in our communications.

13:06 hours
aircraft utilization
+29.5% from 2017

16,194
departures
+39.9% from 2017

75.2%
in load factor
up from 73.9% in 2017

46.4%
growth in passengers

Our efforts have yielded a high load factor of 75.2% in 2018, up from 73.9% in 2017.

Upholding our social responsibility

Jazeera Airways is proud of its Graduate Development Program and continues to support the professional development of youth in Kuwait through hands-on training across the divisions of the airline. The program provides a six-month training curriculum that aims to build skills and integrate young graduates in the aviation industry by offering them employment opportunities at the end of the program. The program aligns with the goals set in Kuwait's development plan, New Kuwait 2035.

We also extend our support to those in need. 2018 was the year the state of Kerala in India was heavily affected by floods. We have taken it upon ourselves to support local businesses who have been affected by providing aids transportation between Kuwait and Kochi.

What's next

Despite operating in a challenging environment among government-backed airlines, Jazeera Airways continues to deliver on target, registering an increased number of passengers, a better load factor, improved sales and distribution, reduced costs and increased sources of revenue.

We are investing in new aircraft, diversifying our offering, catering to new customer segments and most importantly, ensuring that we continue to achieve a healthy rate of return to our shareholders, and giving back to our community through educational, social and professional integration programs.

In 2019, we plan to launch new routes to London, the Indian Subcontinent and more in the Middle East region. We will take delivery of three new A320neo aircraft to support the expansion. We will continue to maintain our operational excellence and ensure every customer enjoys their experience traveling with Jazeera Airways.

I want to thank the Jazeera Airways team who continue to deliver excellence in every aspect of our business in one of the most competitive industries in the region and the world. I thank our Board of Directors for their continued support to the management team. And most importantly, I thank our customers and shareholders for choosing Jazeera Airways.

Sincerely,

Rohit Ramachandran

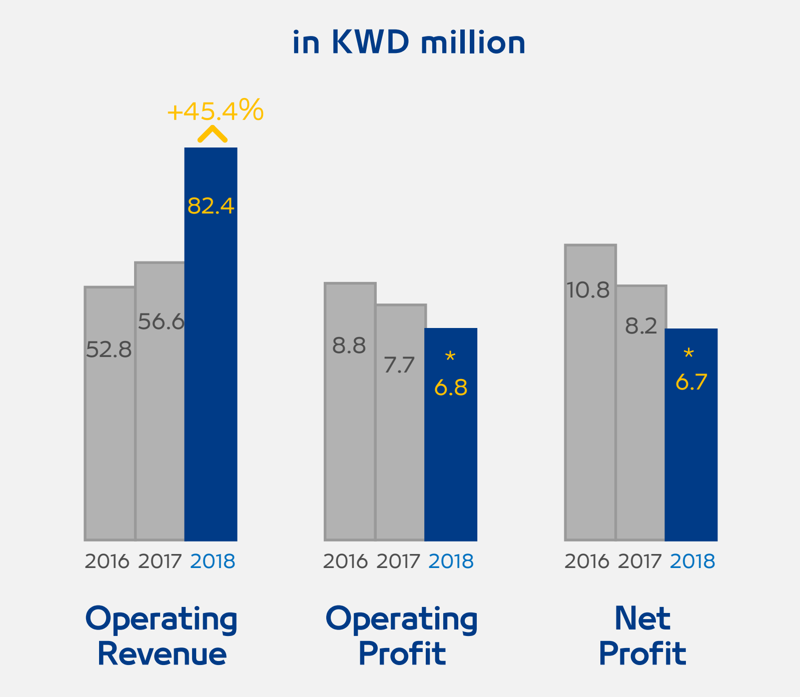
> **"We are investing in new aircraft, diversifying our offering, catering to new customer segments and most importantly, ensuring that we continue to achieve a healthy rate of return to our shareholders, and giving back to our community through educational, social and professional integration programs."**

Financial Highlights

KWD **82.4** million
in operating revenue
+45.4% from 2017

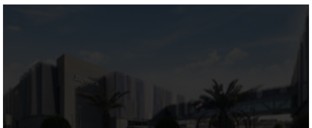
KWD **6.8** million
in operating profit
-12.1% (Adjusted from KWD8.8 million, YoY: 13.9%)*

KWD **6.7** million
in net profit
-19.0% (Adjusted from KWD8.7 million, YoY: 5.2%)*



* Includes KWD1.5 million one-offs related to irregular events in 2018 and KWD534 thousand operating loss related to facilities operations.

Operational Headlines



Terminal 5

Launched in May 2018, Jazeera Terminal gives more room to expand.

A320neo

Took delivery of the first A320neo to be operated in MENA.

Three more to be delivered in 2019.

New Routes

Expanded in the Indian Subcontinent to serve a large customer-base.

Five destinations in India in 2018, and more beyond in 2019.

New Services

Introduced complementary services and value-added products.

Operational Highlights

close to **2** million passengers
+46.4 from 2017

13:06 hours aircraft utilization
+29.5% from 2017

75.2% in load factor
+73.9% in 2017

16,194 departures
+39.9% from 2017

9 aircraft
up from 7 in 2017

Passengers in million

2016	1.2
2017	1.4
2018	2.0

Load Factor

2016	69.3%
2017	73.8%
2018	75.2%

Utilization in hours

2016	10:12
2017	10:54
2018	13:06

Number of Departures

2016	11.1k
2017	11.6k
2018	16.2k

Number of Aircraft

2016	7
2017	7
2018	9

Ancillary Revenue

+11.8%
from 2017

eCommerce Sales

.COM

+40.8%
from 2017

Market Shares on New Routes in 2018

Ahmedabad
42%

Kochi
27%

Tbilissi
43%

Mumbai
13%

Lahore
25%

New Delhi
Operated in last 2 weeks of 2018

2018 Achievements:
The year we transformed our offering

We launched our Jazeera Airways Terminal (T5), seven new routes, a new on-board menu, Jazeera Screens and took delivery of the first A320neo to be operated in the Middle East.

Terminal 5: Fully operated by Jazeera Airways

Jazeera Airways officially inaugurated its dedicated Terminal 5 (T5) at the Kuwait International Airport on May 20, 2018 and welcomed its first passengers starting Tuesday, May 22.

The start of operations marked a very exciting moment for our airline as it was the first terminal owned by a non-government airline in the Middle East and helped ease traffic congestion at the Kuwait International Airport.

Since the opening of the Jazeera Airways terminal, our customers have enjoyed an easy, fast and fully-dedicated gateway to travel from and back to Kuwait. With more services and features ready to roll out at T5 in 2019, customers enjoy today a seamless travel experience with from booking to flying from Kuwait, and vice versa.

The Design

Jazeera's T5 was designed to facilitate the journey of passengers and provide them with a seamless travel experience thanks to a capacity of around 3.5 million passengers annually and state-of-the-art facilities that offer passengers advanced self-service check-in alternatives, a modern design to ease the flow of passengers, retail offerings, lots of parking spaces, and most importantly, a quick and simple 90-meter journey from parking to boarding. Our fast-paced travelers no longer had to worry about traffic at the Airport.

The Terminal covers two floors.

The Facilities

Twelve check-in counters are located at the ground floor level, of which two are dedicated to business travelers and baggage drop-offs for passengers who have checked-in online. Two car park check-in counters and dedicated spaces were reserved for self-service check-in kiosks at the check-in area and parking structure to enable passengers avoid queues.

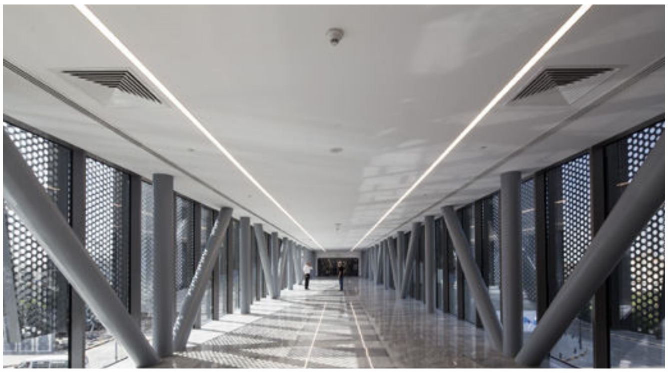
The terminal has its own passport control desks at departure and arrival, with only one security check after passport control and none required at the gates due to the new passenger flow system designed to separate departing and arriving passengers. The terminal connects directly to the Jazeera Airways dedicated gates B1, B2 and B3 at the Kuwait International Airport, and an additional gate was made available for Jazeera Airways in the beginning of 2019.

On the second floor, passengers can complete passport control requirements before heading to the gates. The second floor is also connected with a bridge to the dedicated carpark building which is part of the facilities located opposite of the Terminal.

The curbside of the Terminal offers many retail services that range flight information displays (FIDS), baggage reclaims, lost and found and ticketing sales to limousine and rental cars services, ATMs, a currency exchange office, telecom and retail stores, and coffee shops.

Transit Area

Passengers have access to a duty free, restaurants, coffee shops, the business lounge, and smoking and prayer rooms.



Jazeera's Terminal 5 was completed in a record 11-month period, from foundation to operation. The great challenge was led by a team of Jazeera Airways professionals and external airport and aviation consultants. The operational readiness airport transfer (ORAT) was conducted in the five months before the official inauguration.

Operational Readiness Airport Transfer (ORAT)

The process focuses on identifying, classifying and addressing every item that needs to be delivered within the construction phases, testing of equipment, baggage systems, Terminal facilities, training of staff and simulation of operations.

The process covered operations, facilities and maintenance, government authority familiarization, and commercial tenant introduction.

Terminal Performance

The performance of T5 is monitored and measured daily through Key Performance Indicators that comprise passenger and baggage processing, security and passport control, gate utilization, maintenance statistics, system and equipment availability, commercial performance and security effectiveness.

The measurement is completed following the international standards of the Airport Development Reference Manual (ADRM) adopting the IATA Level of Service C as the base level to monitor our services providers as well as the stakeholders directly involved in the operations performance.

Service Level Agreement (SLA)

Jazeera Airways maintains and monitors its airport Service Level Agreements (SLA) for facilities management, operations and a strong and competitive customer service.

These SLAs cover general maintenance and landscaping services; Baggage Handling System (BHS) maintenance services; IT services and information systems provider; Security Screening equipment; security personnel services provider; cleaning services provider; trolley management services provider; commercial tenants at the terminal; and passenger services at the terminal. Additional third-party SLAs are maintained and monitored for the check-in system service provider; departure control system service provider; and ground handling services provider.

Level of service is jointly agreed to establish best practices and provide openness, transparency and collaboration, as well as promote a culture of continuous improvement.

Parking Facilities

Short-Term Parking

The terminal is connected to a parking structure which accommodates 350 cars and gives passengers access to the terminal through a connecting tunnel.

Long-Term Parking: Park & Fly

Complementing the customer-centric terminal, Jazeera Airways' Park & Fly service will connect passengers to the new terminal through a shuttle. Located at the Jazeera Airways headquarters opposite the Amiri Terminal, Park & Fly is ideal for passengers who opt to leaving their car at the Airport for a nominal fee of KD2.500 per day. Passengers can park their car, check-in, drop-off their baggage and enjoy a shuttle transport to the new terminal.

1.2million
passengers traveled through T5
from inauguration to end 2018

The First Flight from T5

Passengers travelling to Cairo on May 22 were the first to check-in through T5, departing from gate B2 at 9:45am. Passengers returning from Najaf were the first to arrive at T5, landing in Kuwait at 12:20pm.

Duty Free and Retail Shops

The duty free area at T5 was opened in partnership with Dufry and That Al Salasil, two leaders in the field having consistently served the Kuwait International Airport for over a decade. Covering 470 square meters, the duty free offers over 3,000 items from food, beauty, travel accessories and jewellery, in addition to exclusive offerings and novelties that are introduced all year-long in the food and beauty categories.

Retail, restaurants and coffee shops have also opened in the duty free and check-in areas by Q4 2018, providing limousine and rental cars services, ATMs, a currency exchange office, telecom and goods stores, as well as food and beverage options that include international brands such as Costa Coffee.

Security and Safety Standards

Passport control and security are operated by the Kuwaiti Ministry of Interior (MOI) for border control, aviation security and police. Kuwait International Airport manage customs, while the Terminal is supervised by Kuwait's Directorate General of Civil Aviation (DGCA).

- Passport control: 16 positions (eight for departures and eight for arrivals)
- Passenger security screening: four X-ray machines (three for passengers and one for staff)
- One security screening at the Gates
- Baggage screening:
  - CTX Computer Tomography X-ray
  - Capacity for 700 up to 850 bags/hour
  - X-ray Out of Gage at departures
  - X-ray Out of Gage at arrivals
  - Customs' X-ray

3.5million
passengers capacity annually

4,750sqm

1,200bags at departure, 600 at arrival

12check-in counters

8self-check-in kiosks

350short-term parking

IATA Level of Service C compliance

What's Next at T5?

From the inauguration of T5 to date, Jazeera continues to introduce new enhancements to its customer experience.

By Q1 2019, we've introduced state-of-the-art self-check-in kiosks at T5 in addition to a series of services and new offerings that add value to passengers and make their travel experience easier with Jazeera Airways, giving them more freedom to plan and choose their travel needs.

These offerings include free WiFi internet service at its gates at T5, as well as new restaurants and shops at the duty free and terminal areas.

Jazeera Airways is also providing support to passengers with a dedicated Help Team present at the terminal and a 24-hour T5 call center service at 176.

We're also working to expand our baggage reclaim capacity, entry visa services, transfer desks as well as additional aircraft contact gates and boarding bridges.

A complete renovation of existing gates will be also part of the next enhancements to attend to our peak capacity and prepare to serve select destinations in Europe.

Inauguration of VIV Lounge

VIV Lounge will be the newest VIP lounge and service to be introduced at Kuwait International Airport in 2019. Located at Terminal 5, VIV Lounge offers an exclusive service for high-ranked officials, senior business executives and VIP passengers who are looking for a prioritized and private travel experience from arrival at the Airport to boarding their flight, as well as upon arrival at Kuwait International Airport.

Future Expansion Plans for T5

Further expansions to the Terminal's master plan are on our schedule to serve passenger traffic growth and operate new aircraft models.

These expansion plans will also give us total flexibility to serve more passengers, connecting ones, expand our networking strategies and improve even more our load factor

New Routes: Grabbing Leading Market Shares

2018 the year of transformation as we bullishly continued to expanded in a leading market for our airline: The Indian sub-continent. We've introduced four new destinations in India to serve the one million Indian nationals living in Kuwait, and connecting passengers from India to the Middle East.

Up until last year, routes between India and Kuwait were underserved and competing regional airlines offering one-stop connectivity between Kuwait and India have historically taken market share from our local customer-base. Our strategy to expand with direct flights between both countries has satisfied a latent demand in the market and provided direct flights between both countries.

By end of 2018, Jazeera Airways was operating an average of 21 flights per week to India.

And the Jazeera Effect on routes between Kuwait and India was clear in 2018. The number of passengers between Kuwait and Ahmedabad increased by 33%, with Jazeera Airways grabbing a 42% market share. Number of passengers also grew on routes between Kuwait and Hyderabad, Kochi and Mumbai by 343%, 23% and 15% respectively, with Jazeera Airways grabbing 87%, 27% and 13% market shares respectively. During the year, other airlines did not increase their capacity on these routes, clearly indicating that Jazeera's launch of flights, and subsequently increasing seat capacity has redirected passengers previously choosing connecting flights to fly on our direct routes. New Delhi was operational in the last two weeks of the year.

January 2018

Kochi **27%**
3 airlines on route

Ahmedabad **42%**
4 airlines on route

Mumbai **13%**
3 airlines on route

April 2018

Madinah *
4 airlines on route

June 2018

Tbilisi **43%**
3 airlines on route

Lahore **25%**
4 airlines on route

December 2018

New Delhi **
2 airlines on route

* Aviation regulations limits airlines with number of seats provided on the route
** Operational in the last two weeks of 2018

Shares are calculated based on number of passengers flying on Jazeera Airways on the route during 2018.
Source: Annual statistics issues by the Kuwait Directorate General of Civil Aviation for 2018.

Grabbing Opportunities on Connecting Routes

Today, with the continuous growth in our network, not only is Jazeera carrying passengers point to point to and from Kuwait but it is expanding its network traffic, routing passengers through the Kuwait hub to their ultimate destinations. The contribution of connecting traffic has increased from 3% in 2017 to 18% by the end of 2018.

Connecting Traffic Contribution to Network

18% are connecting passengers

versus 3% in 2017

The opportunity that presented was serving connecting passengers to end destinations such as Doha, Jeddah and Madinah.

Increase in Number of Flights

Doha
21 return flights per week
3 return flights a day

Jeddah
21 return flights per week
3 return flights a day

Madinah
Connecting passengers from the Indian Subcontinent for religious tourism

Expanding our Fleet: The First A320neo in MENA

The first flight on the first Jazeera A320neo to be delivered, JZR 176, left Kuwait for Dubai on Monday, June 11, 2018 at 1:10pm Kuwait time (GMT+3).

It was the first Airbus A320neo to arrive in the Middle East, introducing the fuel-saving and new engine aircraft to its growing fleet.

The aircraft is the first of four A320neo aircraft scheduled to be delivered to Jazeera Airways in 2018 and 2019, supporting our continued network expansion to cover destinations that are up to 6.5 hours away from Kuwait. The A320neo introduces new upgrades that enable us to make cost savings while improving performance and increasing the range covered by the single-aisle aircraft.

The A320neo incorporates the new CFM LEAP-1A engines and fuel-saving wingtip devices known as Sharklets.It offers savings in fuel burn, additional payload, increased range, lower operating costs and significant reduction in engine noise and CO_2 emissions below the current industry standard.

In 2019, we will commence flights to London Gatwick with the A320neo.

Order

4 A320neo

Delivery

1 A320neo
in June 2018

Benefits

- Fuel-saving wingtip, the «Sharklets»
- Increasing flying range
- New CFM LEAP-1A engines
- Additional payload
- Lower operating costs
- Significant reduction in engine noise and
- CO_2 emissions below, industry standard

On-Board Offering: Expanding Ancillary Revenues

Complementing our customer-centric approach, we continued to invest in innovative services that not only give choices to our customers and add value to their experience traveling with Jazeera Airways, but also create new ancillary sources of revenue for our business.

Jazeera Screens

Jazeera Screens is the airline's wireless inflight entertainment service available on all flights and enabling passengers to enjoy watching Hollywood, Bollywood and Arabic movies and TV shows, as well as play games, read about local destinations and track their route, all for free.

The innovative service is available on the Jazeera Screens app for iOS and Android devices, through which passengers can simply connect to the on-board wireless network to start enjoying the content during their flight.

The service was developed with leading service providers in the field: Bluebox Aviation Systems, Aeroplay Entertainment and Global Onboard Partners.

It caters to our wide customer base and provide them with a rich content in English, Arabic and Indian languages, and will evolve to include on-board shopping in the coming year.

Jazeera Café

Jazeera Café was launched to give our customers more, quality choices in line with our customer-centric brand line "All for You", which we further expand upon in this section.

The on-board menu gives passengers a wide selection of premium quality products such as sandwiches, salads, soups, other savories and sweets options, in addition to cold and hot beverages.

Seating Segmentation

We've introduced during the year a new segmentation to our on-board seating, continuing to give our customers more choice when planning their journey with Jazeera Airways.

The new segmentation provides seat reservation fares for priority seating and additional legroom seats.

These reservation fares were made available when making flight reservations, as well as for purchase on-board during the flight.

What's Next in 2019?

On-Board Amenities: Available to purchase on all flights, Jazeera Airways offers passengers amenities to make their flight even more relaxing. These include a sleeping kit, earphones and a powerbank.

Operational Performance

Jazeera Airways continued to increase its distribution channels in 2018, focusing on growing aggressively through online travel agencies and opening a new sales point at Souq Safar, the one-stop-shop travel company.

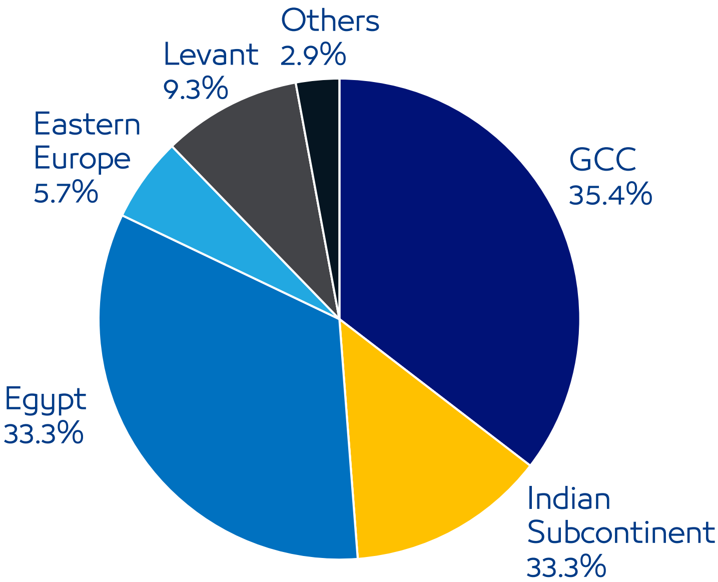
Our Distribution Channels

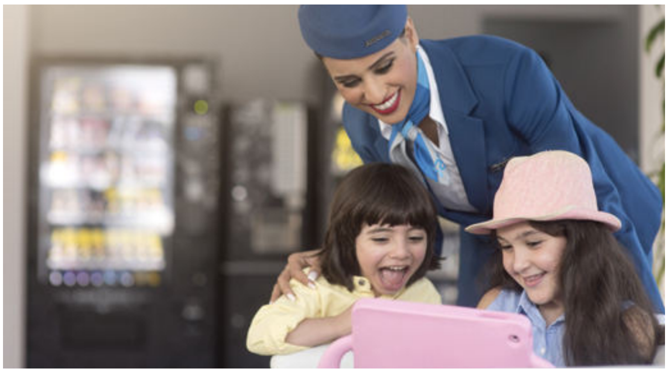
34% Website and Mobile App

5% Call Center

61% Travel Agents, Sales Outlets, Online Travel Agents

Where Do They Travel





Engaging with our Customers

Our primary focus in 2018 was to modernize our brand perception and maintain a positive image as an airline, all while ensuring we continue to engage with our customers, create new demand and convert new customers.

That focus supported our shift from being a small Kuwaiti airline to becoming a regional airline and beyond as we continued to expand our operations.

Rolled out during 2017, our brand identity supported our approach to engaging with customers as it created the new fresh platform through which we communicated our "All for You" brand line. We aimed at reflecting our customer-centric approach, communicating that we are a low-cost airline that provides a smooth, simple, seamless and straight forward travel journey.

Our ultimate objective from engaging with customers was to continue introducing value-added services and add value every step of the way.

Our approach took notice in 2018 and our profile continues to rise today.

Utilize Digital Marketing

Our focus during the year was to direct customers to our website and increase our direct website visits and reservations. This was achieved through digital marketing in markets we serve.

Increase Social Footprint

In 2018, the success of our engagement with customers through our social platforms translated in an increase in number of followers and engagement ratios per post.

Instagram	200k	+38% from 2017
Facebook	330k	+34% from 2017

Expand Markets Reach

As our operations expanding, our customer engagement expanded its footprint, tapping into new markets in the Indian Subcontinent through new channels and initiatives.

Invest in Customer Relations

We've invested in Oracle's customer relationship management (CRM) platform to advance our digital presence, identify our segments and better target them with products and services that meet their habits.

Reinforce our Value Proposition

Our marketing initiatives focused on reinforcing our low-cost value proposition, promoting our products and service, and engaging with our "All for You" brand line.

Industry Standards and Community Involvement

Industry Standards of Operations

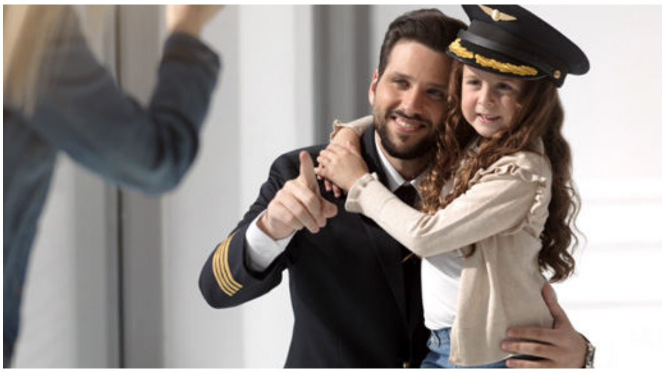
In parallel to our focus on expanding our product offering, we remained committed to maintaining our high standards of operational efficiency, safety standards and control systems. And in December 2018, Jazeera Airways was recertified by the IATA Operational Safety Audit (IOSA) Program, an international recognition of our operational management and control systems.

Our Community Involvement

Focused on supporting the professional development of youth, Jazeera Airways launched its Graduate Development Program in 2016 to enable Kuwaiti graduates from all academic disciplines to train across the divisions of the airline, learn about the industry and acquire best practices.

The six-month training is an in-house skill-building program that aims to integrate local professionals in the aviation industry by offering them employment opportunities at the end of the program, in addition to boosting the role played by the private sector in fulfilling the goals of Kuwait's development plan, New Kuwait 2035.

We also extend our support to those in need, focusing last year on supporting the SaveTheLoom initiative efforts that helped revive, restore, and restructure the handloom industry in Kerala post floods



What's Next

New routes

We plan to introduce routes to new destinations in Europe, India, Pakistan, Bangladesh and the Gulf. These will include London, Dhaka, Al Ain, Karachi and more.

New aircraft

Jazeera Airways prepares to take delivery of three new fuel-saving and new engine Airbus A320neo to support the airline's network expansion.

New website and mobile app

We're working on refurbishing our website and mobile app to the highest industry standards and best practices, in addition to improving content in our Jazeera Screens app.

Self-check-in kiosks

Using the latest self-check-in kiosks available in the industry, passengers can print their boarding pass and baggage tag in less than a minute. They are required to enter their booking reference, scan their passport and ensure their bags do not contain restricted goods. After printing their boarding pass and baggage tags, passengers drop their bags off at the dedicated desk and then directly head to passport control.

Terminal enhancements

A series of services and new offerings are rolling out in 2019 to add value to passengers and make their travel experience easier with Jazeera Airways. Free WiFi internet service will be introduced at the gates at T5, as well as new restaurants and shops at the duty free and terminal areas. Jazeera Airways is also providing support to passengers with a dedicated Help Team present at the terminal and a 24-hour Terminal 5 call center service at 176.

14 Years of Innovation:
The firsts, the turnarounds and the continued growth

In its 14 years, Jazeera Airways has been at the forefront of the local aviation industry, bringing a dynamic change to traveling from Kuwait and beyond through what has become known as the “Jazeera Airways Effect” and the “Jazeera Airways Model”.

The Jazeera Airways Effect at Launch

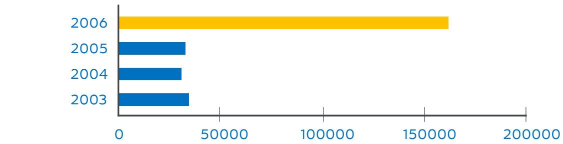
The launch of Jazeera Airways on October 30, 2005 generated a lot of concerns from the aviation community in the region. Some believed that this new airline would steal or 'cannibalize' travelers from other airlines. However, by the airline's first anniversary the industry noticed the opposite has occurred. Jazeera Airways' added capacity combined with attractive fares and ongoing marketing had a spillover effect on the airlines and in turn actually stimulated the entire market to growth levels the industry has not seen in years. The extent of this effect became clear when airport statistics began reporting and feeling the impact of the increase in travelers.

This phenomenon has come to be known as the 'Jazeera Airways Effect', which has not only impacted Alexandria, Amman, Beirut, and Damascus but the majority of the cities Jazeera Airways operates to. This document reviews the Jazeera Airways' effect on the market by showing the actual official statistics released by the relevant aviation and airport authorities.

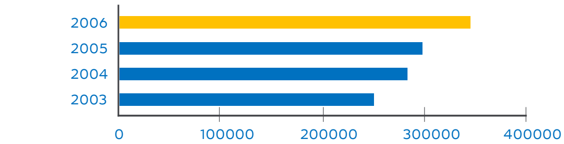
And when Jazeera Airways announced it was accepting bookings on Sept 12, 2005 - six weeks before its first flight to Dubai - its fares made first-page headlines and bookings quickly picked up. As expected, questions about how Jazeera Airways was able to offer low fares also picked up through word of mouth, and eventually reached the airline's head office. The buzz on Jazeera Airways continued to spread and by the second quarter. skepticism subsided as reflected by the numbers (see Exhibit B). In fact, while only operating point-to-point with two aircraft from one hub, Jazeera Airways had sold 55,686 seats by January 1st, and had flown more than 100,000 travelers by March 4, 2006.

The Jazeera Airways Effect of Selected Routes by 2006

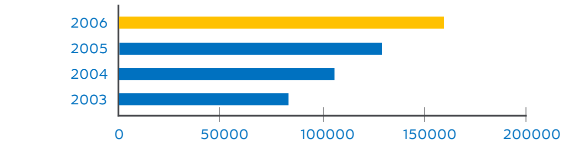
The Jazeera Airways Effect on Alexandria: 194% stimulation of entire route traffic



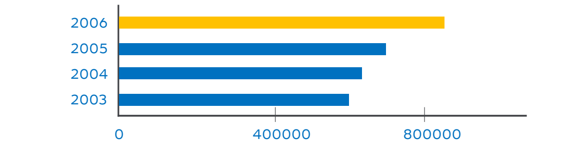
The Jazeera Airways Effect on Bahrain: 22% stimulation of entire route traffic



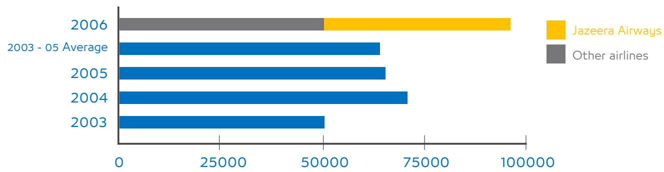
The Jazeera Airways Effect on Amman: 28% stimulation of entire route traffic



The Jazeera Airways Effect on Dubai: 15% stimulation of entire route traffic



Traffic between Kuwait and Beirut was always healthy, and even healthier with Jazeera Airways. Traffic increased to Lebanon's international airport by 33% during the period of January to May of 2006 (compared to the average of January to May traffic between 2003, 2004, and 2005). That's 30,726 additional travelers that flew between Kuwait and Beirut on Jazeera Airways during that period.



Source: Beirut Rafic Hariri International Airport
Note: All represented data for all the referenced years is for the months of January to May, for two reasons: 1, Jazeera Airways started on October 30 2005, and has not operated for full year by the time of writing this study and 2, Beirut airport was shut down on July 13 following the Israeli attack on the city and had not yet resumed operations at the time of writing this document. As a result, the only applicable data for 2006 was from January to May, and in an effort to avoid skewed analysis, this data was compared to the same period of previous years.

The Effect in 2018

The number of passengers between Kuwait and Ahmedabad increased by 33%, with Jazeera Airways grabbing a 42% market share.

Number of passengers also grew on routes between Kuwait and Hyderabad, Kochi and Mumbai by 343%, 23% and 15% respectively, with Jazeera Airways grabbing 87%, 27% and 13% market shares respectively.

During the year, other airlines did not increase their capacity on these routes, clearly indicating that Jazeera's launch of flights, and subsequently increasing seat capacity has redirected passengers previously choosing connecting flights to fly on our direct routes. *

New Delhi was operational in the last two weeks of the year.

Today, we are proud of the success of our low-cost model that we've adapted to the requirements of the regions we serve as we continue to see the Jazeera Airways Effect on new routes we launch.

A Flexible Model

Jazeera Airways operates in a highly volatile market affected by geopolitical turmoil and competition from government-owned carriers.

Our airline has however remained resilient thanks to its flexible business model that enables it to redeploy assets, implement rigorous cost management programs, realign our network to the market and enhanced commercial offerings.

This was proven with the success of the company's Turn-Around Plan that was rolled out in Q2 2010, successfully steering the Company into continued profitability for the six quarters that followed, five of which realized record-breaking earnings. Four of these quarters were in 2011, a significant year on many fronts. We watched the Arab Spring extending into several of the cities we serve. We were subject to substantial fuel hikes in the first and last quarters. We even witnessed an airline from our own home market shut down, which inadvertently led to uncertainty and apprehension to be cast on our young privately-held aviation sector.

Yet it was our responsibility to restore confidence to the sector. And our airline's performance is evidence to our success in sustaining our business and maintaining our commitment to our customers

Bringing Change to the Local Travel Market

Changing Habits, Making Traveling Easier

During the startup phase, Jazeera Airways knew that it needed to keep seat cost as low as possible to meet its business plan targets, but the savings it planned from having a high aircraft utilization rate, outsourcing engine engineering services, and other strategies were not enough.

The airline had to avoid paying the high travel agent commissions or the overheads caused by having a network of offices if it wanted to meet its business plan projections.

The solution was to drive travelers towards booking directly without high operational costs by investing in both an online booking engine and a call center, and then drive customers to book directly. Essentially, the step would change a 50-year old habit of booking through travel agents.

When the airline opened for booking on September 12, 2005, Jazeera Airways actively marketed its website and call center, employing interactive tactics to deliver their benefits. These tactics included placing internet connected laptops in shopping malls with a host to guide the user, launching special promotions for students on college campuses, and giving talks in college classrooms. Gradually the market began to react and Jazeera Airways was able to convert travelers.

By August 2006, 62% of all ticket sales were directly booked and paid, either through

* Source: Annual statistics issues by the Kuwait Directorate General of Civil Aviation for 2018.

jazeeraairways.com or the airline's call center 177. 32% of all ticket sales were made online. The strengths of these numbers prove that traveler habits can change if travelers are presented with a more empowering proposition. In this case, Jazeera Airways has been able to overcome an age-old habit with great success.

Delivering a High Operational Performance

Less than a year from the start of its operations, Jazeera Airways had not only challenged the status quo in Kuwait's travel market but also raised the bar in regards to on-time performance and operational efficiency, shaking-up the aviation sector with its low fares.

The airline continues to maintain a high on-time performance year after year and maintaining our low-cost value proposition, offering customers value fares and a quality service.

94% OTP in 2006

Global industry average: 85%

Source: Booz Allen, citing World Tourism Organization. 2006

The Milestones: Innovative Customer Experience

03-03
2004

Incorporation

24-10
2005

Arrival of the first **Jazeera Airways Aircraft**

29-10
2005

Jazeera Airways operation is officially launched by the then **Prime Minister of Kuwait**

14-01
2008

Jazeera Airways lists on the **Kuwait Stock Exchange,** making it the first listed airline on the KSE

02-05
2011

Jazeera Airways receives IOSA certification for having **world class operational standards**

15-03
2012

Introducing **Jazeera Airways' Booking App**

10-06
2012

Introducing **Self Check-in Kiosk**

2012

Ranked world leader in OTP as tracked by US-based FlightStats

95.4%

25-06
2014

Jazeera Airways launches **3 exclusive gates** at Kuwait Int'l Airport

30-10
2014
Ranked world leader in OTP
as tracked by US-based FlightStats
95%

12-10
2015
Capital reduction

04-07
2016
Opening
Jazeera Business Lounge

08-09
2016
Introducing
Park&Fly
مواقف السيارات وتسجيل الدخول

30-07
2017
Launch the new **Rebranding**

الجزيرة.
Jazeera.

2017
Winner
Low Cost Airline of the year 2017

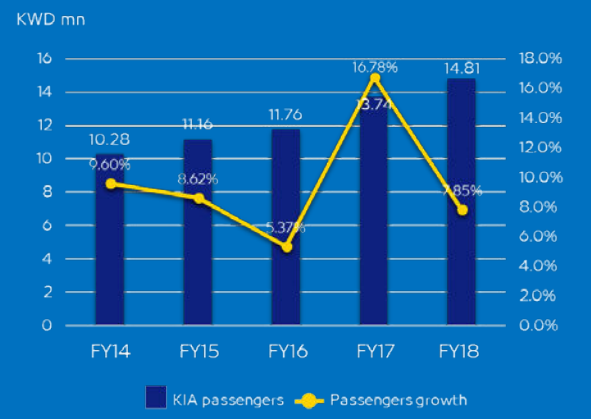
05-22
2018
Inauguration of the
Jazeera Terminal

2018
Delivery of the **first A320neo** to be operated in the Middle East and North Africa

Our Customers

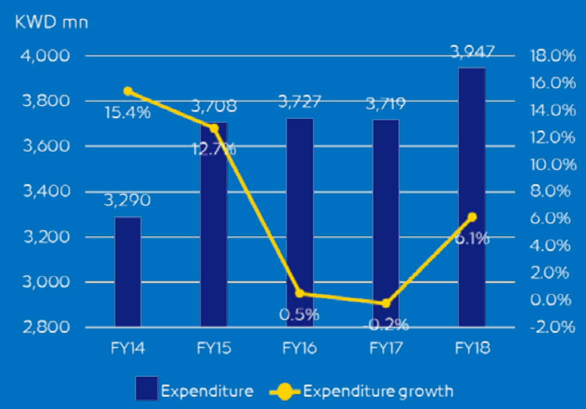
In our hub in Kuwait, passenger traffic has witnessed consistent growth year-on-year. The Kuwait International Airport has reported a compound annual growth rate (CAGR) of 9.6% from 2014 to 2018. Passenger segmets booked from Kuwait has registered a CAGR of 9.7% for the same five-year period, while expenditure on outbound travel, which reflects the country's high tendency to travel, reached a CAGR of 4.7% for the same period.

Kuwait International Airport Traffic 2014 - 2018



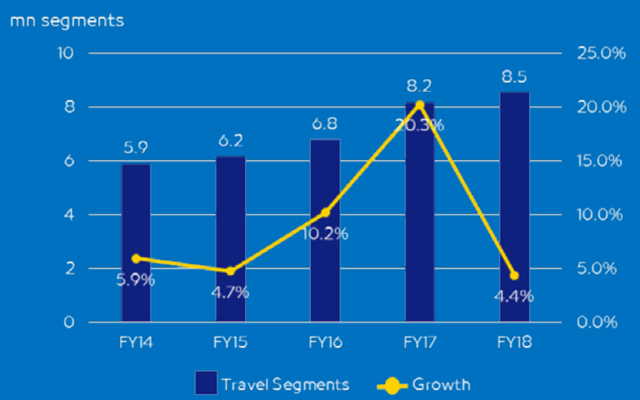
Source: Kuwait Directorate General of Civil Aviation

Kuwait Expenditure on Outbound Travel 2014 - 2018



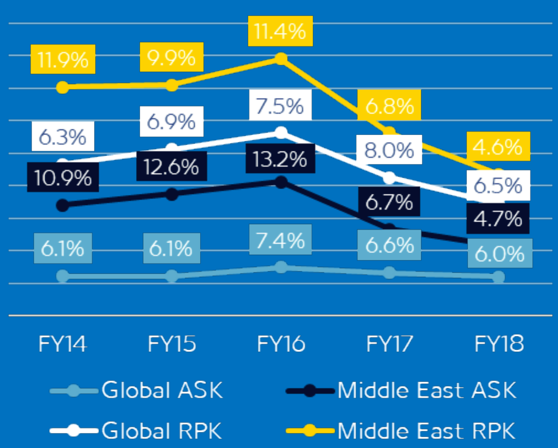
Source: World Travel and Tourism Council

Travel Segments Booked from Kuwait 2014 - 2018



Source: Market Information Data Tapes

Traffic and Capacity 2014 - 2018



Source: IATA Statistical Factsheet

Our People

Our Culture

We believe in the "Walk the Talk" motto. We live in a culture of open communication, doorless offices, to provide direct access between the employees and management team. We value team work and focus on performing together. Our sole purpose is to deliver results.

Taking Care of Our People

Just like our commitment to our customers, we are also committed at Jazeera Airways to providing a better work experience to our employees, empowering them to be more competitive and productive along the way.

We have established policies and procedures that are at par with international industry standards, reinforced the performance of our management, invested in career development and training programs to enhance individual and overall performance, and continued to reaffirm our culture of accountability among our employees because we believe we are all responsible together of our growth.

On-Boarding Program

We launched our on-boarding program in 2018 to support our endeavors to create a culture of inclusion. Through the program, we ensure our employees are valued, in reflection to the trust and equality that we established throughout our network.

Opportunities for Young Graduates

Through Jazeera Academy, we offer six-month part time training programs for young Kuwaiti graduates and provide them afterwards with full-time opportunities with a long-term career plan that we develop with them. We want them to be accountable to their jobs, and retain them for the next five years.

645
employees
+19.4% from 2017

240
cabin crew
+52.9% from 2017

116
deck crew
+63.4% from 2017

Gender Diversity

30%
female employees

Years of Tenure

> 10 years	5 to 10 years	0 to 5 years
15%	22%	63%

Reflects increase in number of employees to support the network expansion and new facilities

The Management Team

As Kuwait's first private airlines, Jazeera Airways is built on great acumen and robust leadership. Each of our top leaders has shown themselves to be formidable in their managerial approach and unparalleled in their expertise, inspiring professionalism and high achievement throughout our organization.

We bring the most capable leadership team in the region to Jazeera Airways to connect us to their aviation industry expertise, passion and insight:

Rohit Ramachandran
Chief Executive Officer

Krishnan Balakrishnan
Vice President, Finance

Bader Almershed
Vice President-Industry Affairs

Captain Ayman Al Shammary
Vice President, Operations

Naser Al Obaid
Vice President, Ground Operations

Andrew Ward
Vice President, Marketing and Product

Jarrah R. J. M. Aldhafiri
Vice President, Quality, Safety and Security

Rafik Boghdady
Vice President, Sales

Ginny Sethi
Vice President, Human Capital

Praful Thummar
Vice President, Information Technology

Ratan Ratnakar
Vice President, Revenue Management and Network Planning

Adival Magri
General Manager of Jazeera Terminal (T5)

The Board of Directors

The Board of Directors is composed of eight (8) non-executive members who were elected through the General Assembly Meeting for a period of three (3) years. The Board Directors collectively have deep knowledge, expertise and skill sets in the areas of aviation finance, economics, strategic planning, governance, internal controls, and risk management.

Marwan Marzouk Boodai
Chairman

Marwan Boodai is the CEO of BoodaiCorp, the institutional founder of Jazeera Airways, and the Chairman of Jazeera Airways Group. Before chairing the Board, Marwan and the core founding team led the establishment process of the airline from raising capital for the airline, which was the first non-government airline in the Middle East, to securing traffic rights, fleet and financing. Marwan continues to have an active role in steering the strategic direction of the Company, especially in 2009 and 2010 when he led the Turn-Around Plan to bring the Company back to profitability. Jazeera Airways Group returned to profitability in the third quarter of 2010 with record quarterly earnings. Marwan Boodai sits on several Jazeera Airways Group committees, including governance and financial oversight committees.

Mohamed Al-Mousa
Vice Chairman

Mohamed Al-Mousa is the Vice President and Managing Partner of Jamsons Group which he co-founded in 2004 and is today a respectable and sizable family business holding major investment stakes in different asset classes. Mohamed was responsible of the investment strategy of the Group and continues to guide it today. Prior to establishing Jamsons Group, Mohamed was project manager at the Metal and Recycling Company (MRC) and before that responsible for coordination and communication between the factories and CEO for product development at the National Industries Company for Building Materials (NICBM). Mohamed holds a degree in Industrial and Management Systems Engineering from Kuwait University.

Marzouk Jassim Boodai
Board Member

Marzouk Boodai joined Jazeera Airways' Board in 2014 with experience in development and rollout of growth initiatives in logistics, passenger transport and heavy equipment. Marzouk holds a bachelor's degree in Management Information Systems from the Gulf University for Science and Technology.

Hany Shawky
Board Member

Hany Shawky joined Jazeera Airways' Board in 2011. He leads on investments, divestments, acquisitions and business performance oversight of BoodaiCorp subsidiaries and holdings. Prior to joining BoodaiCorp, he was a partner at Global Capital Management Ltd, a fully-owned subsidiary of Kuwait's Global Investment House with USD$3.2 billion in assets under management in the Middle East and North Africa. In the last 10 years, Hany has led investments and expansions in Sudan, Yemen, Egypt, Kuwait, Dubai and Jordan. He holds a bachelor's degree in Commerce and Business Administration from Helwan University, Egypt, and has over 17 years of experience in asset management.

Ahmad Abdalla, Ph.D
Board Member

Dr. Ahmad Abdalla joined BoodaiCorp to manage the Human Capital function in January 2013 and became a member of Jazeera Airways' Board in the same year. Prior to his joining, he was a Senior Vice President with Agility Logistics where he assumed several posts including Management Systems, Corporate Finance, Project Management Office and Human Capital. Prior to his tenure at Agility, he worked in North America for 18 years where he held different positions in the areas of Management and IT consulting. Dr. Ahmad Abdalla has a proven track record in various verticals with a client base focus in Fortune 500 companies where he has advised numerous clients on strategy development and management, organization restructuring, business process outsourcing, business performance management, program portfolio management, project management and enterprise systems implementations. The list of his employers and clients includes Andersen Consulting, Verizon, Prudential, Trilogy Software, CBSI/Covansys, AT&T and Riyad Bank. In addition, Dr. Ahmad Abdalla serves on the Board of several companies in various verticals. Dr. Ahmad Abdalla has a PhD in Control Systems (ME) from Columbia University in New York.

Dermot Mannion
Board Member

Dermot Mannion is a well-known figure in the airline industry with over 30 years of experience, operating across three continents. Initially, Mr. Mannion had a distinguished career in Dubai, UAE at Emirates between 1985 and 2005, rising to the position of President Group Support Services. Subsequently, he held the position of Aer Lingus CEO between 2005 and 2009, completing the privatization of the airline during his tenure. More recently, in the capacity of Deputy Chairman of Royal Brunei Airlines, he played a key role in the government led award-winning rebranding and restructuring program. Mr. Mannion has also completed a four-year term as non-executive director for Abacus International one of the largest IT companies based in Singapore. Currently based in Ireland, he continues to be actively involved on a consultancy basis, in a number of aviation projects and other business activities. Mr. Mannion is a Fellow of the Institute of Chartered Accountants in Ireland and is a graduate of Trinity College Business School, Dublin.

Bertrand Grabowski
Independent Board Member

Bertrand Grabowski is the Senior Strategic Advisor to Dubai Aerospace Enterprise, Industry Advisor to CPPIB, Member of the Advisory Committee at Hudson Structured Capital Management, and Board Member of Flybondi, an Argentinean LCC since December 2016. Bertrand spent 11 years at DVB Bank SE as Board Member responsible for the whole Aviation activity of the Bank as well as Rail Financing. Under his leadership, a strong team effort has allowed the franchise of the Bank to expand to Aviation Asset Management and Aviation Advisory and enabled the bank to strengthen considerably in Aviation Investment Management to deliver growth of the Tokyo based Aviation platform. Before joining DVB, Bertrand spent four years at Citibank's London Asset Finance Group with primary responsibility over Europe and Japan. The Group delivered highly structured asset finance products out of Japan and Germany to first class airlines and railways operators all over the world. Before Citibank, Bertrand has worked in various positions at Banque Indosuez, renamed Credit Agricole Indosuez in Paris, Tokyo and New York. He was the Head of the Tokyo-based Asian Aviation Team for eight years and Tokyo Branch Manager, New York Branch Manager with direct responsibility over all American based Asset Finance and LBO / PE activities for three years.

Yann Pavie
Independent Board Member

Yann is the founder and Chairman of GulfMerger, a leading middle-market Mergers and Acquisitions firm in the Middle East named “Best M&A House” in Kuwait by Euromoney, “Best Upcoming Investment Bank” globally by Global Finance, and “Mergers & Acquisitions Firm of the Year” in Kuwait by Finance Monthly. Yann has advised on over $15 billion in mergers and acquisitions and capital raising transactions in sectors covering oil and gas, industrials, engineering and construction, financial services, telecommunications, media, technology, public transportation, education and healthcare. Yann has also advised on some of the largest private equity transactions in the GCC region and was named “Deal Maker of the Year” by Finance Monthly. Prior to GulfMerger, Yann assumed senior positions of increasing responsibilities with the National Bank of Kuwait including as Chief Operating Officer and Board Member of NBK Capital, the investment and merchant banking arm of the National Bank of Kuwait. Yann holds a BBA/MS from the Fox School of Business and an MBA from the Wharton School, where he graduated as a Palmer Scholar.

Corporate Governance

First: The Framework

The role of the Board of Directors of Jazeera Airways K.S.C.P. is to achieve the company's strategic objectives and thus achieve the objectives of the shareholders and has taken responsibility for complying with the governance standards in accordance with Law No. 7 of 2010 and its executive regulations and amendments. The Board of Directors had adopted the Company's organizational structure and governance manual that defines the responsibilities, powers and channels of communication between different administrative levels. It also regulates the relationship between shareholders, Board of Directors, Executive Management and stakeholders.

We list below the Company's Governance report for the fiscal year ended 31/12/2018. Jazeera Airways K.S.C.P. operates and implements governance standards and rules by applying best practices and a set of policies, procedures and mechanisms and determining the roles and responsibilities of the Board of Directors and the Executive Management of the Company, taking into consideration the protection of shareholders' rights, stakeholders, Management, staff, and society.

Second: Guide on the Compliance with Governance Rules

Principal One: Building a balanced structure for the Board of Directors

The Board of Directors is responsible for developing the company's vision, mission, objectives and general strategy to achieve shareholders' expectations. The Board works to avoid conflicts of interest and priority is always in favor of the company.

The Board has formed several committees to follow up the application of best practices. The composition, roles, powers and responsibilities of the committees have been outlined in Governance Guide. Also the assessment committees, the executive management, the board of directors, the determination of shareholders' rights, the establishment of code of ethics and the organizational policies of the company.

The Board of Directors has also established the financial, administrative and operational authorities which define the authority of each of the "executive management, committees emerging from the Board of Directors.

Board of Directors of Jazeera Airways K.S.C.P. is composed of eight members as follows:

Name	Position Election	Date
Marwan Marzouk Jassim Boodai	Chairman, (Elected)	30/4/2017
Marzouk Jassim Marzouk Boodai	Non-Executive, Representative of Boodai Reliance Real Estate Co.	30/4/2017
Mohamed Jassim Mohamed Al-Mousa	Non-Executive, Representative of Travel Technology Systems Co.	29/10/2017
Ahmad Abdalla	Non-Executive, Representative of Golden share Real Estate Co.	30/4/2017
Hany Mohamed Shawky Younis	Non-Executive, Representative of Silver Share Real Estate Co.	30/4/2017
Dermot Edward Mannion	Non-Executive, Representative of Al Bawadi International Real Estate Co.	8/2/2018
Yann Mehdi Pavie	Independent Board Member (Elected)	15/10/2018
Bertrand Phillip Grabowski	Independent Board Member (Elected)	29/10/2017

- The Board of Directors in the meeting held on 8/2/2018 had been approved the letter of Al Bawadi International Real Estate Co "board member" to replace its representative by appointing Mr. Dermot Edward Mannion as its representative instead of Mohammed Mohtashem Khan Mohammed Muazam Khan. The Board of Directors has been restructured where Mr. Mohamed Jassim Mohamed Al-Mousa became the vice Chairman instead of Marzouk Jassim Marzouk Boodai - Board Member.
- The Ordinary General Assembly meeting of the company's shareholders held on 15/10/2018 accepted the resignation of Souhail Kamel Homsi as an independent board member and the election of Yann Mehdi Pavie as an independent board member whose membership ends with the current Board of Directors.

Board of Directors' Meetings for 2018

Member Name	Meeting #1 18/1/2018	Meeting #2 8/2/2018	Meeting #3 22/4/2018	Meeting #4 25/4/2018	Meeting #5 14/8/2018	Meeting #6 16/9/2018	Meeting #7 17/10/2018	Meeting #8 30/10/2018	Meeting #9 7/11/2018	Remarks
Marwan Marzouk Jassim Boodai	◆	◆	◆	◆	◆	◆	◆	◆	◆	
Mohamed Jassim Mohamed Al-Mousa	◆	◆	◆	◆	◆	◆	◆	◆	◆	
Marzouk Jassim Marzouk Boodai		◆	◆	◆	◆	◆	◆	◆	◆	
Ahmad Abdalla	◆	◆	◆	◆	◆	◆	◆	◆	◆	
Hany Mohamed Shawky Younis	◆	◆	◆	◆	◆	◆	◆	◆	◆	
Bertrand Phillip Grabowski	◆	◆	◆	◆		◆	◆		◆	
Mohammed Mohtashem Khan Mohammed Muazam Khan	◆									Replaced
Souhail Kamel Homsi	◆	◆								Resigned
Dermot Edward Mannion		◆	◆	◆		◆	◆		◆	New representative
Yann Mehdi Pavie							◆		◆	New independent member
Donald Hubbard Financial Controller, Secretary	◆	◆	◆	◆	◆	◆				
Krishnan Balakrishnan Financial Controller, Secretary							◆	◆	◆	

- The Board of Directors appointed Mr. Krishnan Balakrishnan - Financial Controller as the Board secretary on 17/10/2018.

A brief on implementing the registration requirements, coordination and archiving the minutes of the Board of Directors' meetings:

The Board Secretary manages and coordinates all activities relating to the Board of Directors in accordance with relevant governance documents. The Board Secretary is appointed by the Board of Directors and may be one of the members of the Board or from the Executive Management or from outside. The Board Secretary is appointed or dismissed by a decision of the Board of Directors. The Board Secretary, under the Oversight of the Chairman ensures compliance with procedures approved by the board in relation to the circulation of information between the members, Board committees and the executive management. The Board Secretary also sets the Board meetings agendas and holds a special record for the minutes of The Board of Directors meetings. The Board Secretary shall also ensure proper delivery, circulation of information and coordination between Board members and other company stakeholders including the shareholders, Company departments and the concerned employees.

1. Coordinating and keeping minutes of the Board meetings Procedures
- The Board of Directors Secretary shall document the minutes of meetings of the Board of Directors, prepare and distribute the minutes of meetings, make the necessary amendments and complete the meeting minutes to enable all members to have access to all records, information and documents as well as relevant records of the Company and its employees. The Board of Directors Secretary also archive minutes of meetings of the Board of Directors and committees to be available for proper auditing.
- The Board Secretary sets the board meetings agendas and report the date and time of all Board of Directors meetings and committees in a timely manner.
- Ensure that agenda and required documents for Board meetings are distributed well in advance.
- Prepare the agenda and resolutions to be approved by the ordinary and extraordinary general assemblies, and submit the agenda to other official authorities.
- Sending invitations and agendas to various participating parties in assembly meetings, publishing agenda as required by law and in accordance with the Company's Articles of Associations, time management system, scheduling and organize appointments, ensuring avoidance of scheduling conflicts and fulfillment of commitments, keep phone lists and addresses.

Principal Two: Proper identification of Board of Directors roles and responsibilities

The following are the most important roles and responsibilities:
1. Approving the objectives, strategies, plans and policies of the company to include at a minimum the following:
    - Setting, reviewing and running a comprehensive strategy for the company along with a basic action plan.
    - The company's capital structure and financial goals.
    - Clear policy for the distribution of dividends of all kinds "cash / in kind" in the interests of both shareholders and the company.
    - Determine the performance goals and monitoring its implementation in the company.

- Define the company's Organizational and functional structures and applying periodic review.

2. Approving the annual estimated budgets and the quarterly and annual financial statements.
3. Supervising the company's capital expenses, assets ownership and disposal.
4. Ensuring the extent of the company's compliance with the policies and procedures that guarantee the company's respect for the set forth internal rules and regulations.
5. Ensuring the accuracy and integrity of disclosed data and information, in line with the policies and procedures of disclosures and transparency,
6. Making periodic disclosures of the company's activities and all business developments.
7. Following-up on communication channels that allow the company's shareholders to be periodically informed of various activities and major developments.
8. Develop a governance framework with general supervision and monitor its effectiveness and adjust it as needed.
9. Formation of specialized sub-committees according to a charter that clarifies the tenure, authorities and responsibilities of the committees, as well as the control means. The formation decree also includes the names of the committee members, their designations, roles, responsibilities, rights and performance assessment of these committees and their main members.
10. Ensure that the Company's organizational structure is transparent and clear to facilitate decision-making and achieve the governance principles.
11. Separating the authorities and capabilities of the Board of Directors and the Executive Management, and thus the Board of Directors has approved the following:
    - Approval of internal regulations and bylaw related to the company's activity and its development and the subsequent determination of competencies, roles and responsibilities between various organizational levels.
    - Approval of the authorization and implementation of tasks allocated to the Executive Management.
12. Designating the authorities delegated to the Executive Management, the decision-making procedures and the duration of the delegation. The Board of Directors determines the areas which it retains the authority to look into, provided that the Executive Management presents periodic reports on the execution of the authorization delegated to it.
13. Supervising the performance of the Executive Management and ensuring that it is executing all tasks:
    - Ensuring that the Executive Management is working as per the policies and regulations approved by the Board of Directors.
    - Holding periodic meetings with the Executive Management to discuss operations and any challenges or problems that may be encountered, as well as discussing any important information related to the company's business.
    - Setting Key Performance Indicators "KPIs" that are in line with the company's goals and strategy and determination of the remunerations to be allocated to employees.
14. Appointing or dismissing members of the Executive Management, including the Chief Executive Officer and his Deputy.
15. Developing and oversight the implementation of policies and mechanisms of regulating relations with stakeholders and related parties in order to protect their rights and limit conflict of interest.
16. Ensuring periodically the effectiveness of the internal audit system implemented in the company and its subsidiaries:
    - Ensuring the soundness of the financial and accounting procedures, including procedures related to preparing the financial statements.
    - Ensuring the implementation of suitable auditing procedures to assess and manage risks, and establish an environment that is able to limit risks throughout the company and discuss it transparently with stakeholders and related parties.
    - Recommending the appointment of independent auditors.

    Approving the code of conduct, work ethics and the policies and procedures of the company.

Board of Directors achievements during the year:

During the year, the Board of Directors presented numerous achievements as mentioned in the Board of Directors' report for 2018. The most important of these is the significant transformation of the company's product through the inauguration of new dedicated Jazeera Terminal. The Terminal had been a long sought after operational facility invested efforts to develop as it would enable to enhance the travel experience we provide to the customers. We invested in the development of digital infrastructure and on the website to facilitate the booking process, provide faster and better service to meet our customer's needs and to enhance our communication with them to increase the revenue of the company. In addition, we have strengthened the management team by recruiting new personnel in several areas, as well as prudent and cost-effective management. On the destinations network, our team is working hard to further improve, organize network and improvising the efficiency of the fleet of the company's aircraft and the addition of new destinations, we launched seven new destinations in 2018 to Ahmadabad, Cochin, Mumbai and Delhi in India, Tbilisi the capital of Georgia, Lahore in Pakistan, and Medinah, Saudi Arabia. In addition, we commenced operations out of the new Jazeera Airways terminal (T5) for passengers at Kuwait International Airport as promised by the Board of Directors and the Executive Management. Seat occupancy rate was 75.2 %, increase 1.3%. The aircraft fleet's utilization was 13.6 hours, an increase of 24.7% over 2017, The Company achieved an increase in passenger numbers of 42.8% over 2017, demonstrating that demand for the company's product is strong and increasing continuously.

Principle Three: Selection of qualified Board Members and Executive Management

Board Remuneration and Nominations Committee

The Remunerations and Nominations Committee assists the Company's Board of Directors in fulfilling its oversight related roles to efficiency, integrity and adhering to the Company's remuneration and nomination policies and procedures. Reviewing and approval of the selection criteria and appointment procedures of Board of Directors and executive management. Ensuring that the policy and methodology of Remuneration and Nominations Committee as a whole in line with the Company's strategic objectives.

The committee was formed and its term from the election date of the Board of Directors until the end of the Board of Directors Membership.

Composition of Board Remuneration and Nomination Committee and its meetings

Name	Position	Meeting #1 8/6/2018	Meeting #2 17/12/2018
Ahmad Abdalla	Chairman of the committee	◆	◆
Marzouk Jassim Marzouk Boodai	Member	◆	◆
Hany Mohamed Shawky Younis	Member	◆	◆
Souhail Kamel Homsi	Member	◆	
Yann Mehdi Pavie	Member		◆
Krishnan Balakrishnan	Secretary	◆	◆

- The Ordinary General Assembly meeting of the company's shareholders held on 15/10/2018 approved the resignation of Mr. Souhail Kamel Homsi as an independent board member, and the election of Mr. Yann Mehdi Pavie as an independent board member whose membership ends with the current Board of Directors.
- The Committee in its meeting held on 27/12/2018 recommended not to distribute remunerations to non-executive board members for the financial year ended 31/12/2018.

Board Remuneration and Nomination Committee roles:

- Recommend nomination and re-nomination of the company's representative to the board of directors, associates, subsidiaries, and executive management.
- Establish a clear remuneration policy for Board Members and Executive Management.
- Annual review of the requirements of the appropriate skills, for membership of the Board of Directors as well as to attract applications of those wishing to apply the executive positions as needed, and review those applications.
- Develop job descriptions for executive, non-executive and independent members and verify that independent capacity is maintained for independent board member.
- Prepare a detailed annual report on all remunerations distributed to the board members and the Executive Management, whether amounts, benefits or advantages regardless of their nature or name. This report shall be submitted to the company's General Assembly for approval and to be read by the Chairman. The company should follow the standards of accuracy and transparency in the preparation of the remuneration report, so that all remunerations, whether distributed directly or indirectly, are disclosed and avoid any attempt to conceal or mislead.

Executive Management:

- The activities of the Company are carried out by the executive management under the supervision and guidance of the CEOs with the aim of striking balance in the relations between the company, its employees, investors and customers, and ensuring the work within the objectives of the company and devoting its resources appropriately to meet its objectives and to be in line with the company's policy and strategy.
- CEOs and executive management are accountable to the Board of Directors for the Company's practices, activities and company operations including the management roles and responsibilities in general and achievement of objectives, oversight of day-to-day operations of the Company's activities, participation in strategic planning, preparation of budgets and financial reports.

The Executive Management roles towards the Board of Directors:

1. Recommendations regarding the applied strategy to achieve improvement and development through plans. Implement of the company strategic plans, related policies and internal regulations and ensuring their adequacy and effectiveness.
2. Provide periodic financial and operational reports in a timely and accurate manner on the department's performance progress in Company's activity in light of strategic plans and objectives to be submitted to the Board of Directors.

3. Develop an integrated accounting system that keeps books, records and accounts accurate and reflects the financial statements and income accounts in detailed. In order to maintain the company's assets and prepare the financial statements in accordance with international accounting standards.
4. Follow up the delegation of the authorities and responsibilities granted in accordance with the delegation of the authority matrix.
5. Develop, modify and update policies and procedures and discuss it to adopt the best practices.
6. Implement internal controls and risk management systems, ensure their adequacy and effectiveness, and ensure compliance with risk appetite approved by the Board.
7. Manage all activities, human and financial resources effectively to maximize profits, reduce expenses and achieving objectives and corporate strategy.
8. Active participation in building and developing an ethical values culture in the Company.
9. Supervision and follow-up to ensure the implementation of laws, regulations and policies including governance guide by employees in order to achieve the Company’s strategy and providing reports containing recommendations on the constraints and required adjustments based on the application results.

Principal Four: Guaranteeing the integrity of financial reports

The Board of Directors members acknowledged and undertake the accuracy and soundness of the financial data and assured that all the Financial Statements and Reports have been prepared and presented in accordance with Accredited Accounting Standards applied by Capital Markets Authority.

Audit Committee:

Audit Committee assists the Company's Board of Directors in fulfilling its oversight related roles to financial reporting, Internal Control system, auditing and Company’s monitoring procedures for compliance with laws, regulations and professional codes of conduct. Also assists the Company's Board of Directors in fulfilling its oversight related roles to current and potential risks inherent to the company’s activates. Identifying weaknesses and taking corrective action. Establishing the necessary controls that reducing risks and to determine the acceptable rate against the expected benefits and submit the relevant recommendations to Board of Directors. Determining the extent to which the governance rules are implemented to ensure that shareholders' objectives are in line with the company's management objectives and to enhance investor confidence of system efficiency that protects their rights.

Composition of Audit Committee and its meetings:

Member Name	Position	Meeting #1 16/1/2018	Meeting #2 8/2/2018	Meeting #3 11/4/2018	Meeting #4 25/4/2018	Meeting #5 12/7/2018	Meeting #6 24/10/2018	Meeting #7 7/11/2018	Meeting #8 19/12/2018	Meeting #9 20/12/2018
Hany Mohamed Shawky Younis	Chairman of the committe	◆	◆	◆	◆	◆	◆	◆	◆	◆
Marzouk Jassim Marzouk Boodai	Member	◆	◆	◆	◆	◆	◆	◆	◆	◆
Mohammed Mohtashem Khan	Audit Committee Consultant	◆	◆	◆	◆	◆	◆	◆	◆	◆
Souhail Kamel Homsi	Independent Member	◆	◆	◆	◆	◆				
Yann Mehdi Pavie	Independent Member						◆	◆	◆	◆
Yusuf Kapadia	Audit Committee Coordinator	◆	◆	◆	◆	◆	◆	◆	◆	◆
Donald Hubbard	Secretary	◆	◆	◆	◆	◆				
Krishnan Balakrishnan	Secretary						◆	◆	◆	◆

- The Company assigned an independent external consultancy office to carry out the internal audit of the company's main operations. The committee followed up the internal audit process through direct meetings with the consultancy office responsible for the internal audit in its meetings No. 1,3,5,6 and 9.
- The Board of Directors reformed the committee in its meeting no. (2) to be as follows: Hany Mohamed Shawky Younis- Chairman of the committee (Previously- Member) and Mohammed Mohtashem Mohammed Khan-Audit Committee Consultant (Previously- Chairman of the committee)
- The Ordinary General Assembly meeting of the company’s shareholders held on 15/10/2018 approved the resignation of Souhail Kamel Homsi as an independent board member, and the election of Yaan Mehdi Pavie as an independent board member whose membership ends with the current Board of Directors.
- The Board of Directors appointed Krishnan Balakrishnan - Financial Controller as the Board secretary on 17/10/2018.

Audit Committee Roles

- Review the accuracy, validity and integrity of the financial and operational information, and review mechanisms set to measure and classify risks and submitting the necessary reports.
- Review mechanisms set to guarantee abidance to the policies, plans, procedures, laws and regulations that may have an important impact on operations and reports and the company's compliance for it.
- Review the means of asset protection, verify the existence of such assets where appropriate and assessing the efficiency of resource usage and optimization.
- Review operations or programs to ensure whether results are consistent with specified goals and objectives, and whether operations or programs are implemented as planned.
- Review specific operations as per the company's management request, as appropriate.
- Monitor and evaluate the effectiveness of the Company's risk management system.
- Review the effectiveness of the external auditors' performance and the coordination with the Internal Audit Committee.
- Review the internal control report by the senior management and the related opinion of auditor on the audit planning.

Principle Five: Setting sound measures for risk management and internal audit

The Risk Committee provides adequate resources and appropriate system to the Risk Management Committee and evaluates the systems and mechanisms for identifying and monitoring the various risks to which the Company may be exposed, in order to identify weaknesses in this regard and reviews the organizational structure of the Risk Management Unit and makes its recommendations in this regard before Board of Directors approval.

Composition of Risk Committee and its meetings:

Name	Position	Meeting #1 16/1/2018	Meeting #2 23/5/2018	Meeting #3 20/9/2018	Meeting #4 20/12/2018
Hany Mohamed Shawky Younis	Chairman of the committee	◆	◆	◆	◆
Marzouk Jassim Marzouk Boodai	Member		◆	◆	◆
Mohammed Mohtashem Mohamed Khan	Risk Committee Consultant	◆	◆	◆	◆
Yann Mehdi Pavie	Independent Member				◆
Souhail Kamel Homsi	Independent Member	◆	◆	◆	
Krishnan Balakrishnan	Secretary		◆	◆	◆
Donald Hubbard	Secretary	◆			

- The Board of Directors reformed the committee in its meeting no. (2) to be as follows: Hany Mohamed Shawky Younis- Chairman of the committee (Previously- Member) and Mohammed Mohtashem Mohammed Khan- Audit Committee Consultant (Previously- Chairman of the committee).

Risk Management Committee Roles:

- The Committee reviews and recommends to the Board of Directors on the formulation and development of risk appetite and overall risk framework. Receiving reports from the Company's management regarding the Company's policies and procedures relating to the Company's compliance with risk limits and risk appetite.
- The Committee has oversight role on the strategies, policies, procedures and regulations established by the Company's management to identify, evaluate, measure and manage the Company's main risks including strategic business risks, operational risks, compliance risk, interest rate risk, liquidity risk, investment risk, financing risk, market risk, goodwill risk and other risks as well as the management, planning and evaluation of capital by the company's management.
- Conduct an annual assessment of the company governance, risks and controls framework to reasonable assurance on the design and completion of the framework for the Group's activities and risk characteristics.
- Monitoring the Company's risk profiles compared to the overall risk appetite framework.
- Ensure that all risk management personnel are independent from activities involving risks exposure.
- Ensure that risk management personnel are aware of risks among company employees.
- Review proposed transactions with related parties and make appropriate recommendations to the Board of Directors in this regard.

- Review issues raised by the Audit Committee that may affect the Company's risk management.
- Prepare periodic reports on the nature of risks that may be exposed to the Company and submit them to the Board of Directors.

Principle Six: Enhancing professional conduct and ethical values

The Board of Directors approved the code of conduct and ethical standards for values in the Company. Jazeera Airways expects that the Board members and employees acting their roles and responsibilities in a manner that reflects and enhances the image and reputation of the Company.

The code of conduct affirm the company's policy and constitute a guideline for:
- Enhancing honest and ethical conduct, which reflects positively on the company
- Maintaining a corporate culture that upholds the integrity and dignity of each individual.
- Adhering to the laws, regulations and policies that govern the company's activities and operations, and ensure a sound utilization of the company's assets.

The code of conduct includes ways in which every manager, official and employee deals with the company stakeholders as well as the public. These codes ensure that the company is viewed by others as one that is committed to the highest standards of integrity in all its transactions.

These policies and mechanisms ensure that Board of Directors, Executive management and employees have no financial or non-financial conflicts between their personal interest and carrying out their assigned duties in the company.

Principle Seven: Accurate and timely disclosures and transparency

The Board of Directors has established regulations and policies for disclosure and transparency. These regulations and policies set to achieve fairness and transparency, preventing conflicts of interest and exploiting internal information. The policy also aims to organize the company's procedures to disclose the main information and provide a mechanism for public disclosure with regard to corporate governance guidance.

During the year 2018, the company disclosed the basic data and information to all shareholders and investors through means of disclosure periodically and on time. The company has an independent investor relations unit, which is responsible for providing the necessary data, information and reports to investors through the means of disclosure in addition to the Company's website.

Principle Eight: Respecting shareholder rights

According to the Corporate Governance Guidelines issued by the Capital Markets Authority, in addition to the Company's Articles of Association, Memorandum of Association, the internal control, the regulatory controls and the applicable rules for protecting the rights of stakeholders, in particular shareholders, are designed to protect the financial positions of companies and carry out their duties to serve of economic and social development. The ultimate success of Jazeera Airways K.S.C.P is the result of the joint efforts of many parties, including employees, investors and related parties working with the company. The company has accurate and updated shareholders registers through follow up and coordination with Kuwait Clearing Company.

The shareholders' affairs department coordinates with shareholders continuously. The date of the General Assemblies meetings is announced on the Kuwait Stock Exchange as well as in two daily newspapers prior to meeting date by fifteen days. In addition, a reminder is announced seven days prior to the meeting. Each shareholder is entitled to attend the shareholders General Assembly meeting as individuals or via proxy. to vote on all decisions made by the Annual General Assembly with the availability of data related to board meetings agendas as well as Board of Directors report, Auditor's report and financial statements prior to the General Assembly meeting date.

Principle Nine: Recognizing the role of stakeholders

Jazeera Airways has established a policy and mechanism to regulate the relationship with stakeholders and related parties in order to protect their rights and reduce possible conflicts of interest. Jazeera Airways K.S.C.P. respects and protects the rights of stakeholders pursuant to the related applicable laws in the State of Kuwait such as such as the Labor Law and the Companies Law and its bylaws. This is in addition to signed contracts between the two parties and additional undertakings that the company takes on with regards to stakeholders.

As the stakeholders rights protection pursuant to applicable laws provides them with the opportunity to obtain compensation in case of violation of any of their rights. Jazeera Airways KSC has established a mechanism in order to make it easier for stakeholders to report any incorrect practices they may be subjected to by the company with adequate protection for reporting parties. We confirm that the company is committed to providing all information and data related to its activities on both the KSE website "Boursa" and the company's website, allowing stakeholders to access these information to make it easier for stakeholders to follow up the company's activities.

Principle Ten: Enhancing and improving performance

For the Purpose of Implementation the Performance Enhancement and Improvement Rule the Board Remuneration and Nomination Committee of Jazeera Airways K.S.C.P sets up mechanisms and indicators to assess the performance of the Board of Directors, Executive Management and Committees on a periodic basis. The performance assessment of the Board of Directors has been prepared as a requirement of corporate governance rules issued by the Capital Markets Authority to assess the performance of each member of the Board of Directors to demonstrate the achievement of the Company's strategic objectives, risk management quality, adequacy of internal control systems and identifying weaknesses and strengths and propose corrective actions in line with the company's interests The Board Remuneration and Nomination Committee of Jazeera Airways K.S.C.P is interested in the training aspects of each member of the Board of Directors and the Executive Management by developing programs which ensure that they have a proper understanding of the Company's business process, strategy, financial and operational aspects of the Company's activities and legal and regulatory obligations.

The Board of Directors continuously works to create the institutional values of the company's employees by developing mechanisms and procedures that achieve the company's strategic objectives and improve the performance rates, which effectively contributes to create the institutional values of the employees and motivating them to work continuously to maintain the company's financial safety.

Principle Eleven: Importance of social responsibility

Jazeera Airways is committed to the participation in the local society in which it offers its services on various occasions through the provision of initiatives and activities that emphasize its social responsibility in several areas including culture, education and health. Jazeera Airways participated in some social projects during the year 2018.

Dear Shareholders,

The Board of Directors of the Company has a firm belief that continuity in the compliance of the rules of good governance provides a clean environment of trust and safety and the promotion of justice, transparency and fairness of all parties from shareholders, investors and other stakeholders, which contributes to the growth of the company and increases its profitability.

Chairman
Marwan Marzouk Boodai

Acknowledgment with regard to the integrity of Financial Reporting

I, the Chairman together with the members of the Board of Directors of Jazeera Airways K.S.C.P acknowledge and undertake the accuracy and soundness of the financial data provided to the external auditor. We also assure that the financial statements and reports of the company have been prepared and presented in a fair and sound manner in accordance with the Accredited Accounting Standards applied in the State of Kuwait, and that the same reflects the Financial Position in the company as of 31 December 2018 based on information and reports provided by the executive management and auditors with diligence after applying best practice to verify the accuracy and soundness of the Financial Reports.

Marwan Marzouq Boodai
Chairman

Mohamed J M Al Mousa
Vice Chairman

Marzouq Jassim Boodai
Board Member

Ahmad Abdalla
Board Member

Hany Mohammed Shawky
Board Member

Dermot Edward Mannion
Board Member

Yann Mehdi Pavie
Independent Board Member

Betrand Philip Grabowski
Independent Board Member

Consolidated Financial Statements

Deloitte.

Deloitte & Touche
Al-Wazzan & Co.

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Kuwait

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 2018, 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 2018, 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 2.13 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 2018 Annual Report

Management is responsible for the other information. Other information consists of the information included in the Group's 2018 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.

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS (Continued)

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.

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.

INDEPENDENT AUDITOR'S REPORT TO THE SHAREHOLDERS (Continued)

Report on Other Legal and Regulatory Requirements

Furthermore, in our opinion, proper books of accounts have been kept by the Parent Company and the consolidated financial statements, together with the contents of the report of the 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 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 2018 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
19 February 2019

Consolidated Statement of Financial Position
as at 31 December 2018

Kuwaiti Dinars

	Note	**2018**	2017
ASSETS			
Non-current assets			
Property and equipment	3	21,971,472	13,769,407
Advance for maintenance	4	14,166,560	12,848,229
Security deposits		2,609,919	2,644,147
		38,747,951	29,261,783
Current assets			
Inventories		247,113	234,735
Security deposits		1,914,890	-
Trade and other receivables	5	15,490,885	3,938,226
Cash and bank balances	6	6,465,306	22,778,406
		24,118,194	26,951,367
Total assets		62,866,145	56,213,150
LIABILITIES AND EQUITY			
Equity			
Attributable to Parent Company's shareholders			
Share capital	7	20,000,000	20,000,000
Legal reserve	8	4,294,462	3,596,897
Retained earnings		13,541,950	14,600,026
Total equity		37,836,412	38,196,923
Non-current liabilities			
Post employment benefits		2,370,783	2,409,724
Provision for maintenance	9	1,305,814	1,717,131
		3,676,597	4,126,855
Current liabilities			
Trade and other payables	10	17,057,940	9,950,434
Deferred revenue		4,295,196	3,938,938
		21,353,136	13,889,372
Total liabilities and equity		62,866,145	56,213,150

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

Marwan Marzouk Boodai
Chairman

Consolidated Statement of Income
Year ended 31 December 2018

Kuwaiti Dinars

	Note	**2018**	2017
Revenue	11	82,369,370	56,611,376
Operating costs	12	(69,219,055)	(44,857,612)
Operating profit		13,150,315	11,753,764
Other income		582,381	760,082
General and administrative expenses	13	(6,367,938)	(4,041,475)
Finance costs		(28,423)	(12,396)
Foreign currency gain/(loss)		(299,302)	151,908
Expected credit loss (ECL) - financial assets		(61,380)	-
Profit before contributions and taxes		6,975,653	8,611,883
Zakat expense		(69,991)	(85,453)
Contribution to Kuwait Foundation for the Advancement of Sciences		(63,393)	(77,507)
National Labour Support Tax		(174,977)	(213,631)
Profit for the year		6,667,292	8,235,292
Attributable to:			
Shareholders of the Parent Company		6,667,292	8,235,292
Earnings per share (fils)	14		
Basic & Diluted		33.34	41.18

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

Consolidated Statement of Comprehensive Income
Year ended 31 December 2018

Kuwaiti Dinars

	2018	2017
Profit for the year	6,667,292	8,235,292
Other comprehensive income		
Other comprehensive income to be reclassified to profit or loss in subsequent periods	-	-
Total comprehensive income for the year	6,667,292	8,235,292
Attributable to:		
Shareholders of the Ultimate Parent Company	6,667,292	8,235,292

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

Consolidated Statement of Changes in Shareholders' Equity
Year ended 31 December 2018

Kuwaiti Dinars

	Share capital	Legal reserve	Retained earnings	Total equity
At 1 January 2018	20,000,000	3,596,897	14,600,026	38,196,923
Transition adjustment on adoption of IFRS 9 at 1 January 2018 (Note 2.8)	-	-	(27,803)	(27,803)
Balance as at 1 January 2018 (restated)	20,000,000	3,596,897	14,572,223	38,169,120
Total comprehensive income for the period	-	-	6,667,292	6,667,292
Transfers	-	697,565	(697,565)	-
Dividend - 2017 (Note 7)	-	-	(7,000,000)	(7,000,000)
At 31 December 2018	20,000,000	4,294,462	13,541,950	37,836,412
At 1 January 2017	20,000,000	2,735,709	14,225,922	36,961,631
Total comprehensive income for the period	-	-	8,235,292	8,235,292
Transfers	-	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

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

Consolidated Statement of Cash Flows
Year ended 31 December 2018

Kuwaiti Dinars

	Note	**2018**	2017
Cash flows from operating activities			
Net profit for the year		6,667,292	8,235,292
Adjustments for:			
Depreciation	3	1,577,120	837,019
Finance costs		28,423	12,396
Foreign exchange (gain) /loss		299,302	(151,908)
Provision for post employment benefits		540,000	418,339
Operating profit before working capital changes		9,112,137	9,351,138
Increase in advance for maintenance		(1,318,331)	(2,415,382)
Increase in inventories		(12,378)	(12,111)
Increase in security deposits		(1,890,950)	(161,827)
Increase in trade and other receivables		(11,568,894)	(1,276,308)
(Decrease)/ increase in provision for maintenance		(411,317)	522,283
Increase in trade and other payables		6,808,204	517,722
Increase in deferred revenue		356,258	462,234
Post-employment benefits paid		(578,941)	(502,717)
Net cash from/(used in) operating activities		495,788	(450,724)
Cash flows from investing activities			
Purchase of property and equipment (net of disposal)	3	(9,779,185)	(6,135,558)
Net cash used in investing activities		(9,779,185)	(6,135,558)
Cash flows from financing activities			
Dividend paid		(7,000,000)	(7,000,000)
Finance costs paid		(28,423)	(12,396)
Net cash used in financing activities		(7,028,423)	(7,012,396)
Net decrease in cash and cash equivalents		(16,313,820)	(6,662,922)
Cash and cash equivalents at			
beginning of year		22,778,406	29,441,328
Transition adjustment on adoption of IFRS 9 (Note 2.8)		(1,280)	-
end of year	6	6,465,306	22,778,406

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

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 inland 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 Parent Company has the following subsidiaries:

Name of the Company	Country of Incorporation	Percentage of Holding	
		2018	2017
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 19 February 2019 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 22.

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 preparation of the annual consolidated financial statements for the year ended 31 December 2017 except for the adoption of IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers from 1 January 2018 as summarised below.

Adoption of IFRS 9 'Financial Instruments'

The Group has adopted IFRS 9 - Financial Instruments effective from 1 January 2018. The requirements of IFRS 9 represent a significant change from IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 sets out the requirements for recognising and measuring financial assets and financial liabilities and impairment of financial assets.

The Group has not restated comparative information for 2017 as permitted by the transitional provisions of the standard. Therefore, the information presented for 2017 does not reflect the requirements of IFRS 9 and is not comparable to the information presented for 2018. Differences in the carrying amount of financial assets resulting from the adoption of IFRS 9 are recognised in retained earnings and reserves as at 1 January 2018 and are disclosed in note 2.8. The key changes to the Group's accounting policies resulting from its adoption of IFRS 9 are summarized below:

Classification of financial assets and financial liabilities

IFRS 9 contains a new classification and measurement approach for financial assets that reflect the business model in which assets are managed and their cash flow characteristics. IFRS 9 contains three classification categories for financial assets: measured at Amortised Cost, Fair Value through Other Comprehensive Income ("FVOCI") and Fair Value Through Profit or Loss ("FVTPL"). The standard eliminates the existing IAS 39 categories of held to maturity, loans and receivables and available for sale. The Group has evaluated the classification and measurement criteria to be adopted for various financial assets considering the IFRS 9 requirements with respect to the business model and contractual cash flow characteristics ("CCC") / Solely payment of principal and interest ("SPPI").

The Group's accounting policies for classification and measurement of financial assets under IFRS 9 are explained in note 2.8.

The adoption of IFRS 9 did not have a significant effect on the Group's accounting policies for financial liabilities.

Impairment of financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' (ECL) model. The new impairment model applies to financial assets measured at amortised cost, and debt investments at fair value through other comprehensive income but not to investments in equity investments. Under IFRS 9, credit losses are recognised earlier than under IAS 39. The Group's accounting policies for impairment of financial assets under IFRS 9 is explained in note 2.8.

Adoption of IFRS 15 Revenue from Contracts with Customers

The Group has adopted IFRS 15 Revenue from contracts with customers effective from 1 January 2018. This standard supersedes IAS 11 Construction Contracts and IAS 18 Revenue along with related IFRIC 13, IFRIC 15, IFRIC 18 and SIC 3. The new standard establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

Revenue recognition from certain revenue streams, principally administration and change fees, will be recognised on the date of flight rather than the date of booking.However, it had no material impact on the Group's consolidated financial statements.

The accounting policies for the new standard is disclosed in note 2.13.

2.3 Standards issued but not yet effective

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

IFRS 16 'Leases'

IFRS 16 provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements for both lessors and lessees.

IFRS 16 provides a comprehensive model for the identification of lease arrangements and their treatment in the financial statements for both lessors and lessees.

The Group will make use of the practical expedient available on transition to IFRS 16 not to reassess whether a contract is or contains a lease. Accordingly, the definition of a lease in accordance with
IAS 17 and IFRIC 4 will continue to apply to those leases entered or modified before 1 January 2019.

The change in definition of a lease mainly relates to the concept of control. IFRS 16 distinguishes between leases and service contracts on the basis of whether the use of an identified asset is controlled by the customer. Control is considered to exist if the customer has:

- The right to obtain substantially all of the economic benefits from the use of an identified asset; and
- The right to direct the use of that asset.

The Group will apply the definition of a lease and related guidance set out in IFRS 16 to all lease contracts entered into or modified on or after 1 January 2019 (whether it is a lessor or a lessee in the lease contract).

Impact on Lessee Accounting

Operating leases

IFRS 16 will change how the Group accounts for leases previously classified as operating leases under IAS 17, which were off-balance sheet. Under IFRS 16, the Group will capitalise the right of use of all aircraft and properties currently held under operating leases. The lease term will correspond to the duration of the contracts signed except in cases where the Group is reasonably certain that it will exercise contractual extension options. The Group will recognise a right-of-use asset representing its right to use the underlying asset and a corresponding lease liability representing its obligation to make lease payments. Operating lease expenses will be replaced by a depreciation expense on right-of-use assets recognised and an interest expense as the interest rate implicit in lease liabilities unwinds

Under IFRS 16, contractual maintenance obligations which are not dependent on the use of the aircraft will be recognised in full on commencement of the lease. They will be capitalised as part of the right-of-use asset at the inception of the lease and depreciated over the lease term. These changes will result in a decrease in maintenance costs and an increase in depreciation expense. Contractual maintenance obligations which are dependent on the use of the aircraft will continue to be provided for over the term of the lease based on the estimated future costs, discounted to present value.

The Group intends to adopt the standard using the cumulative effect approach, which means that the Group will recognize the cumulative effect of initially applying this standard as an adjustment to the opening balance of retained earnings of the annual reporting period that includes the date of initial application. The Group is continuing to analyze the impact of the changes and its impact will be disclosed in the first interim financial information as of March 31, 2019 that includes the effects of its application from the effective date.

Lease incentives (e.g. rent-free period) will be recognised as part of the measurement of the right-of-use assets and lease liabilities whereas under IAS 17 they resulted in the recognition of a lease liability incentive, amortised as a reduction of rental expenses on a straight-line basis. Under IFRS 16, right-of-use assets will be tested for impairment in accordance with IAS 36 Impairment of Assets. This will replace the previous requirement to recognise a provision for onerous lease contracts.

2.4 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.

2.4 Business Combinations (Continued)

The Company 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 Company 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.

2.5 Consolidation

The Group consolidates the financial statements of the Company 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.

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. Intracompany losses that indicate an impairment is recognized in the consolidated financial statements.

When the Company 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

2.6 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 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
Building	20
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.

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.

2.7 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.

2.8 Financial instruments

Recognition and de-recognition of financial assets and financial liabilities

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 de-recognised 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 of the financial asset, or when it has neither transferred nor retained substantially all the risks and rewards of ownership of the financial asset and when it no longer retains control over the asset. A financial liability is derecognised when the obligation specified in the contract is discharged, cancelled or expired.

Classification of financial assets and financial liabilities

Policy applicable from 1 January 2018

IFRS 9 requires financial assets to be assessed based on a combination of the entity's business model for managing the assets and the instruments' contractual cash flow characteristics.

Business model assessment

The Group determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective. That is, whether the Group's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable (e.g. financial assets are held for trading purposes), then the financial assets are classified as part of 'Sell' business model and measured at Fair Value through Profit or Loss. The Group's business model is based on observable factors such as:

- How the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel;
- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed;
- How managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flows collected).

The expected frequency, value and timing of sales are also important aspects of the Group's assessment.

Assessment of whether contractual cash flows are Solely Payments of Principal and Interest (SPPI test)

Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Group assesses whether the financial instruments' cash flows represent Solely Payments of Principal and Interest (the 'SPPI test').

'Principal' for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortization of the premium/discount).

The most significant elements of interest within a basic lending arrangement are typically the consideration for the time value of money, credit risk, other basic lending risks and a profit margin. To make the SPPI assessment, the Group applies judgement and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the interest rate is set.

The Group classifies its financial assets upon initial recognition into the following categories:

- Financial assets carried at amortised cost (AC)
- Investment securities at FVTPL
- Investment securities at FVOCI

Financial assets carried at amortised cost

A financial asset is measured at amortised cost if it meets both of the following conditions:

- The asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI on the principal amount outstanding.

Cash and bank balances, trade and other receivables and security deposits in the nature of financial assets are classified as financial assets carried at amortised cost.

Investment securities at FVTPL

The Group classifies financial assets as held for trading when they have been purchased or issued primarily for short-term profit making through trading activities or form part of a portfolio of financial instruments that are managed together, for which there is evidence of a recent pattern of short-term profit taking. In addition, on initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL, if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise. Included in this classification are certain, equities securities that have been acquired principally for the purpose of selling or repurchasing in the near term.

Investment securities at FVOCI

Upon initial recognition, the Group may elect to classify irrevocably some of its equity investments as equity instruments at FVOCI when they meet the definition of Equity under IAS 32 Financial Instruments: Presentation and are not held for trading. Such classification is determined on an instrument-by-instrument basis. Equity instruments at FVOCI are subsequently measured at fair value. Gains and losses on these equity instruments are never recycled to consolidated statement of profit or loss. Dividends are recognised in consolidated statement of profit or loss, when the right of the payment has been established, except when the Group benefits from such proceeds as a recovery of part of the cost of the instrument, in which case, such gains are recorded in consolidated statement of profit or loss and other comprehensive income. Equity instruments at FVOCI are not subject to an impairment assessment. Upon disposal, cumulative gains or losses are reclassified from fair value reserve to retained earnings in the consolidated statement of changes in equity.

Policy applicable before 1 January 2018

Classification

In accordance with International Accounting Standard (IAS) 39, the Group classifies its financial assets as "loans and receivables" and "investment securities available for sale" and its financial liabilities as "other than at fair value through profit or loss".

Measurement

All financial assets and liabilities are initially recognized at its fair value. Transaction costs are added for those financial instruments not measured at fair value through profit or loss. Transaction costs on financial assets classified as investments at fair value through profit or loss are recognised in the consolidated statement of profit or loss.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These are carried at amortized cost using the effective interest method.

Available for sale

These are non-derivative financial assets not included in the above classification and are principally acquired to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates or equity prices. These are subsequently measured and carried at fair value and any resultant gains or losses are recognized in the fair valuation reserve in equity through the consolidated statement of profit or loss and other comprehensive income. When the "available for sale" asset is disposed of or impaired, the related accumulated changes in fair values carried in the fair valuation reserve in equity are transferred to the consolidated statement of profit or loss and other comprehensive income as gains or losses. Financial assets whose fair value cannot be reliably measured are carried at cost less impairment losses, if any.

Financial liabilities

Financial liabilities classified as "other than at fair value through profit or loss" are carried at amortized cost using the effective interest method.

Impairment of financial assets

Policy applicable from 1 January 2018

The Group recognizes expected credit losses (ECL) on financial assets that are measured at amortized cost in accordance with IFRS 9.

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'Expected Credit Loss' (ECL) model. The expected credit loss of a financial instrument is measured in a way that reflects an unbiased and probability-weighted amount determined by evaluating range of possible outcomes; the time value of money; and past events, current conditions and forecast of future economic conditions. The ECL model applies to all financial instruments except investments in equity instruments. The methodologies and assumptions including any forecasts of future economic conditions are reviewed regularly.

Stage 1 includes financial instruments that have not had a significant increase in credit risk since initial recognition or that have low credit risk at the reporting date. For these assets, 12-month expected credit losses ('ECL') are recognized. 12-month ECL are the expected credit losses that result from default events that are possible within 12 months after the reporting date. It is not the expected cash shortfalls over the 12-month period but the entire credit loss on an asset weighted by the probability that the loss will occur in the next 12 months. The Group considers a financial asset to have low credit risk when its credit risk rating is equivalent to the globally understood definition of "investment grade"

Stage 2 includes financial instruments that have had a significant increase in credit risk since initial recognition (unless they have low credit risk at the reporting date) but that do not have objective evidence of impairment. For these assets, lifetime ECL are recognized. Lifetime ECL are the expected credit losses that result from all possible default events over the expected life of the financial instrument. Expected credit losses are the weighted average credit losses with the probability of default ('PD') as the weight. When determining whether the credit risk on a financial instrument has increased significantly, management considers reasonable and supportable information available, in order to compare the risk of a default occurring at the reporting date with the risk of a default occurring at initial recognition of the financial instrument.

Policy applicable from 1 January 2018 (Continued)
Stage 3 includes financial assets that have objective evidence of impairment at the reporting date. For these assets, lifetime ECL are recognized as the difference between the financial asset's gross carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

Any adjustments to the carrying amount of the financial asset arising from expected credit losses is recognized in profit or loss as an impairment gain or loss.

ECL are the discounted product of the Probability of Default (PD), Exposure at Default (EAD), and Loss Given Default (LGD). The PD represents the likelihood of a borrower defaulting on its financial obligation, either over the next 12 months (12M PD), or over the remaining lifetime (Lifetime PD) of the obligation. EAD represents the expected exposure in the event of a default. The Group derives the EAD from the current exposure to the financial instruments and potential changes to the current amounts allowed under the contract including amortisation.

The EAD of a financial asset is its gross carrying amount. The LGD represents expected loss conditional on default, its expected value when realised and the time value of money.

The Group recognizes ECL for cash and cash equivalents using the general approach described above. The Group applies the simplified approach to recognise lifetime expected credit losses for trade and other receivables as permitted by IFRS 9. Accordingly, trade and other receivables which are not credit impaired and which do not have significant financing component are categorised under stage 2 and lifetime ECL is recognised.

Event of default

The Group considers an event of default has occurred when information developed internally or obtained from external sources indicates that the debtor is unlikely to pay its creditors, in full (without taking into account any collateral held by the Group). Irrespective of this criteria, the Group considers that a default has occurred when a financial asset is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

Policy applicable before 1 January 2018

A financial asset is impaired if its carrying amount is greater than its estimated recoverable amount. An assessment is made at each reporting date to determine whether there is objective evidence that a specific financial asset, or a group of financial assets, is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

In the case of financial asset classified as investments available for sale, a significant or prolonged decline in the fair value of assets below its cost is considered in determining whether the assets are impaired. If any such evidence exists for investments available for sale, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the consolidated statement of profit or loss, is removed from equity and recognised in the consolidated statement of profit or loss. Impairment losses on equity investments classified as investments available for sale recognised in the consolidated statement of profit or loss are not reversed through the consolidated statement of profit or loss.

Classification of financial assets and financial liabilities on the date of initial application of IFRS 9
The following table shows reconciliation of original measurement categories and carrying value in accordance with IAS 39 and the new measurement categories under IFRS 9 for the Company's financial assets as at 1 January 2018.

Kuwaiti Dinars

	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39	Re-measurement ECL	New carrying amount under IFRS 9
Financial assets					
Cash and bank balances	Loans & receivables	Amortised Cost	22,778,406	1,280	22,777,126
Trade and other receivables	Loans & receivables	Amortised Cost	3,938,226	16,235	3,921,991
Security deposits	Loans & receivables	Amortised Cost	2,644,147	10,288	2,633,859
Total financial assets			29,360,779	27,803	29,332,976

2.9 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.

2.10 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.

2.11 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.

2.12 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.

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.

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 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.

2.15 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 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.

2.16 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.

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.

2.17 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.

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.

2.18 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.

2.19 Contingencies

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

3. Property and equipment

Kuwaiti Dinars

	Engines & rotables	Leasehold improvements	Furniture & equipment	Vehicles	Capital work-in-progress	Total
Cost						
As at 31 December 2016	5,120,236	2,125,341	2,130,850	28,986	296,361	9,701,774
Addtitions	-	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
Additions	1,384,420	576,619	818,264	-	6,999,882	9,779,185
Transfers	237,016	10,927,926	-	-	(11,164,942)	-
As at 31 December 2018	10,173,265	13,630,286	2,985,630	28,986	1,644,969	28,463,136
Depreciation						
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
Charge for the year	855,173	615,760	103,352	2,835	-	1,577,120
As at 31 December 2018	2,326,723	1,925,976	2,212,682	26,283	-	6,491,664
Net book value						
As at 31 December 2018	7,846,542	11,704,310	772,948	2,703	1,644,969	21,971,472
As at 31 December 2017	7,080,279	815,525	58,036	5,538	5,810,029	13,769,407

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

Kuwaiti Dinars

	2018	2017
Operating costs	858,008	500,446
General and administrative expenses	719,112	336,573
	1,577,120	837,019

4. Advance for maintenance

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

5. Trade and other receivables

Kuwaiti Dinars

	2018	2017
Trade receivables	1,727,353	662,321
Expected credit loss/provision for impairment	(127,426)	(152,956)
Net trade receivables	1,599,927	509,365
Prepayments	989,044	804,960
Deposits	-	534,572
Other receivables	11,365,765	2,089,329
Others- credits receivables from engine manufacturer for warranty claims	1,628,007	-
Expected credit loss/provision for impairment	(91,858)	-
	13,890,958	3,428,861
	15,490,885	3,938,226

The maximum exposure to credit risk at the statement of financial position date approximates the fair value of each class of receivables mentioned above.

Kuwaiti Dinars

	2018	
	Estimated total gross carrying amount at default	Lifetime ECL
Not due	1,539,145	2,099
30 – 90 days	45,580	231
Above 90 days	142,628	125,096
Total	1,727,353	127,426

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

6. Cash and bank balances

Kuwaiti Dinars

	2018	2017
Cash on hand	30,761	20,711
Current account with banks	3,303,510	3,637,712
Time deposits with banks	3,141,485	19,119,983
	6,475,756	22,778,406
Expected credit loss	(10,450)	-
Cash and cash equivalents in the statement of cash flows	6,465,306	22,778,406

The effective interest rate on time deposits as of 31 December 2018 was 2.05% to 3% (31 December 2017: 1.6% to 13.25%).

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

Kuwaiti Dinars

	2018	2017
Kuwaiti Dinars	3,998,060	22,035,347
US Dollars	1,092,438	201,029
Egyptian Pounds	7,997	110,066
UAE Dirham	143,095	76,977
Euro	30,558	49,816
Indian Rupees	677,911	-
Others	515,247	305,171
	6,465,306	22,778,406

7. Share capital

The authorised, issued and fully paid up share capital of the Parent Company as at 31 December 2018 is KD 20,000,000 (31 December 2017: KD 20,000,000) comprising of 200,000,000 shares of 100 fils each (31 December 2017: 200,000,000 shares of 100 fils each).

Dividend

The Annual General Assembly of the shareholders of the Parent Company held on 5 April 2018 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 2017 (31 December 2016: KD 7,000,000).

Proposed dividend

The Board of Directors, subject to the approval of shareholders, recommends distribution of a cash dividend of XXX fils per share, amounting to KD XXX for the year ended 31 December 2018 (31 December 2017 – KD 7,000,000) to the registered shareholders, after obtaining the necessary regulatory approvals.

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	
	2018	2017
Trade payables	7,576,649	3,201,463
Accrued expense	6,160,485	3,697,461
Tax payable	1,345,178	2,266,215
Staff leave payable	773,255	665,463
Others	1,202,373	119,832
	17,057,940	9,950,434

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

	Kuwaiti Dinars	
	2018	2017
Kuwaiti Dinars	3,064,047	4,430,072
US Dollars	10,823,464	3,600,701
Egyptian Pounds	565,514	387,497
UAE Dirham	311,734	304,676
Euro	383,391	194,778
Indian Rupees	592,763	-
Others	1,317,027	1,032,710
	17,057,940	9,950,434

11. Revenue

Disaggregated revenue information

The total revenue disaggregated by major service lines is:

	Kuwaiti Dinars	
	2018	2017
Passenger revenue	74,919,835	52,280,298
Ancillary revenue	6,014,234	4,270,040
Rental revenue	662,490	-
Passenger service fee	575,968	-
Others	196,843	61,038
	82,369,370	56,611,376

The Group has recognized the following liabilities related to contract with customers.

Contract liabilities

	Kuwaiti Dinars	
	31 December 2018	1 January 2018
Deferred revenue	4,295,196	3,938,938
	4,295,196	3,938,938

As permitted under IFRS 15, the Group does not disclose transaction price allocated to the remaining performance obligations as it primarily provides services that corresponds directly with the value transferred to the customer.

12. Operating costs

Kuwaiti Dinars

	2018	2017
Staff costs	9,401,172	6,731,690
Depreciation	858,008	500,447
Aircraft fuel	20,120,757	10,295,610
Aircraft maintenance	4,567,369	3,568,384
Overflying, landing and ground handling charges	10,788,998	6,974,806
Insurance	380,768	358,992
Lease rental	11,582,166	9,221,027
Lease maintenance	5,984,409	3,695,992
Others	5,535,408	3,510,664
	69,219,055	44,857,612

13. General and administrative expenses

Kuwaiti Dinars

	2018	2017
Staff costs	2,551,502	2,109,701
Rent	243,868	169,827
Professional and consultancy	275,532	125,686
Travel	154,252	80,127
Marketing	1,294,453	747,953
Depreciation	719,112	336,574
Others	1,129,219	471,607
	6,367,938	4,041,475

The number of personnel employed by the Group as of 31 December 2018 was 645 (31 December 2017: 540).

14. 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:

	2018	2017
Earnings for the year (in Kuwaiti Dinar)	6,667,292	8,235,292
Weighted average number of shares outstanding	200,000,000	200,000,000
Earnings per share (fils) – Basic and Diluted	33.34	41.18

15. 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

	2018	2017
Balance		
Due from related parties	7,853	-
Due to related parties	-	2,360
Transactions		
Sales and services	35,144	377,705
General and administrative expenses	172,107	132,903
Key management compensation		
Salaries and other employment benefits	792,645	712,900

16. 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 2017, the Group paid this tax based on tax return filed and is awaiting the final tax assessment order.

17. Segment information

The Group's operating segment is the operation of a passenger airline service and operation and maintenance of terminal in Kuwait. The terminal started its operation on 22 May 2018.

18. Contingent liabilities and commitments

Kuwaiti Dinars

	2018	**2017**
Capital Commitments	1,229,830	7,392,562
Bank guarantees	5,872,103	4,961,983
	7,101,933	12,354,545

19. Operating lease expense

The future minimum lease rent payable on aircraft operating leases is KD 63,554,706 (31 December 2017:KD 51,201,928) and is payable as follows:

Kuwaiti Dinars

	2018	**2017**
Not later than one year	13,078,646	9,114,601
Later than one year but not later than five years	29,037,393	25,612,861
Later than five years	21,438,667	16,474,466
	63,554,706	51,201,928

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

20. 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 2018, 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 2018, is shown below:

Kuwaiti Dinars

	Impact on profit		Impact on equity	
Currency	**2018**	2017	**2018**	2017
US Dollar	175,625	(49,022)	-	-
UAE Dirham	(27,198)	(12,717)	-	-
Euro	(1,799)	(5,728)	-	-
Egyptian Pounds	(16,887)	(448)	-	-
Indian Rupees	22,524	-	-	-
Others	(31,531)	(7,677)	-	-
Net impact	120,734	(75,592)	-	-

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

(ii) Interest rate risk

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

The Group's interest rate risk arises from 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 2018, 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 15,707 (31 December 2017: profit would have higher by KD 95,600).

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. The cash equivalents are from counter parties who are under investment grade credit rating except for KD 149,313 which is under non-investment grade credit rating. 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

	2018	2017
Security deposits	4,524,809	2,644,147
Trade and other receivables	14,501,841	3,133,266
Bank balances	6,434,545	22,757,695
Less: ECL	(242,138)	-
	25,219,057	28,535,108

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. Other receivables are due mainly from lessors of aircraft. The Company does not hold any collateral or credit enhancement to cover its credit risks associated over these receivables. These receivables are categorized under stage 2 and represent good credit risk quality.

(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.

21. 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 2018 and 31 December 2017, the Group did not have any borrowing.

22. 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.

Classification of financial assets

Policy applicable from 1 January 2018

The Group determines the classification of financial assets based on the assessment of the business model within which the assets are held and assessment of whether the contractual terms of the financial asset are SPPI on the principal amount outstanding. Refer note 2.8 classification of financial assets for more information.

Policy applicable before 1 January 2018

Financial assets within the scope of IAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held to maturity investments, available for sale financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The Group determines the classification of its financial assets at initial recognition.

Impairment of financial assets - Applicable from 1 January 2018

The Group estimates expected credit loss for all financial assets carried at amortised cost or fair value through consolidated statement of profit or loss except for equity instruments. The determination of expected credit loss involves significant use of external and internal data and assumptions. Refer note 2.5 impairment of financial assets for more information.

Impairment of receivables – Applicable before 1 January 2018

The Group's management reviews periodically items classified as receivables to assess whether a provision for impairment should be recorded in the consolidated statement of profit or loss. Management estimates the amount and timing of future cash flows when determining the level of provisions required. Such estimates are necessarily based on assumptions about several 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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