

**ALAFCO Aviation Lease And Finance  
Company K.S.C.**

**CONSOLIDATED FINANCIAL STATEMENTS**

**30 SEPTEMBER 2013**



Building a better  
working world

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## **INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF ALAFCO AVIATION LEASE AND FINANCE COMPANY K.S.C.**

### **Report on the Consolidated Financial Statements**

We have audited the accompanying consolidated financial statements of ALAFCO Aviation Lease and Finance Company K.S.C. (the "parent company") and its subsidiaries (together, the "group"), which comprise the consolidated statement of financial position as at 30 September 2013, and the consolidated statements of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

### *Management's Responsibility for the Consolidated Financial Statements*

The parent company's management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditors' Responsibility*

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

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

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



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KUWAIT**

Dr. Saud Hamad Al-Humaidi & Partners  
Public Accountants

**INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS OF  
ALAFCO AVIATION LEASE AND FINANCE COMPANY K.S.C. (continued)**

*Opinion*

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the group as at 30 September 2013, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

**Report on Other Legal and Regulatory Requirements**

Furthermore, in our opinion proper books of account have been kept by the parent company and the consolidated financial statements, together with the contents of the parent company's Board of Directors' report 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 the Companies Law No 25 of 2012, as amended, and by the parent company's Memorandum of Incorporation and Articles of Association, that an inventory was duly carried out and that, to the best of our knowledge and belief, no violations of the Companies Law No 25 of 2012, as amended, or of the parent company's Memorandum of Incorporation and Articles of Association have occurred during the year ended 30 September 2013 that might have had a material effect on the business of the parent company or on its financial position.

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LICENCE NO 68 A  
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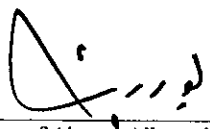
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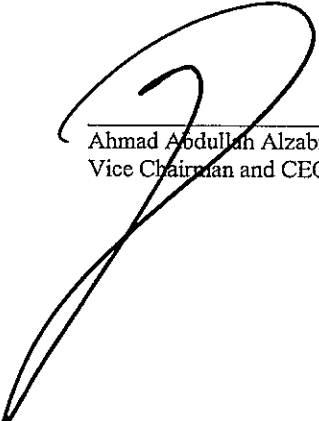
DR. SAUD HAMAD AL-HUMAIDI  
LICENSE NO. 51 A  
OF DR. SAUD HAMAD AL-HUMAIDI  
& PARTNERS  
MEMBER OF BAKER TILLY  
INTERNATIONAL

20 November 2013  
Kuwait

ALAFCO Aviation Lease and Finance Company K.S.C.  
**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
 At 30 September 2013

	<i>Notes</i>	<i>2013</i> <b>KD</b>	<i>2012</i> <b>KD</b>
<b>ASSETS</b>			
Aircraft, engines and equipment	4	566,539,954	508,426,577
Capital advances	5	20,747,716	16,436,729
Receivables	13	19,729,926	10,302,327
Cash and balances with financial institutions and short term murabahas	6	<u>62,778,235</u>	<u>43,875,451</u>
<b>TOTAL ASSETS</b>		<u><b>669,795,831</b></u>	<u><b>579,041,084</b></u>
<b>EQUITY AND LIABILITIES</b>			
<b>EQUITY</b>			
Share capital	7	77,977,157	77,977,157
Share premium	7	1,162,500	1,162,500
Statutory reserve	8	15,708,494	13,536,119
Foreign currency translation reserve		(162,742)	(1,097,628)
Retained earnings		<u>86,157,743</u>	<u>71,584,071</u>
<b>Total equity</b>		<u><b>180,843,152</b></u>	<u><b>163,162,219</b></u>
<b>LIABILITIES</b>			
Due to financial institutions	9	401,836,345	353,173,068
Security deposits	10	15,105,708	14,658,300
Maintenance reserve	11	57,262,368	40,072,161
Other liabilities	12	<u>14,748,258</u>	<u>7,975,336</u>
<b>Total liabilities</b>		<u><b>488,952,679</b></u>	<u><b>415,878,865</b></u>
<b>TOTAL EQUITY AND LIABILITIES</b>		<u><b>669,795,831</b></u>	<u><b>579,041,084</b></u>

  
 Yousef Ahmad Alhumaidi  
 Chairman of the Board

  
 Ahmad Abdullah Alzabin  
 Vice Chairman and CEO

The attached notes 1 to 22 form part of these consolidated financial statements.

ALAFCO Aviation Lease and Finance Company K.S.C.

CONSOLIDATED STATEMENT OF INCOME

Year ended 30 September 2013

	<i>Notes</i>	<b>2013 KD</b>	<b>2012 KD</b>
Operating lease income		51,217,934	54,636,864
Consultancy and service income		168,768	216,302
Murabaha income		1,338,198	892,435
Gain on sale of slots and gain on cancellation of aircraft purchase agreements	13	7,119,167	20,337,803
Other income		838,580	351,478
Staff costs		(1,782,442)	(1,568,207)
Depreciation	4	(25,633,822)	(27,773,027)
Impairment loss on aircraft, engines and equipments	4	(239,391)	(7,182,426)
Other operating expenses		(1,847,050)	(1,141,685)
Finance costs		(9,456,191)	(11,794,377)
Directors' fees		(123,000)	(150,000)
<b>PROFIT BEFORE CONTRIBUTION TO KUWAIT FOUNDATION FOR THE ADVANCEMENT OF SCIENCES (KFAS), NATIONAL LABOUR SUPPORT TAX (NLST) AND ZAKAT</b>		<b>21,600,751</b>	<b>26,825,160</b>
Contribution to KFAS		(195,514)	(242,776)
NLST		(543,094)	(674,379)
Zakat		(217,238)	(269,751)
<b>PROFIT FOR THE YEAR</b>		<b>20,644,905</b>	<b>25,638,254</b>
Basic and diluted earnings per share	3	<b>26.48 fils</b>	<b>32.88 fils</b>

The attached notes 1 to 22 form part of these consolidated financial statements.

ALAFCO Aviation Lease and Finance Company K.S.C.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Year ended 30 September 2013

	<i>2013</i> <i>KD</i>	<i>2012</i> <i>KD</i>
<b>Profit for the year</b>	<b>20,644,905</b>	<b>25,638,254</b>
<b>Other comprehensive income:</b>		
Foreign currency translation adjustment	<u>934,886</u>	<u>2,997,220</u>
<b>Other comprehensive income for the year</b>	<u>934,886</u>	<u>2,997,220</u>
<b>Total comprehensive income for the year</b>	<u><u>21,579,791</u></u>	<u><u>28,635,474</u></u>

The attached notes 1 to 22 form part of these consolidated financial statements.

ALAFCO Aviation Lease and Finance Company K.S.C.  
**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**  
Year ended 30 September 2013

	Share capital KD	Share premium KD	Statutory reserve KD	Foreign currency translation reserve KD	Retained earnings KD	Total KD
Balance at 1 October 2012	77,977,157	1,162,500	13,536,119	(1,097,628)	71,584,071	163,162,219
Profit for the year	-	-	-	-	20,644,905	20,644,905
Other comprehensive income for the year	-	-	-	934,886	-	934,886
<b>Total comprehensive income for the year</b>	-	-	-	934,886	20,644,905	21,579,791
Dividends (Note 7)	-	-	-	-	(3,898,858)	(3,898,858)
Transfer to statutory reserve	-	-	2,172,375	-	(2,172,375)	-
<b>Balance at 30 September 2013</b>	<b>77,977,157</b>	<b>1,162,500</b>	<b>15,708,494</b>	<b>(162,742)</b>	<b>86,157,743</b>	<b>180,843,152</b>
Balance at 1 October 2011	77,977,157	1,162,500	10,838,604	(4,094,848)	56,441,048	142,324,461
Profit for the year	-	-	-	-	25,638,254	25,638,254
Other comprehensive income for the year	-	-	-	2,997,220	-	2,997,220
<b>Total comprehensive income for the year</b>	-	-	-	2,997,220	25,638,254	28,635,474
Dividends (Note 7)	-	-	-	-	(7,797,716)	(7,797,716)
Transfer to statutory reserve	-	-	2,697,515	-	(2,697,515)	-
<b>Balance at 30 September 2012</b>	<b>77,977,157</b>	<b>1,162,500</b>	<b>13,536,119</b>	<b>(1,097,628)</b>	<b>71,584,071</b>	<b>163,162,219</b>

The attached notes 1 to 22 form part of these consolidated financial statements.

ALAFCO Aviation Lease and Finance Company K.S.C.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 30 September 2013

	<i>Notes</i>	<i>2013</i> <i>KD</i>	<i>2012</i> <i>KD</i>
<b>OPERATING ACTIVITIES</b>			
Profit for the year		20,644,905	25,638,254
Adjustments for:			
Depreciation	4	25,633,822	27,773,027
Murabaha income		(1,338,198)	(892,435)
Finance costs		9,456,191	11,794,377
Impairment loss on aircraft, engines and equipment	4	239,391	7,182,426
		<u>54,636,111</u>	<u>71,495,649</u>
Changes in operating assets and liabilities:			
Receivables		(7,109,464)	(7,518,278)
Payables		6,747,757	(5,541,917)
Maintenance reserve		16,947,907	14,990,076
		<u>71,222,311</u>	<u>73,425,530</u>
Cash from operations		(9,488,180)	(12,079,780)
Finance cost paid		<u>61,734,131</u>	<u>61,345,750</u>
Net cash from operating activities		<u>61,734,131</u>	<u>61,345,750</u>
<b>INVESTING ACTIVITIES</b>			
Purchase of aircraft, engines and equipment		(107,368,822)	(274,196)
Proceeds from disposal of aircraft, engines and equipment		26,870,750	-
Capital advances for purchase of aircraft and engines	5	(6,420,695)	(6,170,455)
Refund of capital advances on cancellation of aircraft purchase agreements	5	-	3,227,140
Murabaha income received		1,291,452	898,051
Blocked bank account movement		901,621	327,390
		<u>(84,725,694)</u>	<u>(1,992,070)</u>
Net cash used in investing activities		<u>(84,725,694)</u>	<u>(1,992,070)</u>
<b>FINANCING ACTIVITIES</b>			
Financing facilities obtained		91,468,599	-
Financing facilities repaid		(44,940,815)	(41,294,641)
Dividend paid		(3,898,858)	(7,797,716)
		<u>42,628,926</u>	<u>(49,092,357)</u>
Net cash from (used in) financing activities		<u>42,628,926</u>	<u>(49,092,357)</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>			
Foreign currency adjustment		167,042	1,053,194
Cash and cash equivalents at the beginning of the year		42,973,830	31,659,313
		<u>62,778,235</u>	<u>42,973,830</u>
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR</b>	6	<u>62,778,235</u>	<u>42,973,830</u>

The attached notes 1 to 22 form part of these consolidated financial statements.



# ALAFCO Aviation Lease and Finance Company K.S.C.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 30 September 2013

### 1 ACTIVITIES

ALAFCO Aviation Lease and Finance Company K.S.C. (ALAFCO) (the "parent company") is a shareholding company registered and incorporated in Kuwait on 10 May 2000 under the Companies Law No 25 of 2012 and amendments thereto. The parent company is engaged in the business of aircraft leasing and providing of management, marketing and consultancy services to aviation related businesses in line with the Islamic Shariah principles. The parent company is a subsidiary of Kuwait Finance House K.S.C. (the "ultimate parent company") and its registered head office is at Kuwait Chamber of Commerce and Industry Building Annexe, Third Floor, Abdul Aziz Hamid Alsagar Street, Al-Mirqab, Kuwait.

The shares of the parent company and the ultimate parent company are listed on the Kuwait Stock Exchange.

The consolidated financial statements include transactions and balances of the parent company and wholly owned Special Purpose Companies (SPC's) (its subsidiaries), together referred to as the "group". All the transactions of SPC's are entered on behalf of ALAFCO and are guaranteed by ALAFCO.

The consolidated financial statements of the group for the year ended 30 September 2013 were authorised for issue in accordance with a resolution of the board of directors on 20 November 2013 and are issued subject to the approval of the Annual General Assembly of the Shareholders' of the parent company. The Annual General Assembly of the Shareholders has the power to amend these consolidated financial statements after issuance.

The New Companies Law issued on 26 November 2012 by Decree Law no. 25 of 2012 (the "Companies Law"), cancelled the Commercial Companies Law No. 15 of 1960. The Companies Law was subsequently amended on 27 March 2013 by Decree Law no. 97 of 2013 (the Decree). The Executive Regulations of the new amended law issued on 29 September 2013 was published in the official Gazette on 6 October 2013. As per article three of the executive regulations, companies have one year from the date of publishing the executive regulations to comply with the new amended law.

### 2.1 BASIS OF PREPARATION

#### Statement of compliance

The consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards ("IFRS") and applicable requirements of Ministerial Order No. 18 of 1990.

The consolidated financial statements are prepared under the historical cost convention.

The functional currency of the parent company is US dollars ("USD"). The consolidated financial statements have been presented in Kuwaiti Dinars ("KD").

The accounting policies used in the preparation of the consolidated financial statements are consistent with those used in previous year.

#### Basis of consolidation

The consolidated financial statements incorporate the financial statements of the parent company and its subsidiaries for the year ended 30 September 2013. Subsidiaries are those enterprises controlled by the parent company. Control exists when the parent company has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control effectively commences until the date that control effectively ceases.

The financial statements of the subsidiaries are consolidated on a line-by-line basis by adding together like items of assets, liabilities, income and expenses. Any significant intra-group balances and transactions, and any unrealised gains and losses arising from the inter-group transactions, are eliminated in preparing the consolidated financial statements. Consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances.

As mentioned in Note 1, the activities of the SPC's are entered on behalf of ALAFCO. The consolidated financial statements include the financial statements of ALAFCO and its subsidiaries ("SPC's") incorporated in Cayman Islands, Cyprus, Ireland, United Kingdom, Delaware (USA) and Labuan (Malaysia) as listed in the following table for the year ended 30 September 2013.

# ALAFCO Aviation Lease and Finance Company K.S.C.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 30 September 2013

### 2.1 BASIS OF PREPARATION

#### Basis of consolidation (continued)

<i>Name</i>	<i>Date of incorporation</i>	<i>Country of Incorporation</i>	<i>Share capital US\$/Euro/Pound</i>	<i>Activities</i>
Osprey Aircraft Leasing Limited (Four)	4 September 2002	Cayman Islands	US\$ 2	Purchasing, financing, leasing and subleasing of aircraft.
Osprey Aircraft Leasing Limited (Eight)	7 April 2003	Cayman Islands	US\$ 2	Purchasing, financing, leasing and subleasing of aircraft.
Osprey Aircraft Leasing Limited (Nine)	7 April 2003	Cayman Islands	US\$ 2	Purchasing, financing, leasing and subleasing of aircraft.
ALAFCO Labuan Aircraft Leasing Limited	26 May 2004	Labuan, Malaysia	US\$ 1	Purchasing, sale, lease, obtaining lease finance and refinancing of aircraft.
Osprey Aircraft Leasing Limited (Ten)	10 March 2004	Cayman Islands	US\$ 2	Purchasing, financing, leasing and subleasing of aircraft.
Osprey Aircraft Leasing Limited (Eleven)	10 March 2004	Cayman Islands	US\$ 2	Purchasing, financing, leasing and subleasing of aircraft.
Osprey Aircraft Leasing Limited (Twelve)	19 May 2005	Cayman Islands	US\$ 2	Purchasing, financing, leasing and subleasing of aircraft.
Osprey Aircraft Leasing Limited (Thirteen)	19 May 2005	Cayman Islands	US\$ 2	Purchasing, financing, leasing and subleasing of aircraft.
Osprey Aircraft Leasing Limited (Fourteen)	12 July 2005	Cayman Islands	US\$ 2	Purchasing, financing, leasing and subleasing of aircraft.
Osprey Aircraft Leasing Limited (Fifteen)	30 December 2005	Cayman Islands	US\$ 2	Purchasing, financing, leasing and subleasing of aircraft.
Osprey Aircraft Leasing Limited (Sixteen)	30 December 2005	Cayman Islands	US\$ 2	Purchasing, financing, leasing and subleasing of aircraft.
Osprey Aircraft Leasing Limited (Seventeen)	3 April 2007	Cayman Islands	US\$ 2	Purchasing, financing, leasing and subleasing of aircraft.
Osprey Aircraft Leasing Limited (Eighteen)	3 June 2009	Cayman Islands	US\$ 2	Purchasing, financing, leasing and subleasing of aircraft.
Osprey Aircraft Leasing Limited (Nineteen)	25 September 2009	Cayman Islands	US\$ 2	Purchasing, financing, leasing and subleasing of aircraft.
Osprey Aircraft Leasing Limited (Twenty)	24 March 2010	Cayman Islands	US \$2	Purchasing, financing, leasing and subleasing of aircraft.
Osprey Aircraft Leasing Limited (Twenty One)	24 March 2010	Cayman Islands	US \$ 2	Purchasing, financing, leasing and subleasing of aircraft.
Osprey Aircraft Leasing Limited (Twenty Two)	27 September 2010	Cayman Islands	US \$ 2	Purchasing, financing, leasing and subleasing of aircraft.
Osprey Aircraft Leasing Limited (Twenty Three)	21 January 2011	Cayman Islands	US \$ 2	Purchasing, financing, leasing and subleasing of aircraft.
Alafco Cyprus Aircraft Leasing Limited	17 August 2009	Cyprus	Euro 1,000	Purchasing, financing, leasing and subleasing of aircraft.
Alafco Irish Aircraft Leasing One Limited	30 March 2010	Ireland	US \$ 1	Purchasing, financing, leasing and subleasing of aircraft.
Alafco Irish Aircraft Leasing Two Limited	22 June 2010	Ireland	US \$ 1	Purchasing, financing, leasing and subleasing of aircraft.
Alafco Irish Aircraft Leasing Three Limited	22 June 2010	Ireland	US \$ 1	Purchasing, financing, leasing and subleasing of aircraft.

# ALAFCO Aviation Lease and Finance Company K.S.C.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 30 September 2013

### 2.1 BASIS OF PREPARATION

#### Basis of consolidation (continued)

Name	Date of incorporation	Country of Incorporation	Share capital US\$/Euro/Pound	Activities
Alafco Irish Aircraft Leasing Four Limited	20 February 2012	Ireland	US \$ 1	Purchasing, financing, leasing and subleasing of aircraft
Kuwait Turk One Limited	22 April 2010	Cayman Islands	US \$2	Purchasing, financing, leasing and subleasing of aircraft.
Kuwait Turk Two Limited	22 April 2010	Cayman Islands	US \$2	Purchasing, financing, leasing and subleasing of aircraft.
Salwa Aircraft Leasing (One) Limited	1 April 2013	Delaware, USA	US \$1,000	Purchasing, financing, leasing and subleasing of aircraft.
Fintas Aviation Leasing UK One Limited	1 July 2013	United Kingdom	Pound £1	Purchasing, financing, leasing and subleasing of aircraft.

### 2.2 STANDARDS ISSUED BUT NOT YET EFFECTIVE

The following International Accounting Standard Board (IASB) Standards relevant to the group have been issued but are not yet mandatory, and have not been early adopted by the group:

#### *IFRS 9 Financial Instruments (effective for annual periods on or after 1 January 2015)*

IFRS 9 as issued reflects the first phase of the IASBs work on the replacement of IAS 39 and applies to classification and measurement of financial assets as defined in IAS 39. In subsequent phases, the IASB will address classification and measurement of financial liabilities, hedge accounting and derecognition. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the group's financial assets. The group will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.

#### *IFRS 10 Consolidated Financial Statements (effective for annual periods on or after 1 January 2013)*

IFRS 10 replaces the consolidation guidance in IAS 27 Consolidated and Separate Financial Statements and SIC-12 Consolidation - Special Purpose Entities by introducing a single consolidation model for all entities based on control, irrespective of the nature of the investee (i.e., whether an entity is controlled through voting rights of investors or through other contractual arrangements as is common in special purpose entities). Under IFRS 10, control is based on whether an investor has 1) power over the investee; 2) exposure, or rights, to variable returns from its involvement with the investee; and 3) the ability to use its power over the investee to affect the amount of the returns. The group does not expect any impact on its financial position or performance upon adoption of this standard.

#### *IFRS 12 Disclosure of Interests in Other Entities (effective for annual periods on or after 1 January 2013)*

IFRS 12 requires enhanced disclosures about both consolidated entities and unconsolidated entities in which an entity has involvement. The objective of IFRS 12 is to require information so that financial statement users may evaluate the basis of control, any restrictions on consolidated assets and liabilities, risk exposures arising from involvements with unconsolidated structured entities and non-controlling interest holders' involvement in the activities of consolidated entities. The group does not expect any impact on its financial position or performance upon adoption of this standard.

#### *IFRS 13 Fair Value Measurement (effective for annual periods on or after 1 January 2013)*

IFRS 13 replaces the guidance on fair value measurement in existing IFRS accounting literature with a single standard. IFRS 13 defines fair value, provides guidance on how to determine fair value and requires disclosures about fair value measurements. However, IFRS 13 does not change the requirements regarding which items should be measured or disclosed at fair value. The group does not expect any impact on its financial position or performance upon adoption of this standard.

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

# ALAFCO Aviation Lease and Finance Company K.S.C.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 30 September 2013

### 2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### **Aircraft, engines and equipment**

Aircraft, engines and equipment are stated at cost less accumulated depreciation and any impairment in value.

Depreciation is calculated on cost less residual value over the estimated useful lives as follows:

- Aircraft and engines 20 years (from the date of original manufacture)
- Furniture and fixtures 5 years
- Office equipment 5 years

An item of aircraft, engines and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated statement of income when the asset is derecognised.

The residual values, useful lives and methods of depreciation of the assets are reviewed and adjusted prospectively, if appropriate.

#### **Cash and cash equivalents**

Cash and cash equivalents comprise of cash and balances with financial institutions and short-term murabahas with original maturities of three months or less from the date of placement.

#### **Leases**

##### *Group as lessor*

Leases where the Group retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income.

#### **Maintenance reserve**

Maintenance reserve represents payments made by the lessee for usage of the aircraft and is offset against actual maintenance expenses as and when incurred on the aircraft. At the time of disposal of aircraft, the remaining balance of maintenance reserve is reported in the consolidated statement of income.

#### **Operating lease income received in advance**

Operating lease rentals received in advance are carried at net present value of future lease rentals.

#### **Borrowing costs**

Borrowing costs are generally expensed as incurred. Borrowing costs are capitalised, if they are directly attributable to a qualifying asset, as part of capital advances over the period of the construction until the aircraft concerned is completed and delivered on the basis of actual borrowings and actual expenditure incurred on the purchase of the aircraft. Capitalisation of borrowing costs ceases when substantially all activities necessary to prepare the aircraft for its intended use are complete.

#### **Foreign currency translation**

Each entity in the group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Transactions in foreign currencies are initially recorded at the functional currency rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. All differences are taken to consolidated statement of income. Non monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

As at the reporting date, the assets and liabilities of the group are translated from the functional currency (US Dollar) into the presentation currency (Kuwaiti Dinars) at the rate of exchange ruling at the reporting date, and the consolidated statement of income items are translated at the average exchange rate for the year. The exchange differences arising on the translation are taken directly to other comprehensive income.

**2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Revenue recognition**

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the group and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received. The following specific recognition criteria must also be met before revenue is recognised:

- Operating lease income is recognised on a straight line basis in accordance with the lease agreement.
- Consultancy and service income is recognised when services are rendered.
- Murabaha income is recognised on effective yield basis.

**Kuwait Foundation for the Advancement of Sciences (KFAS)**

The group calculates the contribution to KFAS at 1% in accordance with the modified calculation based on the Foundation's Board of Directors' resolution, which states that the directors' fees, transfer to statutory reserve should be excluded from profit for the year when determining the contribution.

**National Labour Support Tax (NLST)**

The group calculates the NLST in accordance with Law No. 19 of 2000 and the Minister of Finance Resolutions No. 24 of 2006 at 2.5% of taxable profit for the year.

**Zakat**

The group provides for Zakat in accordance with the requirements of Law No. 46 of 2006. The Zakat charge calculated in accordance with these requirements is charged to the consolidated statement of income.

**Provision for impairment of assets**

At each reporting date, the group reviews the carrying amounts of its assets to determine whether there is any indication that those assets have suffered impairment in value. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the group estimates the recoverable amount of the cash-generating unit to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

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 discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining the fair value less costs to sell, an appropriate valuation model is used.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in the consolidated statement of income.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in the consolidated statement of income.

**Recognition and de-recognition of financial assets and liabilities**

A financial asset or a financial liability is recognised when the group becomes a party to the contractual provisions of the instrument. All "regular way" purchases and sales of financial assets are recognised on the trade date, i.e. the date that the group commits to purchase or sell the asset. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place.

**2.3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Recognition and de-recognition of financial assets and liabilities (continued)**

A financial asset (in whole or in part) is derecognised either when: (i) the rights to receive the cash flows from the asset have expired or (ii) the group has retained its right to receive cash flows from the assets but has assumed an obligation to pay them in full without material delay to a third party under a 'pass through' arrangement; or (iii) the group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset. Where the group has transferred its right to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the group's continuing involvement in the asset.

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability and the difference in the respective carrying amounts is recognised in the consolidated statement of income.

**Significant accounting judgement and estimates**

The preparation of consolidated financial statements in conformity with International Financial Reporting Standards requires management to make judgements, estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of income and expenses during the reporting period. Actual results could differ from those estimates. The group has used judgement and estimates principally in, but not limited to, the determination of impairment, depreciation, and residual value of aircraft, engines and equipment.

*Impairment of aircraft, engines and equipment*

A decline in the value of aircraft could have a significant effect on the amounts recognised in the consolidated financial statements. Management assesses the impairment of aircraft whenever events or changes in circumstances indicate that the carrying value may not be recoverable.

Factors that are considered important which could trigger an impairment review include the following:

- significant decline in the market value beyond that which would be expected from the passage of time or normal use,
- significant changes in the technology and regulatory environments,
- evidence from internal reporting which indicates that the economic performance of the asset is, or will be, worse than expected.

*Depreciation of aircraft, engines and equipment*

Management assigns useful lives and residual values to aircraft, engines and equipment based on the intended use of assets and the economic lives of those assets. Subsequent changes in circumstances such as technological advances or prospective utilisation of the assets concerned could result in the actual useful lives or residual values differing from initial estimates.

*Residual value of aircraft, engines and equipment*

Management decides on the appropriateness of residual value used at each reporting date. Management obtains independent published valuations, based on certain industry valuation techniques, of its fleet of aircraft to determine the residual values every year. On a conservative basis, management adopts a policy of discounting these valuations as it does not believe that these amounts would be realisable in open market transactions. As a result, the actual residual values could differ from initial estimates.

ALAFCO Aviation Lease and Finance Company K.S.C.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 30 September 2013

3 EARNINGS PER SHARE

Basic and diluted earnings per share are calculated by dividing profit for the year by the weighted average number of ordinary shares outstanding during the year, as follows:

	2013	2012
Profit for the year (KD)	20,644,905	25,638,254
Weighted average number of ordinary shares	779,771,570	779,771,570
Basic and diluted earnings per share	26.48 fils	32.88 fils

4 AIRCRAFT, ENGINES AND EQUIPMENT

	<i>Aircraft and engines KD</i>	<i>Furniture and fixtures KD</i>	<i>Office equipment KD</i>	<i>Total KD</i>
<b>Cost</b>				
At 1 October 2012	635,136,964	212,876	60,547	635,410,387
Additions	107,734,251	-	2,276	107,736,527
Disposals	(50,409,777)	-	-	(50,409,777)
Foreign currency adjustment	3,840,416	1,286	366	3,842,068
<b>At 30 September 2013</b>	<b>696,301,854</b>	<b>214,162</b>	<b>63,189</b>	<b>696,579,205</b>
<b>Depreciation and impairment</b>				
At 1 October 2012	126,839,932	94,873	49,005	126,983,810
Depreciation charge for the year	25,586,668	40,830	6,324	25,633,822
Impairment loss	239,391	-	-	239,391
Disposal	(23,539,027)	-	-	(23,539,027)
Foreign currency adjustment	720,467	502	286	721,255
<b>At 30 September 2013</b>	<b>129,847,431</b>	<b>136,205</b>	<b>55,615</b>	<b>130,039,251</b>
<b>Net carrying amount</b>				
<b>At 30 September 2013</b>	<b>566,454,423</b>	<b>77,957</b>	<b>7,574</b>	<b>566,539,954</b>
	<i>Aircraft and engines KD</i>	<i>Furniture and fixtures KD</i>	<i>Office equipment KD</i>	<i>Total KD</i>
<b>Cost</b>				
At 1 October 2011	621,804,431	208,328	58,364	622,071,123
Additions	695,608	313	-	695,921
Foreign currency adjustment	12,636,925	4,235	2,183	12,643,343
<b>At 30 September 2012</b>	<b>635,136,964</b>	<b>212,876</b>	<b>60,547</b>	<b>635,410,387</b>
<b>Depreciation and impairment</b>				
At 1 October 2011	89,801,486	53,050	40,859	89,895,395
Depreciation charge for the year	27,725,381	40,391	7,255	27,773,027
Impairment loss	7,182,426	-	-	7,182,426
Foreign currency adjustment	2,130,639	1,432	891	2,132,962
<b>At 30 September 2012</b>	<b>126,839,932</b>	<b>94,873</b>	<b>49,005</b>	<b>126,983,810</b>
<b>Net carrying amount</b>				
<b>At 30 September 2012</b>	<b>508,297,032</b>	<b>118,003</b>	<b>11,542</b>	<b>508,426,577</b>

ALAFCO Aviation Lease and Finance Company K.S.C.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 30 September 2013

**4 AIRCRAFT, ENGINES AND EQUIPMENT (continued)**

Aircraft with carrying value of KD 540,314,718 (2012: KD 466,610,993) are subject to finance lease and are mortgaged against the financing facilities with the legal title of the same with the lenders (Note 9).

Management obtained independent published valuations, based on certain industry valuation techniques, of its fleet of aircraft to determine the residual values at 30 September 2013. On a conservative basis, management has adopted a policy of discounting these valuations as it does not believe that these amounts would be realisable in open market transactions. Based on the above exercise, the residual value of the fleet approximates 21% of the purchase price (in aggregate) (2012: 21%).

**5 CAPITAL ADVANCES**

	<i>2013</i> <i>KD</i>	<i>2012</i> <i>KD</i>
At 1 October	16,436,729	15,445,984
Additions	6,420,695	6,170,455
Capital advances refunded on cancellation of aircraft purchase agreements	-	(3,227,140)
Capital advances refundable on cancellation of aircraft purchase agreements (Note 13)	(2,209,095)	(2,266,479)
Foreign currency adjustment	99,387	313,909
	<u>20,747,716</u>	<u>16,436,729</u>

Capital advances represent progress payments made towards the purchase of aircraft and engines. The commitment in this respect is disclosed in Note 15.

**6 CASH AND CASH EQUIVALENTS**

Cash and cash equivalents included in the consolidated statement of cash flows include the following:

	<i>2013</i> <i>KD</i>	<i>2012</i> <i>KD</i>
Cash and balances with financial institutions	547,364	2,843,655
Short-term murabahas	62,230,871	41,031,796
Cash and balances with financial institutions and short term murabahas	62,778,235	43,875,451
Less: blocked bank account (Note 9)	-	(901,621)
Cash and cash equivalents	<u>62,778,235</u>	<u>42,973,830</u>

Short-term murabahas represent short-term deals in international commodity transactions which earn a profit rate of 2.5% per annum (2012: 2.5% per annum).

Blocked bank account represents cash and balances with financial institutions which are blocked as a security against financing facilities obtained (Note 9).



# ALAFCO Aviation Lease and Finance Company K.S.C.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 30 September 2013

### 7 EQUITY

#### Share capital

The authorised, issued and fully paid share capital as at 30 September 2013 comprises 779,771,570 ordinary shares (2012: 779,771,570 ordinary shares) of 100 fils each fully paid in cash.

#### Share premium

Share premium is not available for distribution.

#### Bonus shares and cash dividend

For the year ended 30 September 2012, the Annual General Assembly held on 17 January 2013 approved cash dividend of 5% (2011: 10%) of par value of each share being 5 fils per share (2011: 10 fils per share) amounting to KD 3,898,858 (2011: KD 7,797,716).

Subsequent to the reporting date, the directors have proposed cash dividend of 5% of the paid up share capital which is subject to the approval of the shareholders at the annual general meeting.

### 8 STATUTORY RESERVE

As required by the Commercial Companies Law and the parent company's Articles of Association, 10% of the profit for the year before directors' fees and contribution to KFAS, NLST and Zakat has been transferred to statutory reserve. The parent company may resolve to discontinue such annual transfers when the reserve totals 50% of the paid up share capital.

Distribution of the statutory reserve is limited to the amount required to enable the payment of a dividend of 5% of paid up share capital to be made in years when retained earnings are not sufficient for the payment of a dividend of that amount.

### 9 DUE TO FINANCIAL INSTITUTIONS

	<i>2013</i> <i>KD</i>	<i>2012</i> <i>KD</i>
Balance due to financial institutions - financing lease facilities	<u>401,836,345</u>	<u>353,173,068</u>

#### Obligation under finance lease

Future minimum lease payments under finance lease agreements together with the present value of the net minimum lease payments are as follows:

	<i>2013</i>		<i>2012</i>	
	<i>Minimum payments</i> <i>KD</i>	<i>Present value of payments</i> <i>KD</i>	<i>Minimum payments</i> <i>KD</i>	<i>Present value of payments</i> <i>KD</i>
Within one year	56,947,788	47,691,278	41,146,851	32,760,355
After one year but not more than five years	206,718,475	179,848,979	180,157,380	156,768,781
After 5 years	184,888,979	174,296,088	172,982,493	163,643,932
Total minimum lease payments	<u>448,555,242</u>	<u>401,836,345</u>	<u>394,286,724</u>	<u>353,173,068</u>
Less: amounts representing finance charges	(46,718,897)	-	(41,113,656)	-
Present value of minimum lease payments	<u>401,836,345</u>	<u>401,836,345</u>	<u>353,173,068</u>	<u>353,173,068</u>

All financing facilities are secured over the aircraft (Note 4) and are denominated in US Dollars. An amount of KD Nil (2012: KD 901,621) included in cash and balances with financial institutions is blocked against the above financing facilities (Note 6).

ALAFCO Aviation Lease and Finance Company K.S.C.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 30 September 2013

**10 SECURITY DEPOSITS**

Security deposits represent amounts paid by the lessees as a security in accordance with the lease agreements. The deposits are repayable to the lessees on the expiration of the lease agreements subject to satisfactory compliance of the lease agreements by the lessees.

**11 MAINTENANCE RESERVE**

	<i>2013</i>	<i>2012</i>
	<i>KD</i>	<i>KD</i>
Balance at 1 October	40,072,161	24,582,495
Additions	18,257,396	16,347,659
Utilisation	(1,309,489)	(1,357,583)
Foreign exchange adjustment	242,300	499,590
Balance at 30 September	<u>57,262,368</u>	<u>40,072,161</u>

Maintenance reserve amounting to KD 8,869,906 (2012: KD 5,510,540) is backed by letters of credit issued to a financial institution (Note 16).

**12 OTHER LIABILITIES**

	<i>2013</i>	<i>2012</i>
	<i>KD</i>	<i>KD</i>
Operating lease income received in advance	2,108,857	3,427,555
Accrued expenses	4,534,995	4,275,668
Compensation received in advance	7,887,560	-
Zakat payable	216,846	272,113
	<u>14,748,258</u>	<u>7,975,336</u>

**13 GAIN ON SALE OF SLOTS AND GAIN ON CANCELLATION OF AIRCRAFT PURCHASE AGREEMENTS**

During the year, the parent company entered into an agreement for sale of 'slots for purchase' of four aircraft (2012: four aircraft) which resulted in a gain of KD 7,119,167 (2012: KD 7,051,363) recorded in the consolidated statement of income. The sale proceeds receivable in relation to the sale of slots are included in 'receivables' in the consolidated statement of financial position as at the reporting date. The related refundable capital advances for the aircraft amounting to KD 4,574,134 (2012: KD 2,266,479) have been included in 'receivables' in the consolidated statement of financial position as at the reporting date (Note 5).

During the year ended 30 September 2012, the parent company entered into an agreement for the cancellation of purchase and subsequent lease of six aircraft, which resulted in a gain of KD 13,286,440.

As at 30 September 2013, the receivables balance includes KD 18,716,634 (2012: KD 9,295,229) relating to above sales and cancellations.

ALAFCO Aviation Lease and Finance Company K.S.C.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 30 September 2013

**14 OPERATING LEASE INCOME**

The future minimum lease rent receivable on the operating lease is KD 377,932,781 (2012: KD 253,152,817) and is receivable as follows:

	<i>2013</i> <i>KD</i>	<i>2012</i> <i>KD</i>
Income receivable within one year	56,092,071	47,572,394
Income receivable within one year to five years	208,597,761	156,548,882
Income receivable after five years	113,242,949	49,031,541
	<u>377,932,781</u>	<u>253,152,817</u>

**15 CAPITAL COMMITMENTS**

There are potential commitments in respect of purchase of aircraft and engines amounting to KD 1,413,650,583 (2012: KD 1,317,800,821) (Note 5).

**16 CONTINGENT LIABILITIES**

As at 30 September 2013, the group has contingent liabilities amounting to KD 8,869,906 (2012: KD 5,510,540) in respect of letters of credit arising in the ordinary course of business from which it is anticipated that no material liabilities will arise (Note 11).

**17 RELATED PARTY TRANSACTIONS**

Related parties represent the ultimate parent company, directors and key management personnel of the parent company, and entities controlled, jointly controlled, or significantly influenced by such parties. Pricing policies and terms of these transactions are approved by the parent company's management.

Significant transactions with related parties included in the consolidated financial statements are as follows:

**Consolidated statement of financial position:**

	<i>Ultimate parent company</i> <i>KD</i>	<i>Other related parties</i> <i>KD</i>	<i>2013</i> <i>KD</i>	<i>2012</i> <i>KD</i>
Receivables	-	115,689	115,689	76,280
Cash and balances with financial institutions and short term murabahas	546,625	62,230,871	62,777,496	42,973,096

ALAFCO Aviation Lease and Finance Company K.S.C.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 30 September 2013

17 RELATED PARTY TRANSACTIONS (continued)

Consolidated statement of income:

	<i>Ultimate parent company KD</i>	<i>Other related parties KD</i>	<i>2013 KD</i>	<i>2012 KD</i>
Murabaha income	8,841	1,329,357	1,338,198	892,435
Consultancy and service income	163,215	5,553	168,768	216,302
Finance costs	-	-	-	8,152
<i>Key management compensation:</i>				
Salaries and other short term benefits			1,003,873	961,593
Directors' fees			123,000	150,000
			<u>1,126,873</u>	<u>1,111,593</u>

Directors' fees of KD 123,000 for the year ended 30 September 2013 is subject to approval by the ordinary general assembly of the shareholders.

Directors' fees of KD 150,000 for the year ended 30 September 2012 was approved by the ordinary general assembly of the shareholders held on 17 January 2013.

18 MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The table below summarises the maturity profile of the group's assets and group's liabilities based on contractual obligations. The maturities of assets and liabilities have been determined according to when they are expected to be recovered or settled from the reporting date.

The maturity profile of assets and liabilities at 30 September are as follows:

30 September 2013

	<i>Less than 1 year KD</i>	<i>Over 1 year KD</i>	<i>Total KD</i>
<b>ASSETS</b>			
Aircraft, engines and equipment	-	566,539,954	566,539,954
Capital advances	-	20,747,716	20,747,716
Receivables	6,670,291	13,059,635	19,729,926
Cash and balances with financial institutions and short term murabahas	62,778,235	-	62,778,235
<b>Total assets</b>	<u>69,448,526</u>	<u>600,347,305</u>	<u>669,795,831</u>
<b>LIABILITIES</b>			
Due to financial institutions	47,691,278	354,145,067	401,836,345
Security deposits	-	15,105,708	15,105,708
Maintenance reserve	-	57,262,368	57,262,368
Other liabilities	12,283,012	2,465,246	14,748,258
<b>Total liabilities</b>	<u>59,974,290</u>	<u>428,978,389</u>	<u>488,952,679</u>

ALAFCO Aviation Lease and Finance Company K.S.C.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 30 September 2013

**18 MATURITY ANALYSIS OF ASSETS AND LIABILITIES (continued)**

30 September 2012

	<i>Less than 1 year KD</i>	<i>Over 1 year KD</i>	<i>Total KD</i>
<b>ASSETS</b>			
Aircraft, engines and equipment	27,385,895	481,040,682	508,426,577
Capital advances	-	16,436,729	16,436,729
Receivables	1,007,097	9,295,230	10,302,327
Cash and balances with financial institutions and short term murabahas	43,875,451	-	43,875,451
<b>Total assets</b>	<u>72,268,443</u>	<u>506,772,641</u>	<u>579,041,084</u>
<b>LIABILITIES</b>			
Due to financial institutions	32,760,355	320,412,713	353,173,068
Security deposits	2,741,213	11,917,087	14,658,300
Maintenance reserve	-	40,072,161	40,072,161
Other liabilities	3,956,933	4,018,403	7,975,336
<b>Total liabilities</b>	<u>39,458,501</u>	<u>376,420,364</u>	<u>415,878,865</u>

**19 SEGMENT INFORMATION**

The group is engaged primarily in only one business segment i.e. aircraft leasing segment. However, for management purposes, the group is organised into five geographical segments.

Year ended 30 September 2013

	<i>Middle East KD</i>	<i>Asia KD</i>	<i>Europe KD</i>	<i>America KD</i>	<i>Africa KD</i>	<i>Total KD</i>
Segment revenue	<u>23,610,751</u>	<u>18,884,200</u>	<u>13,526,465</u>	<u>1,319,852</u>	<u>3,341,379</u>	<u>60,682,647</u>
Segment results before directors' fees and taxation	<u>13,478,319</u>	<u>4,564,330</u>	<u>2,353,273</u>	<u>421,847</u>	<u>905,982</u>	<u>21,723,751</u>
Total assets	<u>217,141,425</u>	<u>239,382,795</u>	<u>141,134,127</u>	<u>38,151,521</u>	<u>33,985,963</u>	<u>669,795,831</u>
Total liabilities	<u>29,742,495</u>	<u>32,803,822</u>	<u>262,440,716</u>	<u>158,261,079</u>	<u>5,704,567</u>	<u>488,952,679</u>
<b>Other segmental information:</b>						
Depreciation and impairment	<u>7,278,622</u>	<u>8,405,496</u>	<u>8,114,828</u>	<u>533,677</u>	<u>1,540,590</u>	<u>25,873,213</u>
Finance costs	<u>1,441,631</u>	<u>4,784,885</u>	<u>2,249,335</u>	<u>285,385</u>	<u>694,955</u>	<u>9,456,191</u>
Capital expenditure	<u>2,276</u>	<u>107,216,157</u>	<u>518,094</u>	<u>-</u>	<u>-</u>	<u>107,736,527</u>

ALAFCO Aviation Lease and Finance Company K.S.C.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 30 September 2013

19 SEGMENT INFORMATION (continued)

Year ended 30 September 2012

	<i>Middle East KD</i>	<i>Asia KD</i>	<i>Europe KD</i>	<i>America KD</i>	<i>Africa KD</i>	<i>Total KD</i>
Segment revenue	36,483,792	20,910,174	13,947,562	1,298,192	3,911,536	76,551,256
Segment results before directors' fees and taxation	25,521,882	(2,165,555)	1,695,153	419,949	1,503,731	26,975,160
Total assets	221,698,072	144,541,268	161,945,971	15,545,474	35,310,299	579,041,084
Total liabilities	27,411,167	16,689,089	307,376,248	59,919,317	4,483,044	415,878,865
Other segmental information: Depreciation and impairment	7,683,697	16,745,753	8,480,185	526,358	1,519,460	34,955,453
Finance costs	1,931,239	5,557,970	3,257,280	303,957	743,931	11,794,377
Capital expenditure	313	695,608	-	-	-	695,921

20 FAIR VALUE OF FINANCIAL INSTRUMENTS

Financial instruments comprise of financial assets and financial liabilities.

Financial assets consist of receivables and cash and balances with financial institutions and short term murabahas. Financial liabilities consist of amounts due to financial institutions, security deposits and other liabilities.

The fair values of financial instruments are not materially different from their carrying values.

21 RISK MANAGEMENT

Risk is inherent in the group's activities but it is managed through a process of ongoing identification, measurement and monitoring, subject to risk limits and other controls. This process of risk management is critical to the group's continuing profitability and each individual within the group is accountable for the risk exposures relating to his or her responsibilities. The group is exposed to credit risk, liquidity risk and market risk, the latter being subdivided into profit rate risk, foreign currency risk and prepayment risk. The independent risk control process does not include business risks such as changes in the environment technology and industry. They are monitored through the group's strategic planning process.

21.1 CREDIT RISK

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Financial assets subject to credit risk consist principally of receivables and cash and cash equivalents. The maximum exposure to credit risk is the carrying amount as at the reporting date.

The group's cash and cash equivalents are placed with financial institutions of high repute. Similarly, receivables are from parent company's vendor and airlines of high reputation and the group has not experienced any delay in payments in the past. Consequently, the group is not exposed to significant credit risk.

As at 30 September 2013, the group does not have any financial asset which is past due or impaired (2012: Nil).

# ALAFCO Aviation Lease and Finance Company K.S.C.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 30 September 2013

### 21 RISK MANAGEMENT (continued)

#### 21.2 LIQUIDITY RISK

Liquidity risk is the risk that the group will encounter difficulty in raising funds to meet commitments associated with financial instruments. The group manages this risk by active cash flow management, short term financing facilities with various financial institutions, investment in short term murabahas and generation of funds from its operations. The maturity profile is monitored by finance department to ensure adequate liquidity is maintained.

Commitments in respect of purchase of aircraft (Note 15) will be funded through the issue of equity, cash generated from operations and through bank borrowings, which will be arranged as the cash flow needs arise.

The table below summarises the liquidity profile of the group's liabilities and reflects the projected cash flows which includes future finance cost payments over the life of these financial liabilities.

30 September 2013	<i>Within 3 months KD</i>	<i>3 to 12 months KD</i>	<i>1 to 5 years KD</i>	<i>More than 5 years KD</i>	<i>Total KD</i>
Due to financial institutions	20,917,249	36,030,539	206,718,475	184,888,979	448,555,242
Security deposits	-	-	3,127,260	11,978,448	15,105,708
Maintenance reserve	-	-	9,681,911	47,580,457	57,262,368
Other liabilities	1,483,786	2,911,666	356,389	-	4,751,841
<b>TOTAL LIABILITIES</b>	<b>22,401,035</b>	<b>38,942,205</b>	<b>219,884,035</b>	<b>244,447,884</b>	<b>525,675,159</b>
<b>Capital commitments</b>	<b>-</b>	<b>20,435,912</b>	<b>423,576,269</b>	<b>969,638,402</b>	<b>1,413,650,583</b>
30 September 2012	<i>Within 3 months KD</i>	<i>3 to 12 Months KD</i>	<i>1 to 5 years KD</i>	<i>More than 5 years KD</i>	<i>Total KD</i>
Due to financial institutions	11,397,701	29,749,150	180,157,380	172,982,493	394,286,724
Security deposits	-	2,741,213	1,646,977	10,270,110	14,658,300
Maintenance reserve	-	-	16,572,845	23,499,316	40,072,161
Other liabilities	1,937,443	2,019,489	590,848	-	4,547,780
<b>TOTAL LIABILITIES</b>	<b>13,335,144</b>	<b>34,509,852</b>	<b>198,968,050</b>	<b>206,751,919</b>	<b>453,564,965</b>
<b>Capital commitments</b>	<b>-</b>	<b>-</b>	<b>246,523,318</b>	<b>1,071,277,503</b>	<b>1,317,800,821</b>

#### 21.3 MARKET RISK

Market risk is the risk that the value of an asset will fluctuate as a result of changes in market variables such as profit rates and foreign exchange rates, whether those changes are caused by factors specific to the individual investment or its issuer or factors affecting all investments traded in the market.

##### 21.3.1 Profit rate risk

Profit rate risk arises from the possibility that changes in profit rates will affect future profitability or the fair values of financial instruments. Profit rate risk is managed by the finance department of the parent company.

The group is exposed to profit risk on its profit bearing assets and liabilities.

The table below details the group's exposure to profit rate risk.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 30 September 2013

**21 RISK MANAGEMENT (continued)****21.3 MARKET RISK (continued)****21.3.1 Profit rate risk (continued)**

The sensitivity of group's profit for one year is the effect of the assumed changes in profit rates on profit bearing financial assets and liabilities held as at the reporting date.

	<i>Increase in basis points</i>	<i>Effect on profit for the year KD</i>
30 September 2013	+25	(49,433)
30 September 2012	+25	(69,599)

Sensitivity to profit rate movements will be on a symmetric basis.

**21.3.2 Foreign currency risk**

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in foreign exchange rates.

Foreign currency risk is managed on the basis of limits determined by management and a continuous assessment of the group's open positions, current and expected exchange rate movements.

The group is not exposed to significant foreign currency risk, because the group's significant transactions, assets and liabilities are denominated in the functional currency.

**21.3.3 Prepayment risk**

Prepayment risk is the risk that the group will incur a financial loss because its customers and counterparties repay or request repayment earlier or later than expected. The group is not significantly exposed to prepayment risk.

**22 CAPITAL MANAGEMENT**

The primary objective of the group's capital management is to ensure that it maintains healthy capital ratios in order to support its business and maximise shareholder's value.

The group manages its capital structure and makes adjustments to it in light of changes in business conditions. No changes were made in the objectives, policies or processes during the years ended 30 September 2013 and 30 September 2012.

The group monitors capital using a gearing ratio, which is net debt divided by capital. The group includes within net debt, due to financial institutions, less cash and cash equivalents. Capital includes total equity add/less foreign currency translation reserve.



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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

At 30 September 2013

22 CAPITAL MANAGEMENT (continued)

	2013 <i>KD</i>	2012 <i>KD</i>
Due to financial institutions	401,836,345	353,173,068
Less: Cash and balances with financial institutions and short term murabahas	<u>(62,778,235)</u>	<u>(43,875,451)</u>
Net debt	<u>339,058,110</u>	<u>309,297,617</u>
Total equity	180,843,152	163,162,219
Add: Foreign currency translation reserve	<u>162,742</u>	<u>1,097,628</u>
Capital	<u>181,005,894</u>	<u>164,259,847</u>
Gearing ratio	<u>1.87</u>	<u>1.88</u>