الطيران العُماني
OMAN AIR

ANNUAL REPORT 2008

His Majesty Sultan Qaboos Bin Said

The Dawn of a New Era

Oman Air, the national airline of the Sultanate of Oman, is flying into a new era. The dawn of new opportunities and buoyant growth await us on our exciting journey to achieve excellence. As the wings of Oman, we are the proud ambassadors of a young and dynamic nation flying high. Our goal is to be a truly world-class airline with a modern vision, exceptional standards and outstanding service.

C O N T E N T S

Board of Directors

H.E. Ahmed bin Abdul Nabi Macki (Chairman)
Minister of National Economy
Deputy Chairman of Financial Affairs & Energy Resources Council

H.E. Dr. Khamis bin Mubarak bin Issa Al Alawi (Deputy Chairman)
Minister of Transport & Communications

H.E. Fareeq/Malik bin Suleiman bin Said Al Mamari (Director)
Inspector General of Police & Customs

H.E. Darwish bin Ismail bin Ali Al Bulushi (Director)
Secretary General of Ministry of Finance

H.E. Mohamed bin Hamood bin Zahir Al Toobi (Director)
Undersecretary of Tourism, Ministry of Tourism

H.E. Sheikh Mohamed bin Sakhar bin Hamed Al Amri (Director)
Undersecretary for Civil Aviation Affairs,
Ministry of Transport & Communications

Mr. Mohamed bin Ali bin Mohamed Al Barwani (Director)
Businessman

Chairman's Report

On behalf of the Board of Directors, it gives me great pleasure to welcome you to the 27th Annual General meeting and present to you this Annual Report for the financial year ended 31 December 2008.

Year 2008 was a major milestone in the history of Oman Air, as the airline truly assumed the role of the national airline of the Sultanate of Oman. The company's business model changed remarkably from being a regional carrier to an international airline. Oman Air had to step up the scale and breadth of its operations in a very short time to fill the void left by Gulf Air, which it has done quite successfully. During the year, Oman Air increased the capacity (ASK) by 74% and the utilisation (RPK) too went up by 51%. We carried 1.984 million passengers, up 31% and increased our operations to 416 flights per week. In addition to new routes of London, Bangkok, Lucknow, Jaipur, Chittagong, Karachi, Jeddah and Riyadh commenced in 2007, Bangalore and Calicut were launched during this year. Oman Air at present operates to 27 destinations.

With the strategic expansion in the region and commencement of long haul routes, the company's financial results were impacted as expected. Steep increase in the fuel prices, which rose by 43%, further affected Oman Air's performance, as was the case with all other airlines. The company reported net loss of RO 42.755 million for the financial year ended 31 December 2008 compared to a profit of RO 4.020 million in the previous year. Of the total loss, the fuel price increase alone accounted for RO 17.787 million or 42%. On the other hand, the company's air charter operations for Petroleum Development of Oman and Occidental Mukhaizna continued to be profitable. Our airport services business, namely, ground handling and catering businesses also generated positive returns. Total 23,194 flights and 3.916 million passengers were handled, and 3.210 million meals were catered to the airlines at Muscat International Airport.

The airline business is highly capital intensive and extremely competitive. New routes, especially long haul routes, take a few years to mature before they start yielding positive returns. Any airline embarking upon a strategic expansion must be able and prepared to sustain losses and go through the long gestation period before it can break even. With this in mind, the government of the Sultanate of Oman has taken a conscious decision to assume maximum stake in the company so that it can ensure adequate capitalisation and lend financial support to the airline during the initial phase when it is making significant investment in aircraft, equipment, systems, network development, infrastructure and human resources. While the airline is expected to be self-sufficient and profitable only in the long run, it will continue to generate significant economic value to the nation in the interim, as Oman Air will be a great brand ambassador for the Sultanate, will promote tourism and provide impetus to the commerce between Oman and its trading partners around the world. Besides, Oman Air will also generate vast employment opportunities for the nationals in many spheres. Decision to promote and develop Oman Air is thus a strategic decision.

Going forward, the next couple of years will pose some serious challenges as a result of wide spread recessionary trends witnessed across the world. According to recent estimates, the world economy will contract in 2009 and may accomplish only a marginal growth in 2010. Airline business stretches beyond national boundaries, and hence is definitely affected by the economic slowdown. The crisis has affected passenger demand, which in turn has put pressure on market share, yields and profitability. While falling oil prices will be a major relief for airlines, the decline in top line revenues will more than offset the resultant savings. In the region, with the steep build-up in capacity in the recent past, supply may outstrip demand at least in the near future. Fortunately, our domestic economy, though not immune, is not very much affected by the current crisis. Our robust banking regulations, emphasis on the highest standards of transparency and good corporate governance have resulted in a stable business environment even amidst such crisis.

The Government and the Board of Directors have ambitious but pragmatic plans for Oman Air. The airline is mandated to focus on point-to-point service between Oman and the key destinations with the highest quality of service to its customers. The growth in terms of aircraft and destinations will be gradual and driven by strategic and economic considerations. Oman Air will expand its domestic and regional network with its growing fleet of 737s and regional jets. Our fleet of narrow body aircraft will grow from 10 to 15 737s by the end of 2009. In the forthcoming year, we will focus mainly on strengthening our presence on the existing routes with enhanced frequencies. To serve long haul operations, Oman Air will acquire four brand new A330s during 2009. This will be followed by delivery of two new A330s in 2010 and one more A330 in early 2011. We will commence new long haul routes in Europe including Frankfurt and Paris, and in the Far East. Our London operations have moved from Gatwick to Heathrow effective 15 January 2009. Oman Air plans to add 27% more capacity, operate 41% more flights and expects to carry 43% more passengers in 2009.

Oman Air commenced an extensive re-branding process in 2008 with the change in the aircraft livery. The new colours, logo and livery are well received by our esteemed passengers, media and industry colleagues. Our new fleet of A330s will be equipped with the state-of-the-art interior, luxurious seats and latest in-flight entertainment and communication systems. The launch of our new fleet of aircraft will synchronise with the launch of new uniforms for our pilots, cabin crew and ground staff. Careful attention is being given to every detail including in-flight catering equipment, menus, and service standards, both in the air and on the ground, to ensure the Oman Air product is world class and offers excellent value proposition to our customers.

To complement the growth of Oman Air and to ensure it is not constrained for lack of adequate infrastructure, the Government is developing a new airport terminal in Muscat. The new terminal is expected to be operational in 2012 and will have the capacity to handle 12 million passengers. Oman Air is actively involved in the planning and development of this new facility, both as a prime airline customer and as a provider of airport handling and catering services to all airlines. The new airport will be equipped with modern facilities comparable to the best in the world. In the near term, Oman Air will use the new pier commissioned in the existing airport terminal building and also invest in new first class and business class lounges to cater to its growing needs.

Both Oman Air and the Ministry of Tourism are working together to ensure that while Oman Air promotes in-bound tourism in Oman, the tourism infrastructure and facilities are able to cope with and meet expectations of the tourists flown in by Oman Air. Joint promotion activities and road shows, both within and outside the country, are carried out on a regular basis. The Ministry is making significant investment in domestic activities such as Muscat Festival and Salalah Festival, which are growing in popularity and attracting more inbound tourists each year. The Government is also working in close co-ordination with the private sector to ensure hotels and other allied facilities are developed to match the growing tourist demands.

While Oman Air is focusing on its prime objective to provide airline and airport services, the Government is also encouraging the company to engage in allied businesses that offer synergy such as simulator training facility for pilots, MRO facility for aircraft maintenance for Oman Air and third parties, hotels for its transit passengers etc. With this objective, the management is currently pursuing available opportunities to team up with the experts in these fields.

At Oman Air, one of our key objectives is to develop national human resources by providing employment opportunities to young Omanis and train them in various technical and administrative functions across the airline and the airport services. The company is inducting Omani cadets each year and providing them training in prestigious institutions so that they graduate as skilled professionals, including pilots and engineers. I am proud to state that 55% of our pilots are Omani nationals and our engineering workforce predominantly comprises of Omani nationals. Omanis have also successfully assumed several senior management positions across the company.

I would like to take this opportunity to thank my colleagues on the Board, the Executive Committee and the Audit Committee for their continued support to the management and the company. I would also like to thank the management team and all employees of Oman Air for their sincerity and hard work, which has contributed to the growth and success of Oman Air in these challenging times.

The development of Oman Air in the recent past and in the future would not be possible without the support, encouragement and guidance of His Majesty Sultan Qaboos bin Said. My colleagues on the Board and the management join me in expressing our immense gratitude to His Majesty for his kind benevolence and support.

Ahmed bin Abdul Nabi Macki
Chairman

Chief Executive Officer's Report

2006/7 witnessed growth and return to profits for the airline industry, an experience shared by Oman Air. However, warning signs were appearing by end 2007, indicating that 2008 might be a whole different proposition, but I doubt that anyone could have forecast the economic and financial meltdown that would occur during the course of the year.

With the Government of Oman taking over as the majority Shareholder of Oman Air, following the termination of Gulf Air's role as national carrier, Oman Air has been required to change its previous role as a regional airline and assume the responsibility of providing world class international and domestic air services to meet the growing needs of the Sultanate of Oman. This has presented the Management and staff of the Company with a huge opportunity and an even greater challenge, but with the willingness of the Government to invest in the business and the support of the Chairman and Board of Directors, I am confident that we can develop Oman Air into a sustainable, world beating airline that the Government and citizens of Oman can justifiably be proud of.

The re-modeling of the Company to take on its new role was begun in 2007, under the direction of the late CEO, Ziad Karim Al Haremi, whose untimely demise in April 2008, was a great loss at such an early stage in the fledgling national carrier's development. A brand new fleet of Airbus A330-200/300 aircraft were ordered with state-of-the-art interiors and amenities with deliveries commencing in August 2009 to take over and expand medium and long haul routes. Additional Boeing 737-800 aircraft have also been ordered to expand the regional network. Looking to the future, a fleet of Boeing 787 next generation medium/long haul aircraft have been ordered to ensure that the airline's growth plans are well secured beyond 2012.

The new long haul routes to Bangkok and London Gatwick that were commenced in late 2007 and operated by leased Airbus A310 aircraft, were increased to six services per week and daily respectively in 2008. Load factors and yields on these routes were below budget throughout the year, but we are confident that they will rapidly improve with the introduction of Airbus A330 aircraft in May 2009, coupled with the move from Gatwick to Heathrow airports in London achieved in January, 2009. New regional routes to Bangalore and Calicut commenced in 2008, added to those introduced in 2007, will take some time to mature and will also benefit from more long haul destinations being introduced in 2009 and revisions to our timetable to improve connectivity over our Muscat Hub.

In 2008 Booz & Company were commissioned to undertake a complete review of the Company's organizational structure and to make recommendations to the Board for a new structure, better suited to the new expanded role of a national carrier. This has been completed and accepted by the Board with an organizational chart of six strategic business units covering Commercial, Operations, Engineering, Ground Handling, Planning and Hotels/Catering plus four support units of Finance, Information Technology, Corporate Affairs and Support Services. Each unit will be headed up by a Chief Officer, reporting directly to the CEO. At the same time a new staff grading system is being developed with clearly defined job descriptions and a performance management system will be introduced to improve Company productivity and encourage individual and team performance.

The past year has witnessed a 20% increase in staff strength in mainly operational areas and the coming years will see numbers continuing to rise to cope with the Company's

planned expansion. Our current Head Office Building has been supplemented over recent years with the addition of temporary structures which were only seen as an interim solution. The Government has now sanctioned six new plots of land to the Company, three in an area designated for Civil Aviation business activities in the New Muscat International Airport Development Plan and three more surrounding the area where our existing Headquarters Building is located. The Board have instructed Management to appoint a Consultant to develop a Master Plan to provide for a new Headquarters Building plus associated structures to house General Training, Flight Simulator and Cabin Crew Training Centres, as well as staff accommodation, recreational and social facilities, a clinic and welfare centre. A Consultant has already been appointed and work has commenced on this project.

A Management team from Oman Air has been actively working with the Consultants appointed to design and build the New Muscat International Airport scheduled to open in 2012, to ensure that all our operational and customer requirements are fully catered for in this major new development. Included in the New Airport Masterplan is the provision of a new Engineering Facility, purpose built to Oman Air's requirements that will provide a four bay aircraft hangar and associated workshops which the Company hopes to develop into a Maintenance Repair and Overhaul Facility (MRO) capable of undertaking profitable third party work. A new Aircraft Catering Unit will also be built to Oman Air's specifications, to take over from the existing facility and provide the capability of coping with the projected demand for in-flight meals in the years ahead.

Recognising the focus that the Government is giving to the development of tourism related projects within Oman and the huge untapped potential that the country has in attracting the discerning visitor, Oman Air is in the process of forming its own Destination Management Division, that will act as a natural extension to the airline's network and provide a range of ground services and leisure products in Oman. Working closely with the Ministry of Tourism, several joint promotions have already taken place in Europe and the GCC and many more are scheduled in 2009. Residents of Oman will also benefit from a newly introduced range of holidays overseas, based around the airline's constantly expanding route network.

Whilst we are all very excited about the prospect of moving our operations to the new Muscat International Airport in late 2012, we recognise that we must continue to improve our customer's experience when using the current Airport facilities. In conjunction with the Airport Operator OAMC, we are expanding and improving the layout and check-in facilities in the Passenger Departure Terminal, providing eight new Boarding Lounges and an expanded Duty Free Shopping area which are expected to be operational by April, 2009. For our Premium Class customers we will be providing a dedicated concierge departure service, featuring limousine airport transfers, meet and assistance through check in/departure formalities and exclusive Oman Air First and Business Class Lounges with direct boarding access to our flights. This new service will be available by September, 2009 and will perfectly compliment the new levels of comfort and service we will be introducing on our new Airbus A330 fleet.

In summary and as covered in the Chairman's Report, 2008 was an exceedingly challenging year for the Company, resulting in a net loss of RO 42.755 million. Looking forward to 2009, we must brace ourselves for continued losses in the medium term, due to world markets being firmly in the grip of depression together with the significant investment we are making to develop the Company into a world class airline. We will continue to explore every possibility of reducing our expenditure without compromising the safety of our operations or service levels, whilst at the same time adopting creative ways in which to maximise our revenue opportunities. With new aircraft, new routes, new products and new staff uniforms for our dedicated team of industry professionals being progressively introduced during the year ahead, I remain confident that Oman Air is on the right track to become a world class airline of the future and a leading brand ambassador for the Sultanate of Oman.

I would like to record my thanks and appreciation for the commitment, dedication and genuine hard work of my Management team and all of our employees, who have and continue to enable Oman Air to successfully navigate its way forward during these turbulent times.

I am grateful for the continued support and guidance extended by the Government of Oman and our Board of Directors, during one of the most challenging years in the history of Commercial Aviation.

Peter Hill
Chief Executive Officer

Management Team

1. **Captain Rashid Al Mawaly** A/Chief Operations Officer
2. **Mr. Barry Brown** Chief Commercial Officer
3. **Mr. Amar Nasser Al Harthy** A/Chief Officer – Support Services
4. **Mr. Japeen Shah** Chief Financial Officer
5. **Mr. Peter Hill** Chief Executive Officer
6. **Mr. Hamood Al Bahlani** A/Chief Officer – Airport Services
7. **Mr. Markku Nokkala** Chief Network and Planning Officer
8. **Engr. Salim Al Kindy** Chief Technical Officer

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TO THE SHAREHOLDERS OF
OMAN AIR SAOC (Formerly Oman Aviation Services Company SAOC)

We have performed the procedures prescribed in Capital Market Authority (CMA) Circular no. 16/2003, dated 29 December 2003 with respect to the accompanying corporate governance report of **Oman Air SAOC (Formerly Oman Aviation Services Company SAOC)** and its application of corporate governance practices in accordance with the CMA Code of Corporate Governance issued under circular no. 11/2002 dated 3 June 2002 and the CMA Rates and Guidelines on disclosure, issued under CMA administrative decision 5, dated 27 June 2007. Our engagement was undertaken in accordance with the International Standard on Related Services applicable to agreed-upon procedures engagements. The procedures were performed solely to assist you in evaluating the extent of the company's compliance with the code as issued by the CMA.

We report our findings below:

We found that the company's corporate governance report fairly reflects the company's application of the provisions of the code and is free from any material misrepresentation, except for the matter referred to in the below mentioned paragraph.

We draw attention to Article 4 of the CMA Code of Corporate Governance which requires the Board of Directors to meet four times in a year with a maximum time gap of four months between any two consecutive meetings. However, during the year the company's Board has met only three times with the gap between the second and third meetings exceeding the maximum allowed gap of four months.

Because the above procedures do not constitute either an audit or a review made in accordance with International Standards on Auditing or International Standards on Review Engagements, we do not express any assurance on the corporate governance report.

Had we performed additional procedures or had we performed an audit or review of the corporate governance report in accordance with International Standards on Auditing or International Standards on Review Engagements, other matters might have come to our attention that would have been reported to you.

Our report is solely for the purpose set forth in the first paragraph of this report and for your information and is not to be used for any other purpose. This report relates only to the accompanying corporate governance report of **Oman Air SAOC (Formerly Oman Aviation Services Company SAOC)** to be included in its annual report for the year ended 31 December 2008 and does not extend to any financial Statements of **Oman Air SAOC (Formerly Oman Aviation Services Company SAOC)**, taken as a whole.

Deloitte & Touche (M.E.) & Co.LLC
Muscat, Sultanate of Oman
15 March 2009

Corporate Governance Report

Annual Milestones

Oman Air carried over 1.9 million passengers. Airport Services Group handled 23,194 flights, served 3.9 million passengers and catered 3.2 million meals to various airlines.

Corporate Governance Report

In accordance with the Capital Market Authority ("CMA") circular # 11/2002 dated 3 June 2002, we are pleased to present the seventh Corporate Governance Report of Oman Air (SAOC) ("the Company") for the year ended 31 December 2008.

The Auditors have performed the procedures prescribed in the Capital Market Authority Circular No. 16/2003 dated 29 December 2003 with respect to the Corporate Governance Report of the Company and its application of the Corporate Governance practices in accordance with the CMA Code of Corporate Governance issued under Circular No. 11/2002 dated 3 June 2002, and its amendments.

Company's Philosophy

The Company is committed to comply with the Code of Corporate Governance issued by the CMA. The Company has and will continue to uphold the highest standards of corporate governance. The Board and the Management strive to accomplish this through very high levels of transparency and accountability in its conduct of business.

The Company's focus has been on best business practices that are ethical and fair while achieving ultimate objective of enhancing long term shareholder value. Appropriate systems and procedures are continuously developed to evaluate and monitor the Company's processes and performance to ensure they meet high standards of corporate governance.

Board of Directors

The Company's Board comprises of Non–Executive Directors. All Directors are Independent Directors as defined in the Code of Corporate Governance. There are seven members on the Board. The Government nominees are Ministers and Undersecretaries while the Director from private sector is a businessman of high repute.

The seventh member of the Board of Directors is to be selected from the shareholders of the company or others. Six members including the Chairman to represent the Government's shareholding and shall be appointed in accordance with the Article (132) of the Commercial Companies Law No. 4/74 and amendments thereto.

Functions of the Board

The Board is fully aware of its functions and responsibilities as defined by CMA Code of Conduct. The Board appoints all members of the Executive Management and decides their remuneration. The Board approves business plans and financial policies of the Company. The Board reviews policies and regulations governing company activities and specifies authorities and responsibilities of key management members. The Board reviews the Company's long term and yearly financial plans and key objectives. The Company's performance is reported to the Board on monthly basis and the same is reviewed and discussed in the Board meetings. The Board appoints sub-committees including audit committee and evaluates their functions and performance. The Disclosure policy of the Company, which is in line with the Code of Corporate Governance, has been approved by the Board and implemented.

The Board assesses the major risks faced by the Company and reviews options to mitigate them. The Board ensures that processes are in place to maintain the integrity of the Company, i.e. Integrity of the financial statements, compliance with law and internal control systems. The Board approves the quarterly, half yearly and annual financial statements. The Board reports to the shareholders, through the annual report, about the going concern status of the Company, with supporting assumptions.

Process of Nomination of the Directors

Six members are appointed by the Government including the Chairman of the Board and one member is appointed from the private sector by election once in every three years.

Entity Represented by Non-Independent Directors

There are no Non-Independent Directors in the Company.

Long-haul flights to London & Bangkok

Marking the beginning of a long journey

Director's Attendance Record and Directorships Held During the Financial Year 2008

Name of Director	Position	Board meetings attended		Whether attended last AGM	Directorship in other share holding companies
		Number of meetings	Meeting Number		
H.E. Ahmed bin Abdul Nabi Macki	Chairman	3	All	Yes	Chairman, Oman Shipping Co. (SAOC) Chairman, Oman Ship Management Co. (SAOC) Chairman, Oman Charter Co. (SAOC)
H.E. Dr. Khamis bin Mubarak bin Issa Al Alawi	Deputy Chairman	3	All	No	-
H.E.Fareeq/Malik bin Suleiman bin Said Al Mamari	Director	2	1&2	Yes	–
H.E. Darwish bin Ismail bin Ali Al Bulushi	Director	3	All	Yes	Chairman, Oman Housing Bank (SAOC)
H.E. Mohamed bin Hamood bin Zahir Al Toobi	Director	3	All	Yes	Board Member, The Wave Co. (SAOC) in Muscat
H.E. Said bin Hamdoon bin Saif Al Harthy (till 13 Jan. 08)	Director	1	1	No	Board Member, Sohar Industrial Harbour(SAOC)
H.E. Sheikh Mohamed bin Sakhar bin Hamed Al Amri (effective 13 Jan. 08)	Director	3	All	No	Board Member, Oman Airports Management Co.
Mr. Mohamed bin Ali bin Mohamed Al Barwani	Director	3	All	Yes	Chairman, Transgulf Investment Co.(SAOG) Chairman, Al Madina Gulf Insurance Co. (SAOC) Director, Al Madina Financial & Investment Services Co. (SAOC)

Board Meeting Number and Dates

Board Meeting No.	Board Meeting Date
1 – 2008	13 January 2008
2 – 2008	6 March 2008
3 – 2008	16 November 2008

There have been no material related party transactions between the Company and its Directors. Specific related party transactions are disclosed to the shareholders at the ordinary general meeting.

Remuneration Matters

All Directors including Chairman are non-executive and do not draw any fixed salary from the Company. The total remuneration paid to Directors as sitting fee for financial year 2008 was RO 14,900. The sitting fees paid to members of Executive and Audit Committee who are not the members of the Board for financial year 2008 is RO 6,900. The total value of tickets issued to Directors for the financial year 2008 was RO 3,339.

Each employee of the Company draws salary based on 'job group' assigned to his/her job. Job groups are assigned to different jobs based on the duties, responsibilities, skills and experience relevant to such jobs.

Remuneration of Top Five Executives

(RO Per Annum)	Total
Salary	433,368
Allowances	100,938
PASI	3,780
Total	**538,086**

Executive Committee

At present the Executive Committee carries out specific functions delegated by the Board of Directors. These functions include, review of management budget proposals, review of management proposals concerning new routes, fleet rationalization and new ventures.

Objective of the Executive Committee is to conduct an in-depth review of specific issues before the same are approved by the Board.

Growing regional network

Commencement of flights to Bangalore and Calicut

Attendance Record of the Executive Committee Members (Of new members)

	Name of Executive Committee Members	No. of Meetings	Meetings Attended
1.	H.E. Darwish bin Ismail bin Ali Al Bulushi	8	8
2.	H.E. Sheikh Mohamed bin Sakhar bin Hamed Al Amri	8	6
3.	Mr. Adil Abdullah Al Raisi	8	6
4.	Eng. Abdullah Rajab Al Ojaili	8	1

Attendance Record of the Executive Committee Members (Of old members)

	Name of Director	No. of Meetings	Meetings Attended
1.	Mr. Rashid bin Mohammed bin Hamad Al Kiyumi	8	7
2.	Mr. Ziad Karim Al Haremi	8	2

During 2008, the Executive Committee members consisted of four Non-Executive Directors and were independent.

Audit Committee

During 2008, the Audit Committee members consisted of three Non-Executive Directors and all were independent. Five meetings were held during 2008 to discuss issues concerning Internal Control, Internal Audit plans and Internal / External Audit reports, quarterly financial statements and other related issues.

Attendance Record of the Audit Committee Members (Of new members)

	Name of Audit Committee Members	No. of Meetings	Meetings Attended
1.	Mr. Mohamed bin Ali bin Mohamed Al Barwani	5	5
2.	Mr. Abdulrahim Salim Al Haremi	5	3
3.	Mr. Nasser Sulaiman Al Harthy	5	-

Attendance Record of the Audit Committee Members (Of old members)

	Name of Audit Committee Members	No. of Meetings	Meetings Attended
1.	Mr. Ibrahim Sultan Al Hosni	5	4

Audit and Internal Control

The Audit Committee has reviewed, on behalf of the Board, the effectiveness of the internal controls by meeting the internal auditor, reviewing the internal audit reports and recommendations, meeting the external auditor, reviewing the audit findings and the external audit management letter. The Audit Committee and the Board are pleased to inform the shareholders that reasonable internal control / systems are in place and that there are no significant concerns.

Means of Communication with the Shareholders and Investors

The complete quarterly results are also mailed to any shareholder upon written request, and are also available for inspection at the Company's registered office. The Company produces a comprehensive annual report for its shareholders. Audited annual financial statements with the Chairman's report are sent by mail to each shareholder.

At the same time the Company gives press releases from time to time for all strategic issues, such as opening of new routes, change in fleet, financing agreements, etc. The Company also has its own web site where airline related information is available.

Market Price Data

Due to change in the status of the Company from General Omani Joint Stock Company (SAOG) to Limited Omani Joint Stock Company (SAOC), Oman Air shares has been listed and traded on the parallel third market of Muscat Securities Market effective May 2007. Hence, market price data is not available.

Distribution of Shareholding

The major shareholders of the Company are as follows, with the Government of the Sultanate of Oman being the major shareholder.

Major Shareholders

Top three shareholders are listed below:

Name of the shareholder	No. of Shares held	Shareholding %
Government of Sultanate of Oman	48,980,948	97.962
H.E. Dr. Omar Abdul Munim Yousuf Al Zawawi	265,650	0.531
Mr Talal Tariq Taimur Al Said	265,650	0.531
Total Number of shares held by top 3 share holders	49,512,248	99.024

Specific Areas of Non-compliance with the Provisions of Corporate Governance

As per the requirement of Article 4 of the Code of Corporate Governance, the Board of Directors are required to meet at least once every four months with a maximum time gap of four months between any two consecutive meetings. The Board of Directors of the Company met three times during the year but has on one occasion (between the 2nd and 3rd meeting) not complied with this requirement. However, during the year the Executive Committee met 8 times and Audit Committee met 5 times.

Fleet Expansion

Capacity (ASK) increased by 74%

Professional Profile of the Statutory Auditor

Deloitte Touche Tohmatsu is an organisation of member firms around the world devoted to excellence in providing professional services and advice. Deloitte is focused on client service through a global strategy executed locally in over 140 countries. With access to the deep intellectual capital of approximately 165,000 people worldwide, Deloitte delivers services in four professional areas: audit, tax, consulting, and financial advisory services.

Deloitte & Touche in the Middle East is among the region's leading professional services firms, providing audit, tax, consulting, and financial advisory services through 25 offices in 14 countries with over 1,700 partners, directors and staff. The Oman Practice currently has three Partners and over 60 professionals.

The total audit fee paid/payable to the external auditor for the company including the subsidiary for the financial year 2008 is as follows:

Audit fee	RO 20,440
Quarterly review fee	RO 5,700
Total	**RO 26,140**

Other professional services: RO 600

Acknowledgement by the Board of Directors

The Board of Directors acknowledges:

•Its liability for the preparation of the financial statements in accordance with the applicable standards and rules applicable in the Sultanate of Oman.

•The review of the efficiency and adequacy of internal control system of the company and compliance with internal rules and regulations.

•That there are no material things that effect the continuation of the company and its ability to continue its operations during the next financial year.

Flying higher

Passenger traffic (RPK) increased by 51%

Management Discussion and Analysis Report

The airline industry during the year 2008 was marked with various challenges such as increase in capacity, pressure on passenger yields and very high volatility in fuel prices. Despite world wide slowdown in the airline industry, Middle East showed better growth as compared to other regions. According to IATA, Middle East achieved 7.0 percent growth in passenger numbers which was second highest in the region and a growth of 6.3 percent on cargo movements being the only region with positive growth figures. The Middle East aviation industry is expected to grow in a more subdued manner than in other parts of the world due to geographic location, and strength of regional economies.

During 2008, the airline industry witnessed extraordinary cost increase due to the skyrocketing of fuel prices. Fuel prices declined from August 2008 and continued its downward journey till the end of the year. Global economic slow down and poor energy demand is further expected to keep the fuel prices at low levels in 2009.

After establishing its strong presence in the Middle East and Indian Sub-continent, Oman Air launched its operations to long haul destinations in November 2007. The airline successfully completed the first year of its long haul operations to London Gatwick and Bangkok. In line with the growth strategy and renewed focus on its route network, Oman Air unveiled its new corporate identity during the year.

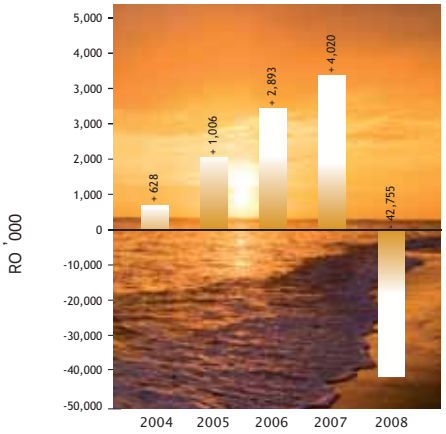
During the year under review, Oman Air flew more than 1.9 million passengers, commenced new routes to Bangalore and Calicut in India and deployed additional frequencies on other profitable routes with the objective of improving network connectivity. Airport Services business handled 23,194 flights and 3.916 million passengers at Muscat International Airport, during the year under review.

Financial and Sector Performance

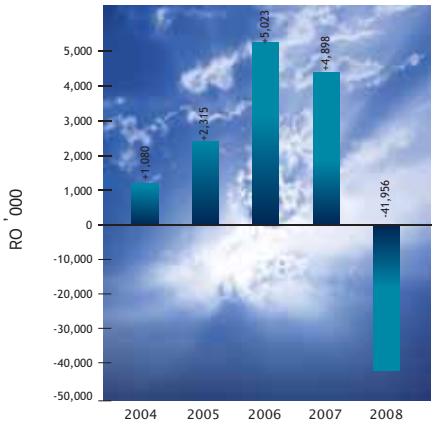
Net loss for the year 2008 was RO 42.755 million compared to the net profit of RO 4.020 million in the previous year.

The Company's operating results of 2008 were heavily impacted by rise in fuel prices and the performance of the new long haul routes of London and Bangkok that will take time to mature. Results are not comparable with the previous year in view of the change in the airline's business model from being a short haul regional carrier to a truly international airline.

NET PROFIT/(LOSS)



OPERATING PROFIT/(LOSS)



The Airline division registered impressive growth compared to the previous year. Passenger traffic increased by 31%, with overall seat factor at 64% and the total revenue increased by 48%. The Company successfully completed the first year of its long haul operations to London Gatwick and Bangkok. Daily flights are now operated to London Heathrow and 6 flights per week to Bangkok. During the year, the Company commenced new routes to Bangalore and Calicut in India and deployed additional frequencies on other profitable routes.

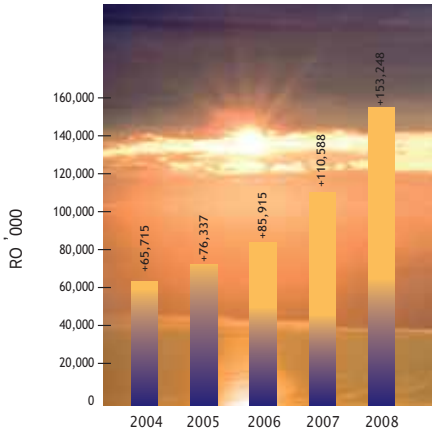
Airline results were affected by the steep increase in fuel prices. After attaining a peak of US$ 4.14 per US Gallon during the year, fuel prices started declining has reached US$ 1.97 per US Gallon in December 2008. Fuel prices which continued to escalate through a major part of the year, added RO 17.788 million to the fuel costs. Increase in fuel surcharge helped us to mitigate the impact of the increase in fuel prices to some extent.

Airport Services, which includes Ground Handling, Cargo Handling and Catering Services, witnessed a drop in profitability with the decrease in passenger movement, reduction in cargo tonnage handled and reduction in catering meals uplifted. Though overall flight movement at Muscat International Airport was lower only by 1%, major impact was due to decrease in wide body flight movement by 32%.

Revenue

Revenue increased by RO 42.660 million or 39% over the last year.

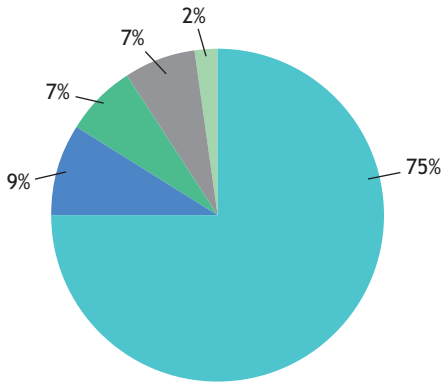
REVENUE



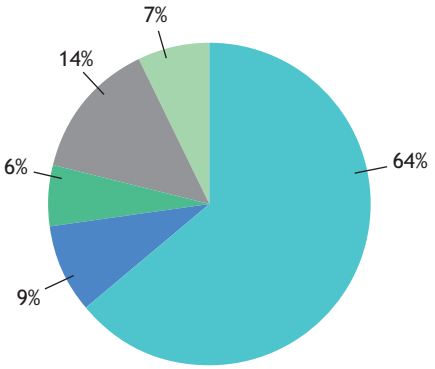
Arrival of new wide-body fleet

Fleet induction of Airbus A330-200s and A330-300s

REVENUE COMPOSITION



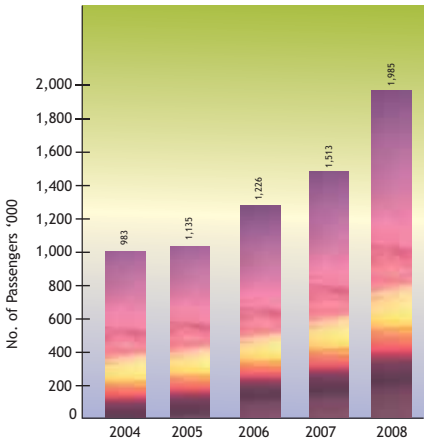
2008



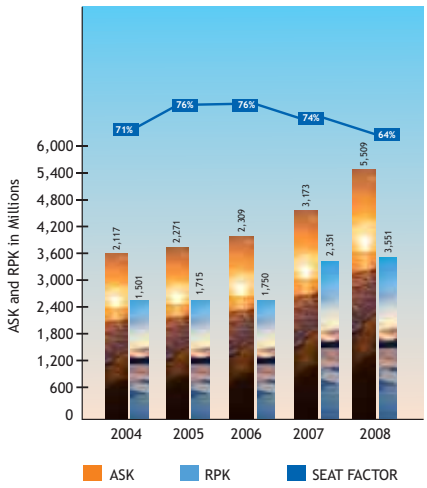
2007

	2008 RO Million	2007 RO Million
Scheduled services-International	114.7	77.5
Scheduled services-Domestic	13.2	9.5
Air Charter	10.9	7.1
Handling	10.9	11.8
Catering	3.5	4.6

PASSENGER TRAFFIC



CAPACITY (ASK), UTILISATION (RPK) AND SEAT FACTOR (SF)



Scheduled services

Scheduled services revenue was RO 127.800 million, higher by RO 40.900 million or 47% compared to the previous year. Passenger traffic rose by 472,000 passengers or 31%. This was achieved due to commencement of new routes of Bangalore and Calicut, full year impact of long haul operations to London Gatwick and Bangkok, and increase in operations on other profitable routes. Despite the increasing competition from major players and resultant discounting of fares, Oman Air has successfully established its presence on most of its routes. This has been achieved with continued focus on high frequencies, on-time performance, quick turnarounds, convenient flight timings, good connectivity and high standards of customer service both on the ground and in the air.

- Passenger traffic rose significantly by 472,000 passengers or 31%
- Overall capacity (ASK) rose by 74%
- Revenue traffic (RPK) rose by 51%
- Overall seat factor achieved was at 64%

Air charter services

Air Charter Services recorded revenue of RO 10.869 million, an increase of RO 3.762 million from the previous year. The increase in revenue was mainly due to the provision of one jet B737 service effective January 2008 to PDO compared to two turbo propeller ATR aircraft services in the previous year. In addition to one jet B737 aircraft, two ATR aircraft were operated by PDO for the first three months and one ATR aircraft was operated for another three months in 2008.

Handling fees

Handling revenue for the year was RO 10.771 million, a decrease of RO 1.014 million or 9% over the previous year's revenue of RO 11.785 million.

Revenue decreased mainly due to the decrease in wide body flight movement at Muscat International Airport.

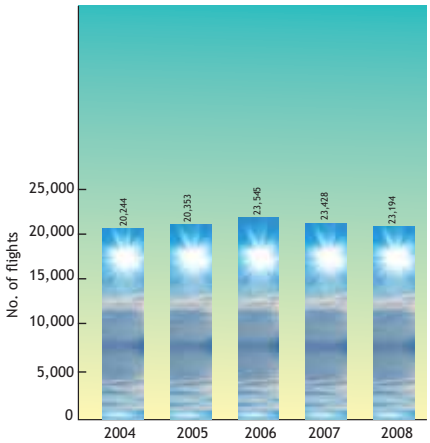
- Flight movement decreased marginally by 234 flights to 23,194 flights, (-1%)
- Airlines, other than Oman Air, reduced operations from 16,210 to 13,485 flights, (-17%)

Passenger comfort

State-of-the-art seats and in-flight entertainment on new A330s. Internet booking and online payment through Oman Air website.

- Wide body flight movement reduced from 5,932 to 4,044 flights, (-32%) and narrow body flight movement increased from 17,496 to 19,150 flights, (+9%)
- Passenger movement decreased to 3.916 million from 4.052 million passengers, (-3%)
- Cargo tonnage handled declined to 52,596 from 58,825 metric tons, (-10 %)

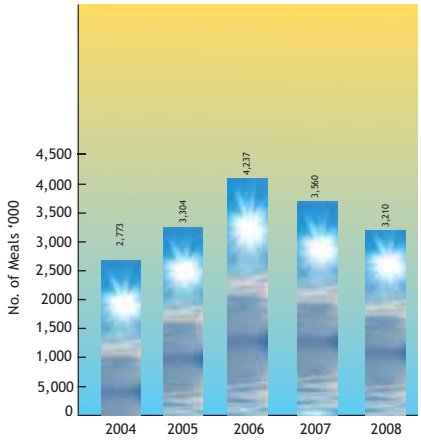
FLIGHTS HANDLED AT MUSCAT AIRPORT



Catering

Catering revenue during the year was RO 3.443 million, a decrease of RO 1.183 million or 26% compared to RO 4.626 million reported in the previous year. The aircraft catering business showed lower results compared to last year mainly due to reduction in meal uplift to airlines. Total meals uplifted declined from 3,560,000 to 3,210,000 meals, (-10%).

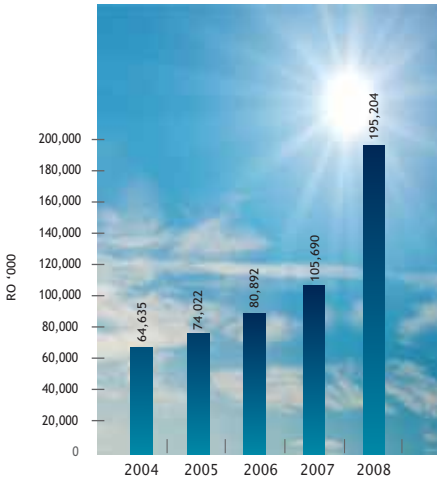
MEALS UPLIFTED AT MUSCAT AIRPORT



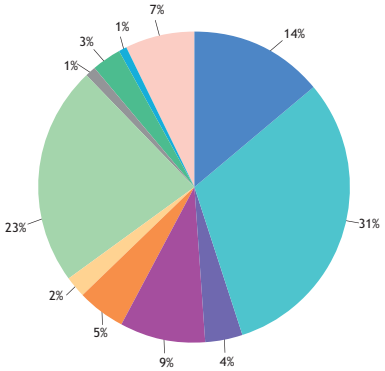
Expenditure

Net Expenditure increased by 85% from RO 105.690 million to RO 195.204 million, against a 39% increase in revenue. The increase in cost is mainly on account of fuel cost which rose by RO 34.400 million or 136% compared to the previous year. More than half of this increase in cost is attributable to a rise in fuel prices and remaining is due to increase in operations during the year. It is important to note that but for the increase in fuel price loss would have been lower.

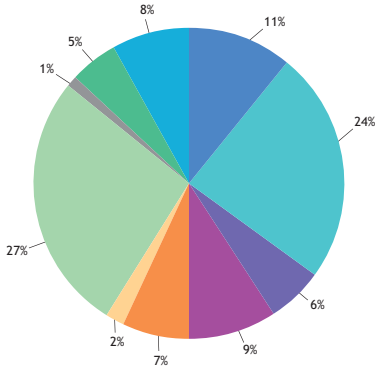
EXPENDITURE



COMPOSITION OF EXPENDITURE 2008



COMPOSITION OF EXPENDITURE 2007



	2008 RO Million	2007 RO Million
Operating lease rentals on aircraft	27.7	11.7
Fuel cost	59.7	25.3
Maintenance cost	8.2	6.0
Other aircraft operating expenses	18.6	9.9
Passenger related cost	10.7	6.8
Catering materials consumed	3.1	2.5
Employee cost	44.6	28.1
Insurance cost	1.0	1.0
Depreciation	6.8	5.4
Amortisation	1.6	0
Others	13.2	8.9

Operating lease rentals

Aircraft lease costs amounted to RO 27.757 million compared to RO 11.662 million, a significant increase of RO 16.095 million. The increase was mainly due to full year impact of lease charges of two aircraft used for long haul operations to London Gatwick and Bangkok and one aircraft for short haul operations.

Fuel cost

Fuel cost rose by RO 34.400 million or 136% mainly due to increase in operations and partly due to 45% increase in fuel price compared to previous year.

Maintenance cost

Maintenance cost increased mainly due to increase in operations.

Aircraft operating expenses

These expenses comprise of handling, landing, wet lease crew accommodation and per diem cost, crew layover and simulator cost. These costs were up by RO 8.638 million or 87%, due to increase in operations as compared to the previous year.

Passenger related costs

Passenger related cost increased by RO 3.888 million or 57% compared to 31% increase in passenger traffic in 2008. The increase was mainly due to an increase in passenger meal cost, reservation cost and passenger service charges.

Catering materials consumed

Cost of catering materials, items used in the Company's catering business, increased by RO 0.604 million or 24% compared to 10% decrease in meal uplift. This was mainly due to increase in cost.

Staff costs

Manpower costs increased by RO 16.363 million or 58% compared to last year. The Company's manpower strength increased from 3,360 in 2007 to 4,082 in 2008, up 21%. Increase in manpower cost was due to the increase in staff strength and salary revision effective February 2008. Increase in manpower was restricted to critical operational requirements and positions that would add value in terms of enhanced customer service, productivity and profitability.

Insurance cost

The Company's insurance costs increased by RO 0.108 million or 13% compared to last year. Although the actual increase in the insurance costs for the new aircraft is higher, declining aviation insurance premiums have lowered the impact. Aviation insurance premiums are gradually declining, after reaching an all time high post September 11 events.

Depreciation

Depreciation cost increased by RO 1.429 million or 26% compared to last year. During the year, the company purchased one new B737-800 aircraft and one spare engine. Apart from this, there were new additions such as ground equipment, aircraft rotables and other assets purchased.

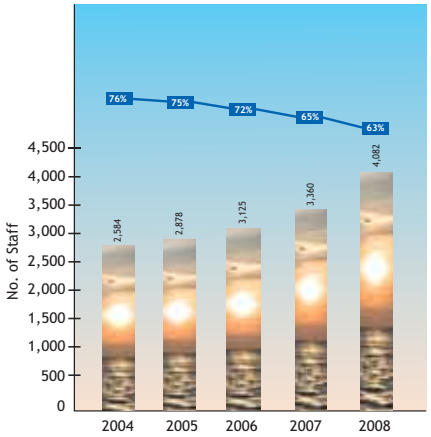
Concession fee

The Company pays a concession fee to Oman Airport Management Company, the airport operator at Muscat and Salalah airports. The basis of concession fee has changed effective 2002 under the new concession agreement. From a profit based concession fee levied in the past, the Company now pays this fee as a share of its revenue. The Company pays 7.5% of its handling revenue and 5% of its catering revenue as concession fee. The impact of concession fee in 2008 was RO 0.805 million as against RO 0.971 million in 2007. The decrease is due to decreased handling and catering revenue from Airport Services.

Our people

Company staff strength at 31 December 2008 was 4,082 employees. Omani nationals represent 63% of the total staff strength.

MANPOWER STRENGTH AND OMANISATION %



Financial position

At 31 December 2008, non-current assets rose from RO 77,682 million in 2007 to RO 134,283 million in 2008. This was mainly due to purchase of one new B737-800 costing RO 18.032 million, one spare engine of RO 3.405 million, aircraft spares of RO 782,000 and ground equipment of RO 4.9 million.

The increase was also due to pre-delivery payments of RO 16.086 million made for purchase of five A330 aircrafts, RO 4.171 million paid on signing of purchase agreement for acquiring six B737-800s and RO 3.836 million paid to ALAFCO for purchase of six B787 Dreamliners, advance of RO 2.690 million paid to Sogerma towards purchase of first class and business class seats for A330 aircraft and RO 1.550 million advance paid for A330 Galley.

The company purchased a timing slot at London Heathrow Airport costing RO 3.017 million.

During the year, the company placed security deposits of RO 909,265 with ILFC for lease of three B737-800 aircrafts, RO 323,568 with Babcock & Brown for lease of another three B737-800 aircrafts and RO 647,136 with AWAS (Ireland) Limited for lease of two A330-200 aircrafts.

Shareholders' equity reduced by RO 42.748 million due to loss from operations in the current period.

Non-current liabilities increased by RO 81.521 million mainly due to additional soft loan of RO 70 million availed from the Government of Sultanate of Oman for financing purchase and lease of aircraft and availment of 12 year long term loan RO 14.134 million from Private Export Funding Corporation (PEFCO) for purchase of one B737-800 aircraft. During the year, the company also made repayment of other term loans totaling RO 3.837 million availed for purchase of aircraft.

Current assets decreased by RO 7.808 million and current ratio increased from 2.23 in 2007 to 1.56 in 2008, mainly due to utilisation of term deposits and bank balances for purchase of fixed assets and payment of security deposits for leased aircraft.

Current liabilities increased by RO 10.020 million due to increase in accounts payable and accruals.

Debt equity ratio increased from 0.52 in 2007 to 3.4 in 2008 mainly due to rise in debt with availment of long term loan in March 2008 and receipt of soft loan from the Government of Sultanate of Oman and decline in equity due to the current year's loss.

Internal controls

The Company has an adequate internal control system commensurate to its size and nature of its business. Internal Audit department continues to maintain its focus on internal controls in all critical activities. Further, statutory audit, state audit and the audit committee augment review of internal controls within the Company. During 2008, no material lapse or weakness in controls has been identified.

Opportunities and threats

The global economy is entering a major downturn. Global growth is expected to moderate from 5.0 percent in 2007 to 3.75 percent in 2008 and 2.2 percent in 2009. The advanced economies are facing recession and recovery anticipated in latter part of 2009 will be exceptionally gradual by past standards. Growth in most emerging and developing economies would decelerate below trend. A key feature and source of uncertainty is the continuing turmoil in financial markets, especially in the United States but with spillovers to Europe, Japan and to a limited extent to emerging-market economies. Inflation continues to be a serious concern driven by surge in commodity prices, but is expected to moderate in 2009.

IMF expects US economic growth to be flat to negative for 2008 and early 2009. Most other advanced economies are also expected to go through a period of extremely sluggish growth or contraction in 2009, and experience only a modest upturn in the latter part of the year. This is because financial conditions are expected to remain very difficult, even assuming that actions by the U.S. and European authorities succeed in stabilising financial conditions. Policymakers around the world today face the daunting task of addressing the financial turmoil and responding to downside risks to growth, while simultaneously keeping an eye on inflation.

The economies of emerging markets are expected to continue their growth but at a much lower rate of 5.1 percent in 2009. Some countries that relied on bank-related or portfolio inflows to finance large current account deficits have been hit hard by abrupt tightening of the external financing. However, as a group, emerging economies have so far sustained market access better than in earlier episodes of financial turbulence, reflecting improvements in policy frameworks.

Global oil markets are on a decline, reflecting major global downturn and poor energy demand. Oil prices have declined below US$ 50 from a peak of US$ 147 in July 2008. Looking ahead, oil demand growth is likely to moderate with the slower global growth envisaged for the year 2009.

Growth in Middle Eastern countries is projected to weaken only modestly during 2008–09, from 6.5 percent to just below 6 percent, with oil exporters and non-oil economies growing at a similar pace. Falling oil prices and reduced demand from advanced economies are projected to be partly offset by robust domestic demand and activity in non-oil sectors. Average inflation is on the rise in many countries in this region. The GCC Countries have been heavily spending on infrastructure, oil and gas industries, development of non-oil sectors and real estate.

Airline Industry – Global Scenario

The airline industry at present is facing new challenges in the form of slowing world economy, downturn in traffic, competitive pressures due to increase in new aircraft deliveries and the uncertainty caused by recent financial market turmoil which has contributed to a more cautious airline outlook.

According to IATA, the airline industry overall is expected to post a US$2.5-billion net loss in 2009, compared to estimated US$5.2-billion loss in 2008. Global airline financial performance is under stress due to economic meltdown world over which is in one way helping drag oil prices down but on the other side also affecting traffic. US airlines were hit hard by high fuel cost earlier in 2008. To cope, they cut capacity early on. As a result US airlines are expected to post US$300.0 million net profit in 2009 compared to estimated net loss of US$3.9-billion in 2008. In Europe and Asia Pacific, airline losses are estimated to grow to the tune of US$1.0-billion each in 2009. With expected lower demand for air travel due to reduced spending capacity in major economies, cost efficiencies, rational capacity and greater operational flexibility are necessary to augment the improvements already achieved.

The recent financial market crisis and the credit squeeze is expected to have an impact on airline's financing costs, as the cyclical nature of the industry reduces its attractiveness to investors during the downturn. Consolidations are expected to happen to capitalise on the relative advantages of the airlines. Higher borrowing costs will restrict the ability of airlines to finance new orders. This will be of great concern to those airlines with an ageing fleet. However it could also reduce the risk of excess capacity being built and downward pressure on yields. Lower credit quality airlines and ambitious new entrants will find it harder to finance new aircraft orders, leading to a deferral or cancellation of expected new deliveries.

According to IATA estimates, passenger traffic is forecast to fall 3% compared to estimated growth of 2% in 2008. Cargo

A flavour of renowned Omani hospitality

Offering exemplary catering service and legendary hospitality

traffic is forecast to fall 5% in 2009 compared to 1.5% in 2008.

The industry has been relentlessly pursuing its efforts in simplifying the way it does its business. E-ticketing, E-freight - going electronic with a goal to eliminate paper, RFID – the new technology and approach for baggage space handling, issuing bar coded boarding passes, implementation of CUTE systems in all major airports to improve efficiency in handling passengers, strategy for self service to integrate technology into a seamless passenger experience and baggage management improvement programme to help solve one of the great hassles of travel, all of which undoubtedly will redefine a new age of travel.

Airline Industry – Regional Scenario

The Middle East region boosted by strong GDP growth in 2007 and 2008 is helping them to add new capacity and new routes very quickly. According to IATA estimates, growth in passenger traffic in Middle East region is expected to lower at 1.2% in 2009. Similarly freight traffic in Middle East region is expected to be lower at 4.9% in 2009. Airlines in the region will have to continue to match planned capacity increases to achievable rather than optimistic demand growth projections to support profit as well as volume growth.

Carriers from Middle East enjoy a natural geographical advantage in the critical long-haul arena. The latest long range aircraft technologies coupled with the region's central position between major global population centres means that the Middle East is one-stop to virtually anywhere on the globe.

Greater connections to the Global air transport network shall boost the productivity and growth of economies by providing better access to various markets, enhancing links within and between businesses and providing greater access to resources and international capital markets.

Countries such as Qatar & United Arab Emirates have been investing heavily on airport expansions to build / support their national economies. On similar lines the Government of Oman also has planned expansion of Muscat International Airport and Salalah Airport in view of the expected growth in flight and passenger traffic. The new terminal at Muscat International Airport is expected to be operational in 2012. The Government of Oman has also planned to construct a new airport at the Port city of Sohar, which is one of the fastest growing industrial hubs in Oman.

Oman Air Strategy In 2009

Oman Air is a commercial entity governed by Commercial Law and Code of Corporate Governance. The Company is a commercial enterprise with the objective to meet the national priorities, furthering economic development, improving tourism and to provide air transportation to the residents of the Sultanate besides adding economic value to its stakeholders.

The Company shall continue to achieve its objectives through a measured, cautious and sustained growth and by operating in markets with adequate demand and growth potential. Oman Air has successfully established its presence on most of its routes. This has been achieved with continued focus on high frequencies, on-time performance, quick turnarounds, convenient flight timings, good connectivity and high standards of customer service both on the ground and in the air. Oman Air shall continue to monitor all its routes closely; shall add new and commercially viable routes to its network, while the loss making routes shall be discontinued. Oman Air has been one of the pioneers in the region to initiate and implement e-ticketing and has achieved 100 percent e-ticketing during the year 2008.

The Company successfully completed first year of its long haul operations to London Gatwick and Bangkok. Starting January 2009, company moved its London operations from Gatwick to the hub of aviation world, "Heathrow".

Oman Air is conscious of the immense competitive pressures brought by the competing airlines with a very high capacity. The Airline plans to combat these pressures through differentiating its product and optimising its top line revenues through various yield improvement measures. At the same time, the Airline shall continue to pursue and improvise its various IT initiatives, such as internet booking, e-ticketing, revenue optimisation, flight planning and scheduling, ERP solutions to optimise its processes and cost structure to show improved results.

Along with its airline operations, Oman Air will continue to strengthen its airport services business at Muscat and Salalah airports. The Company shall invest in various IT solutions & equipment and manpower training to ensure that it is able to offer the highest standards of service to all airlines including Oman Air. During the year 2009, the Company has planned to install CUTE and Baggage Reconciliation system to facilitate passenger check-in operations at Muscat International Airport. It is believed that all these initiatives and efforts pursued by the Management shall contribute to the better performance in 2009 and the years to come.

The proposed phased expansion of Muscat and Salalah airports will benefit the Airport Services business. Oman Air will continue to invest in new technologies, state-of-the-art systems, and manpower training. This combined with competitive pricing, it is hoped, will enable the Company to enhance its revenue and profits in this business.

Flying to more destinations around the world

Launch of Paris and Frankfurt flights

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Independent auditor's report to the shareholders of Oman Air SAOC (formerly Oman Aviation Services Company SAOC)

Report on the financial statements

We have audited the accompanying financial statements of **Oman Air SAOC (formerly Oman Aviation Services Company SAOC)**, which comprise of the balance sheet as at 31 December 2008, the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes, as set out on pages 3 to 43.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and the relevant disclosure requirements of the Commercial Companies Law of 1974, as amended, of the Sultanate of Oman. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of **Oman Air SAOC (formerly Oman Aviation Services Company SAOC)** as of 31 December 2008, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and the relevant disclosure requirements of Commercial Companies Law of 1974, as amended, of the Sultanate of Oman.

Deloitte & Touche (M.E.) & Co.LLC
Muscat, Sultanate of Oman
15 March 2009

Engineering excellence

World-class engineering &
aircraft maintenance services

Balance Sheet

as at 31 December 2008

ASSETS	Notes	2008 RO '000	2007 RO '000
Non-current assets			
Aircraft, property, plant and equipment	5	124,418	73,206
Intangible assets	6	4,240	-
Available-for-sale investments	7	396	389
Investment in an associate company	8	1,438	1,141
Long-term receivables	9	3,791	2,946
Total non-current assets		134,283	77,682
Current assets			
Inventories	10	5,122	4,226
Trade and other receivables	11	21,119	19,768
Term deposits	12	32,000	47,587
Cash and bank balances	13	12,322	6,790
Total current assets		70,563	78,371
Total assets		204,846	156,053
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	14	50,000	50,000
Share premium	14	20,048	20,048
Legal reserve	15	4,137	4,137
Cumulative changes in fair value	7	146	139
(Accumulated losses) / retained earnings		(37,633)	5,122
Total equity		36,698	79,446
Non-current liabilities			
Provision for maintenance of aircraft, engines and rotables	16	1,796	929
Interest-bearing loans and borrowings	17	36,370	27,086
Government soft loan	19	49,359	6,611
Deferred government grant	19	30,641	3,389
Employees' end of service benefits	20	2,797	2,312
Deferred tax liability	21	1,991	1,106
Total non-current liabilities		122,954	41,433
Current liabilities			
Current portion of provision for maintenance of aircraft, engines and rotables	16	836	441
Current portion of interest-bearing loans and borrowings	17	4,850	3,748
Trade and other payables	22	39,508	30,985
Total current liabilities		45,194	35,174
Total liabilities		168,148	76,607
Total equity and liabilities		204,846	156,053
Net assets per share	23	RO 0.734	RO 1.589

.....
Chairman

.....
Director

The accompanying notes form an integral part of these financial statements.

A commitment to the nation

Dedicated Omanisation and people development initiatives

Income statement

for the year ended 31 December 2008

	Notes	2008 RO '000	2007 RO '000
Revenue	24	153,248	110,588
Expenditure	25	(195,204)	(105,690)
Gross (loss) / profit		(41,956)	4,898
Interest and investment income	26	1,779	2,731
Share of profits of an associate company	8	797	622
Increase / (decrease) in fair value of long-term receivables		1	(553)
Finance cost		(1,686)	(1,688)
(Loss) / profit before concession fee and tax		(41,065)	6,010
Concession fee	27	(805)	(971)
(Loss) / profit before tax		(41,870)	5,039
Taxation	21 & 28	(885)	(1,019)
(Loss) / profit after tax		(42,755)	4,020
Basic and diluted (loss) / earnings per share (Baisa)	29	(855)	94

The accompanying notes form an integral part of these financial statements.

Promoting tourism in Oman

Oman Air's growing network reaches out to the world in showcasing Oman's culture and tranquility

Statement of changes in equity

for the year ended 31 December 2008

	Note	Share capital RO'000	Share premium RO'000	Legal reserve RO'000	Cumulative changes in fair value RO'000	(Accumulated losses) / Retained earnings RO'000	Total RO'000
Balance at 1 January 2007		13,283	-	3,735	64	2,832	19,914
Issue of shares		36,717	20,048	-	-	-	56,765
Profit for the year		-	-	-	-	4,020	4,020
Transfer to legal reserve	**15**	-	-	402	-	(402)	-
Dividend paid for the year 2006		-	-	-	-	(1,328)	(1,328)
Cumulative changes in fair value	**7**	-	-	-	75	-	75
Balance at 1 January 2008		**50,000**	**20,048**	**4,137**	**139**	**5,122**	**79,446**
Loss for the year		**-**	**-**	**-**	**-**	**(42,755)**	**(42,755)**
Cumulative changes in fair value	**7**	**-**	**-**	**-**	**7**	**-**	**7**
Balance at 31 December 2008		**50,000**	**20,048**	**4,137**	**146**	**(37,633)**	**36,698**

The accompanying notes form an integral part of these financial statements.

Cash flow statement

for the year ended 31 December 2008

	2008 RO'000	2007 RO'000
Operating activities		
(Loss) / profit before tax	**(41,870)**	5,039
Adjustments for:		
Amortisation / impairment of intangible assets	**1,546**	-
Decrease in fair value of long term receivables	**1**	553
Depreciation of aircraft, property, plant and equipment	**6,832**	5,403
Provision for employees' end of service benefits charged for the year	**675**	472
Interest and investment income	**(1,779)**	(2,731)
Share of profit of an associate company	**(797)**	(622)
Finance cost	**1,686**	1,688
Gain on sale of aircraft, property, plant and equipment	**(7)**	(9)
Operating cash flows before movement in working capital	**(33,713)**	9,793
Changes in working capital:		
Inventories	**(896)**	(1,411)
Trade and other receivables	**(2,367)**	(4,025)
Trade and other payables	**8,495**	9,401
Provision for maintenance of aircrafts, engines and rotables	**1,262**	177
Security deposits paid	**(845)**	(2,426)
Cash (used in) / generated from operations	**(28,064)**	11,509
Finance charges paid	**(1,658)**	(1,713)
Employees' end of service benefits paid	**(190)**	(323)
Net cash (used in) / generated from operating activities	**(29,912)**	9,473
Investing activities		
Intangible assets acquired	**(5,786)**	-
Purchase of aircraft, property, plant and equipment	**(58,090)**	(20,928)
Acquisition of investment	**-**	(6)
Decrease / (increase) in term deposits	**15,587**	(38,083)
Interest and investment income received	**2,795**	1,522
Proceeds from sale of aircraft, property, plant and equipment	**52**	113
Share of profits received from an associated company	**500**	499
Net cash used in investing activities	**(44,942)**	(56,883)
Financing activities		
Issue of shares	**-**	56,765
Government soft loan received	**70,000**	-
Dividend paid	**-**	(1,328)
Net loans and borrowings availed / (repaid)	**10,386**	(6,503)
Net cash from financing activities	**80,386**	48,934
Net change in cash and cash equivalents	**5,532**	1,524
Cash and cash equivalents at the beginning of the year	**6,790**	5,266
Cash and cash equivalents at the end of the year	**12,322**	6,790

The accompanying notes form an integral part of these financial statements.

Notes to the financial statements

for the year ended 31 December 2008

1. Legal status and principal activities

Oman Air SAOC, formerly Oman Aviation Services Company SAOC, ("the Company") is an Omani Closed Joint Stock Company registered under the Commercial Companies Law of the Sultanate of Oman. The principal activities of the Company are to transport passengers and freight on a scheduled and chartered basis and to provide ground handling, catering and other airline related services.

The Company was formed under Royal Decree 52/81 dated 24 May 1981 and commenced operations on 1 October 1981. Initial duration of the Company was for a period of 20 years from the date of commercial registration to 31 January 2002. Prior to expiry, the Company's shareholders passed a resolution in an extra-ordinary general meeting on 27 January 2002 extending the Company's duration for an indefinite period.

In an extra-ordinary general meeting held on 29 May 2007 the shareholders of the Company approved the transformation of the legal status of the Company from a General Omani Joint Stock Company (SAOG) to a limited Omani Closed Joint Stock Company (SAOC).

The Government of Sultanate of Oman has 97.96% shareholding in the Company as at 31 December 2008.

The registered address of the Company is P.O. Box: 58, PC 111, Seeb, Sultanate of Oman.

2. Adoption of new and revised International Financial Reporting Standards (IFRS)

For the year ended 31 December 2008, the Company has adopted all of the new and revised standards and interpretations issued by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB that are relevant to its operations and effective for year beginning on 1 January 2008.

The adoption of these standards and interpretations has not resulted in changes to the Company's accounting policies and has not affected the amounts reported for the current period.

At the date of authorisation of these financial statements, the following standards and interpretations were in issue but not yet effective:

	Effective for annual period beginning on or after
IFRIC 13 : Customer Loyalty Programmes	1 July 2008
IFRIC 16 : Hedges of a Net Investment in a Foreign Operation	1 October 2008
IFRS 1 : (Revised) First-time adoption of International Financial Reporting Standards	1 January 2009
IFRS 2 : (Revised) Share-based Payment	1 January 2009
IFRS 8 : Operating Segments	1 January 2009
IAS 1 : (Revised) Presentation of Financial Statements	1 January 2009
IAS 16 : (Revised) Property, Plant and Equipment	1 January 2009
IAS 19 : (Revised) Employee Benefits	1 January 2009
IAS 20 : (Revised) Government Grants and Disclosure of Government Assistance	1 January 2009
IAS 23 : (Revised) Borrowing Costs	1 January 2009
IAS 29 : (Revised) Financial Reporting in Hyperinflationary Economies	1 January 2009
IAS 32 : (Revised) Financial Instruments: Presentation	1 January 2009
IAS 36 : (Revised) Impairment of Assets	1 January 2009
IAS 38 : (Revised) Intangible Assets	1 January 2009
IAS 40 : (Revised) Investment Property	1 January 2009
IAS 41 : (Revised) Agriculture	1 January 2009
IFRIC 15 : Agreements for the Construction of Real Estate	1 July 2009
IFRS 3 : (Revised) Business Combinations	1 July 2009
IFRS 5 : (Revised) Non-Current Assets held for Sale and Discontinued Operations	1 July 2009
IAS 27 : (Revised) Consolidated and Separate Financial Statements	1 July 2009
IAS 28 : (Revised) Investment in Associates	1 July 2009
IAS 31 : (Revised) Interests in Joint Ventures	1 July 2009
IAS 39 : (Revised) Financial Instruments: Recognition and Measurement	1 July 2009

2. Adoption of new and revised International Financial Reporting Standards (IFRS) *(continued)*

The Directors anticipate that the adoption of the above standards and interpretations in future periods will have no material impact on the financial statements of the Company, except for IFRS 8 : Operating Segments and IFRIC 13 : Customer Loyalty Programmes. The Directors are currently assessing these standards and interpretations which may have an impact on the financial statements of the Company.

3. Summary of significant accounting policies

These financial statements are prepared in accordance with standards and interpreatations issued by the International Accounting Standards Board (IASB) and the International Financial Reporting Interpretations Committee (IFRIC) of the IASB and the requirements of the Commercial Companies Law of 1974, as amended.

Basis of preparation

These financial statements are presented in Rials Omani ("RO") which is the currency in which the majority of transactions are denominated and are rounded off to the nearest thousand.

These financial statements are prepared on historical cost basis as modified by measurement of certain financial instruments at fair value.

A summary of significant accounting policies, which have been consistently applied by the Company and are consistent with those used in the previous year, is set out below:

Aircraft, property, plant and equipment

Aircraft, property, plant and equipment are stated at cost less accumulated depreciation and any identified impairment loss. Borrowing costs, net of interest income, which are directly attributable to acquisition of items of aircraft, property, plant and equipment, are capitalised as the cost of aircraft, property, plant and equipment.

Subsequent expenditure

Expenditure incurred to replace a component of an item of aircraft including major inspection and overhaul expenditure is capitalised. Other subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the item of aircraft, property, plant and equipment. All other maintenance expenditure is recognised in the income statement as an expense as and when incurred.

Cost of expenses incurred for regular inspections of air frame and engines are capitalised and depreciated over the period between consecutive inspections which is generally 8 and 3 years respectively.

Depreciation

Depreciation is calculated so as to write off the cost of aircraft, property, plant and equipment (other than capital work in progress) on a straight line basis over the expected remaining useful economic life of the asset concerned.

The estimated useful lives used for this purpose are:

Asset	Years
Airframe	25
Engines and rotables	15
Tools	5
Buildings	5 to 25
Plant and equipment	5 to 7.5
Vehicles, office equipment and furniture	3 to 5

Until 2005, the cost of aircraft, engines and rotables were depreciated over a period of 12 to 25 years. During 2006, in order to achieve full compliance with IFRS, the Company further bifurcated the cost of aircraft into airframe, engines and maintenance costs each with separate useful lives.

Intangible assets

The Company considers an intangible asset as an identifiable non-monetary asset without physical substance. The three critical attributes of an intangible asset are:

(a) identifiability;

(b) control (power to obtain benefits from the asset); and

Notes to the financial statements

for the year ended 31 December 2008 *(continued)*

3. Summary of significant accounting policies (continued)

(c) future economic benefits (such as revenues or reduced future costs).

An intangible asset is identifiable when it:

(a) is separable (capable of being separated and sold, transferred, licensed, rented, or exchanged, either individually or as part of a package) or;

(b) arises from contractual or other legal rights, regardless of whether those rights are transferable or separable from the entity or from other rights and obligations.

Amortisation is the systematic allocation of the depreciable amount of an intangible asset over its useful life. Carrying amount is the amount at which an asset is recognised in the balance sheet after deducting any accumulated amortisation and accumulated impairment losses thereon.

Leases

Finance leases, which transfer to the Company substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged to the income statement.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term.

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term.

Impairment

At each balance sheet date, the Company reviews the carrying amounts of its assets (or cash-generating units) to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the assets is estimated in order to determine the extent of the impairment loss (if any).

The loss arising on an impairment of an asset is determined as the difference between the recoverable amount and the carrying amount of the asset and is recognised immediately in the income statement.

Where an impairment loss subsequently reverses, the carrying amount of the assets is increased to the revised estimate of its recoverable amount and the increase is recognised as income immediately, provided that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised earlier.

Available-for-sale investments

Investments intended to be held for an indefinite period of time but which may be sold in response to needs for liquidity or changes in interest rates or equity prices, are classified as available-for-sale.

Available-for-sale investments are initially recognised at cost, which includes transaction costs, and are, in general, subsequently carried at fair value. Available-for-sale equity investments that do not have a quoted market price in an active market, and for which other methods of reasonably estimating fair value are inappropriate, are measured at cost, as reduced by allowances for estimated impairment.

For available-for-sale investments, gains and losses arising from changes in fair value are recognised directly in equity, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in equity is included in the profit or loss for the period. Impairment losses recognised in profit or loss for equity investments classified as available-for-sale are not subsequently reversed through profit or loss.

Investments in associate

An associate is an entity over which the Company has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for under IFRS 5 Non-current Assets held-for-sale and Discontinued Operations. Under the equity method, investments in associates are carried in

3. Summary of significant accounting policies (continued)

the balance sheet at cost as adjusted for post-acquisition changes in the Company's share of the net assets of the associate, less any impairment in the value of individual investments. Losses of an associate in excess of the Company's interest in that associate (which includes any long-term interests that, in substance, form part of the Company's net investment in the associate) are not recognised.

Inventories

Inventories are stated at the lower of cost and net realisable value. Costs comprise purchase cost and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated principally using the weighted average method. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

Financial instruments

Financial assets and liabilities are recognised on the Company's balance sheet when the Company becomes a party to the contractual provisions of the instrument.

The principal financial assets are long-term receivables, term deposits, trade and other receivables, and cash and bank balances.

Long-term receivables are carried in the balance sheet at their principal amount less any impairment for time value of money.

Trade and other receivables are initially measured at their fair value and subsequently measured at amortised cost, using the effective interest method. Appropriate allowances for estimated irrecoverable amounts are recognised in the income statement when there is objective evidence that the asset is impaired.

The principal financial liabilities are interest-bearing loans and borrowings and trade and other payables.

Interest bearing loans and borrowings are initially measured at fair value, and are subsequently measured at amortised cost using the effective interest method. Any difference between the proceeds (net of transaction costs) and the settlement of borrowings is recognised over the term of the borrowings.

Trade and other payables are initially measured at their fair value and subsequently measured at amortised cost, using the effective interest method.

Share capital is stated at the net proceeds received, less direct issue costs.

Deferred government grant

Interest subsidy is recognised in the balance sheet initially as a deferred Government grant and is amortised over the life of the loan based on the effective interest method in the same years in which the interest expense is incurred.

Provisions

A provision is recognised in the balance sheet when the Company has a legal or constructive obligation as a result of a past event and it is probable that it will result in an outflow of economic benefits that can be reasonably estimated.

Provision for employees' end of service benefits

Provision for employees' end of service benefits for non-Omani employees is made in accordance with the Oman Labour Law and is based on current remuneration and cumulative years of service at the balance sheet date.

End of service benefits for Omani employees are contributed in accordance with the terms of the Social Securities Law of 1991.

Taxation

Income tax is calculated as per the fiscal regulations of the Sultanate of Oman.

Current tax is the expected tax payable on the taxable income for the year, using the tax rates ruling at the balance sheet date.

Deferred tax

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Deferred tax is calculated on the basis of the tax rates that are expected to apply to the period when the asset is realised or the liability is settled. The tax effects on the temporary differences are disclosed under non-current liabilities as deferred tax.

Notes to the financial statements

for the year ended 31 December 2008 *(continued)*

3. Summary of significant accounting policies (continued)

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the unused tax losses and credits can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Revenue

Passenger ticket and cargo airway bills sales, net of commission, are recognised as current liabilities in an unearned revenue account until recognised as revenue when the transportation service is provided. Unused tickets are recognised as revenue after one year from the date of sale.

Other revenue is recognised at the time the service is provided, net of rebate.

Interest income is accounted on accrual basis by reference to the amount outstanding and the applicable interest rates.

Foreign currencies

Transactions denominated in foreign currencies are initially translated into Rials Omani at the rates of exchange prevailing on the date of the transaction. Monetary assets and liabilities denominated in such currencies are translated at the rates prevailing on the balance sheet date. Gains and losses arising from foreign currency transactions are dealt with in the income statement.

Cash and cash equivalents

For the purpose of cash flow statement, the Company considers all bank and cash balances with an original maturity of less than three months from the date of placement and bank overdraft to be cash and cash equivalents.

Directors' remuneration

Directors' remuneration is computed in accordance with the provisions of the Commercial Companies Law and the requirements of Capital Market Authority and is charged in the income statement.

4. Critical accounting judgments and key sources of estimation uncertainty

The presentation of financial statements, in conformity with IFRSs, requires Management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenditures. The estimates and associated assumptions are based on historical experiences and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from those estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the critical accounting estimates and matters involving significant judgements:

(a) Classification of investments

Management decides on acquisition of an investment whether it should be classified as held for trading, carried at fair value through profit or loss account, or available-for-sale or held-to-maturity investments.

Available-for-sale investments

Management follows the guidance set out in International Accounting Standard (IAS) 39 Financial Instruments: Recognition and Measurement on classifying non-derivative financial assets as available-for-sale. This classification requires Management's judgement based on its intentions to hold such investments.

Valuation of unquoted equities

Valuation of unquoted equity investments is normally based on recent market transactions on an arm's length basis, fair value of another instrument that is substantially the same, expected cash flows discounted at current rates for similar instruments or other valuation models.

(b) Impairment of available-for-sale investment

The Company determines that available-for-sale investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgement. In making this judgement, Management evaluates among other factors, the normal volatility in share price. In addition, impairment

4. Critical accounting judgments and key sources of estimation uncertainty (continued)

may be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology and operational and financing cash flows.

(c) Depreciation

Depreciation is charged so as to write off the cost of assets over their estimated useful lives. The calculation of useful lives is based on Management's assessment of various factors such as the operating cycles, the maintenance programs, and normal wear and tear using its best estimates.

(d) Provision for obsolete and slow moving inventories

Provision for obsolete and slow moving inventories is based on Management's assessment of various factors such as the usability, the maintenance programs, and normal wear and tear using its best estimates.

(e) Provision for impaired debts

Provision for impaired debts is based on Management's best estimates of recoverability of the amounts due along with the number of days for which such debts are due.

5. Aircraft, property, plant and equipment

	Airframe RO '000	Engines and rotables RO '000	Tools RO '000	Buildings RO '000	Plant and equipment RO '000	Vehicles, office equipment and furniture RO '000	Capital work-in-progress RO '000	Total RO '000
Cost								
At 1 January 2007	43,619	21,690	754	6,770	12,055	5,574	152	90,614
Transfers	-	-	6	-	-	61	(67)	-
Additions	-	1,269	15	343	552	564	18,185	20,928
Disposals / write offs	-	(1,361)	(138)	(21)	(423)	(1,105)	(41)	(3,089)
At 1 January 2008	**43,619**	**21,598**	**637**	**7,092**	**12,184**	**5,094**	**18,229**	**108,453**
Transfers	**10,328**	**13,128**	**16**	**87**	**4,897**	**583**	**(29,039)**	**-**
Additions	**-**	**-**	**-**	**-**	**-**	**-**	**58,090**	**58,090**
Disposals / write offs	**-**	**(481)**	**-**	**(9)**	**(89)**	**(96)**	**(24)**	**(699)**
At 31 December 2008	**53,947**	**34,245**	**653**	**7,170**	**16,992**	**5,581**	**47,256**	**165,844**
Depreciation								
At 1 January 2007	8,471	8,293	660	3,527	7,640	4,240	-	32,831
Charge for the year	1,913	1,992	7	320	722	449	-	5,403
Disposals / write offs	-	(1,327)	(138)	(19)	(409)	(1,094)	-	(2,987)
At 1 January 2008	**10,384**	**8,958**	**529**	**3,828**	**7,953**	**3,595**	**-**	**35,247**
Charge for the year	**2,253**	**2,678**	**14**	**287**	**1,126**	**474**	**-**	**6,832**
Disposals / write offs	**-**	**(481)**	**-**	**(8)**	**(82)**	**(82)**	**-**	**(653)**
At 31 December 2008	**12,637**	**11,155**	**543**	**4,107**	**8,997**	**3,987**	**-**	**41,426**
Carrying amount 31 December 2008	**41,310**	**23,090**	**110**	**3,063**	**7,995**	**1,594**	**47,256**	**124,418**
31 December 2007	33,235	12,640	108	3,264	4,231	1,499	18,229	73,206

The Company owns one Boeing 737-700 and two ATR 42-500 aircrafts and has acquired three Boeing 737-800s under finance lease arrangements.

Notes to the financial statements
for the year ended 31 December 2008 *(continued)*

5. Aircraft, property, plant and equipment (continued)

A financing agreement was signed with the lead arrangers on 4 February 2003 for the purchase of one Boeing 737-700 (delivered in June 2002) and aircraft spares. The loan is secured by guarantee provided by the Government of the Sultanate of Oman and the aircraft is mortgaged in favour of Government of Sultanate of Oman (Notes 17 and 19).

In 2005, the Company had leased out the two ATR 42-500 aircrafts for the period up to 31 December 2009 to Deccan Aviation Private Limited, a private company registered in India. During the year 2006, the Company exercised its option to recall one of these aircraft which is being used for Occidental Mukhaizna LLC operations from January 2007. During the year 2008, the Company exercised its option to recall the second aircraft for deployment into scheduled service operations.

During the year 2003, the Company entered into a lease agreement with Wings of Oman Limited, a company registered in the Cayman Islands, for the lease of one Boeing 737-800 (delivered in July 2003). The net carrying amount of the leased aircraft was in the amount of approximately RO 11,141,337 (2007 - RO 11,801,826) (Note 18).

During the year 2005, the Company entered into another lease agreement with Khanjar of Oman Limited, a company registered in the Cayman Islands, for the lease of one Boeing 737-800 (delivered in March 2005). The net carrying amount of the leased aircraft was in the amount of approximately RO 12,782,805 (2007 - RO 13,698,630) (Note 18).

During the current year, the Company entered into another lease agreement with Frankincense of Oman Limited, a company registered in the Cayman Islands, for the lease of one Boeing 737-800 (delivered in March 2008). The net carrying amount of the leased aircraft was in the amount of approximately RO 17,068,339 (2007 - Nil) (Note 18).

Land on which buildings have been constructed by the Company is owned by the Directorate General of Civil Aviation and Meteorology (DGCAM). In accordance with the combined term sheet agreement with the DGCAM, dated June 2001, the Company was granted the continuing right to occupy and use the premises for the provision of ground handling, cargo handling and catering services at the Seeb International Airport (renamed Muscat International Airport effective from February 2008) and Salalah airport (Note 27). On expiry of the term sheet agreement, the assets in existence, purchased prior to 1 January 2002, will be purchased by the airport operator at their open market value, as determined by an independent valuer except for the catering premises building which will be purchased at its net book value.

Additions to assets subsequent to 1 January 2002, approved by the airport operator during the validity of the term sheet agreement, will be purchased by the airport operator at an agreed residual value on expiry of the agreement.

6. Intangible assets

	2008 RO '000	2007 RO '000
Cost		
Balance at 1 January	-	-
Additions during the year	**5,786**	-
Balance at 31 December	**5,786**	-
Amortisation / impairment		
Balance at 1 January	-	-
Amortisation for the year	**(323)**	-
Impairment for the year	**(1,223)**	-
Balance at 31 December	**(1,546)**	-
Carrying amount	**4,240**	-

Intangible assets represent timing slots purchased during the year. At 31 December 2008, the carrying value of the timing slots was assessed as required by IAS 36 - Impairment of assets and an impairment of RO 1.223 million has been recognised.

Amortisation on these assets is charged to the income statement on a straight-line basis over the estimated useful life of five years.

7. Available-for-sale investments

	2008 RO '000	2007 RO '000
Balance at 1 January	**389**	308
Purchased during the year	**-**	6
	389	314
Fair value changes during the year	**7**	75
Balance at 31 December	**396**	389
Quoted local equity investments	**296**	289
Unquoted local equity investments	**100**	100
	396	389

The movement in the cumulative changes in the fair value of available-for-sale investments is as follows:

	2008 RO '000	2007 RO '000
1 January	**139**	64
Net unrealised gain during the year	**7**	75
31 December	**146**	139

Available-for-sale investments are analysed as follows:

	Fair value 2008 RO'000	Cost 2008 RO'000	Fair value 2007 RO'000	Cost 2007 RO'000
Quoted local equity investments:				
Banks and investment	**133**	**36**	135	36
Services	**163**	**30**	154	30
	296	**66**	289	66
Unquoted local equity investments:				
Services	**100**	**100**	100	100
	396	**166**	389	166

Management considers the carrying value of unquoted local investments to be the fair value at the balance sheet date.

At the current and prior year balance sheet date none of the Company's investment holdings represents 10% or more of the investee's share capital.

Details of the Company's investment holding exceeding 10% of the market value of the Company's total portfolio as of 31 December 2008 are as follows:

	Number of Securities	Portfolio Holding (%)	Fair value RO'000	Cost RO'000
MSM quoted securities:				
National Finance Company SAOG	815,050	45	133	36
Oman United Insurance SAOG	151,356	6	19	16
Others	12,746	49	144	14
		100	**296**	**66**

Notes to the financial statements

for the year ended 31 December 2008 *(continued)*

8. Investment in an associate company

	2008 RO '000	2007 RO '000
Cost	**75**	75
Share of profits at the beginning of the year	**1,066**	943
Share of profit for the year	**797**	622
Dividends received in the year	**(500)**	(499)
	1,438	**1,141**

Investment in an associate company represents 50% equity in Oman Sales and Services LLC, a limited liability company registered in the Sultanate of Oman, at a cost of RO 75,000.

Summarised financial information of the associate (based on unaudited accounts) is as below:

	2008 RO '000	2007 RO '000
Revenue	**12,841**	10,311
Profit after tax	**1,594**	1,244
Assets	**5,124**	4,117
Liabilities	**2,255**	1,841

9. Long-term receivables

Long-term receivables represent interest free security deposits placed to secure the lease of aircraft. The maturity of such deposits is as follows:

	2008 RO '000	2007 RO '000
Maturity		
February 2009	**-**	475
March 2009	**-**	334
April 2009	**-**	472
May 2009	**-**	146
August 2009	**-**	205
October 2009	**-**	203
April 2011	**75**	-
May 2012	**358**	322
February 2013	**353**	282
April 2014	**208**	-
May 2014	**138**	-
December 2016	**671**	344
February 2017	**395**	163
July 2017	**524**	-
August 2017	**68**	-
September 2017	**522**	-
October 2017	**67**	-
February 2019	**412**	-
	3,791	2,946

10. Inventories

	2008 RO '000	2007 RO '000
Aircraft consumables	3,810	3,305
Catering stock	330	334
Passenger consumables	751	477
General	975	758
	5,866	4,874
Provision for obsolete and slow moving inventories	(744)	(648)
	5,122	4,226
Movement in provision for obsolete and slow moving inventories:		
1 January	648	678
Additional provision during the year	124	163
Amounts utilized during the year	(28)	(193)
31 December	**744**	648

11. Trade and other receivables

Airlines and charterers	2,195	2,548
Travel agents	8,832	8,866
Ministries	1,102	745
Others	480	714
Provision for impaired debts	(302)	(347)
Trade receivables	12,307	12,526
Other receivables	3,166	6,031
Prepaid expenses	5,646	1,211
	21,119	19,768
Movement in provision for impaired debts:		
1 January	347	395
Additional provision during the year	1	4
Amounts recovered during the year	(46)	(52)
Debtors written off during the year	-	-
31 December	**302**	347

Trade receivables include amounts due from related parties amounting to RO 13,936 (2007 - RO 851,269).

Owing to the nature of the Company's operations, it undertakes transactions with a large number of customers in various countries. Trade receivables include amounts totalling RO 6,217,486 (2007 - RO 6,461,350) due in foreign currencies, mainly US Dollars.

The Company had purchased options from the manufacturer to buy four ATR 42-500 aircrafts. Since the Company does not have a firm date to exercise these options, a provision has been created.

12. Term deposits

Term deposits, in the amounts of RO 32 million (2007 - RO 47.587 million), represent deposits with commercial banks in Oman. These term deposits mature within six months from the balance sheet date and are denominated in Rials Omani, earning interest ranging between 5.35% to 6.35% (2007 - 4.90% to 5.65% per annum).

Notes to the financial statements

for the year ended 31 December 2008 *(continued)*

13. Cash and bank balances

Cash and bank balances in the balance sheet comprise the following:

	2008 RO '000	2007 RO '000
Cash and bank balances	**12,322**	6,790

Cash and bank balances include amounts aggregating RO 3,876,028 (2007 - RO 1,999,701) held with banks in India, Egypt and Bangladesh in local currencies. Prior approval from regulatory authorities of the respective countries is required for the transfer of these funds.

14. Share capital

	2008 RO '000	2007 RO '000
Authorised share capital (shares of RO 1 each)	**50,000**	50,000
Issued and paid up share capital (shares of RO 1 each)	**50,000**	50,000

Shareholders who own 10% or more of the Company's shares, whether in their name, or through a nominee account, and the number of shares they hold are as follows:

	% of Shareholding	2008 No. of shares	% of Shareholding	2007 No. of shares
Government of Sultanate of Oman	**97.96**	**48,980,948**	85.23	42,613,724

Share premium

In 2007, the Board of Directors proposed to increase the issued share capital to RO 50,000,000 by way of a preferential allotment to the Government of Sultanate of Oman. This resolution was approved by the shareholders in an Extra-ordinary general meeting held on 28 February 2007. Consequently 36,717,500 shares were issued resulting in a share premium reserve of RO 20,047,755 being created.

15. Legal reserve

In accordance with the Commercial Companies Law of 1974, as amended, 10% of the Company's net profits after the deduction of taxes will be transferred to a non-distributable legal reserve each year until the amount of such legal reserve has reached a minimum one-third of the Company's issued share capital. This reserve is not available for distribution to shareholders as dividends.

16. Provision for maintenance of aircraft, engines and rotables

	2008 RO '000	2007 RO '000
Provision for maintenance of aircraft, engines and rotables	**2,632**	1,370
Current portion	**(836)**	(441)
Long term portion	**1,796**	929
Movement during the year is as follows:		
1 January	**1,370**	1,193
Additional provisions during the year	**2,043**	576
Reversed during the year	**(88)**	(217)
Utilised during the year	**(693)**	(182)
31 December	**2,632**	1,370

Provision for maintenance of aircraft, engines and rotables is recognised only when the Company has a present obligation (legal or constructive) arising from a past event, and the costs to settle the obligation are both probable and can be measured reliably. The amount to be incurred within the next year is shown under the current liabilities.

17. Interest-bearing loans and borrowings

	2008 RO '000	2007 RO '000
Term loans	**8,453**	10,143
Finance lease liabilities (Note 18)	**32,767**	20,691
	41,220	30,834
Current portion		
Term loans	**(1,691)**	(1,691)
Finance lease liabilities (Note 18)	**(3,159)**	(2,057)
	(4,850)	(3,748)
Non-current portion	**36,370**	27,086

At the balance sheet date the Company has two term loans.

The first term loan in the amount of RO 5,557,434 denominated in US Dollars is for the purchase of one Boeing 737-700 aircraft. The loan is a syndicated loan participated by one foreign and two local banks with the lead arranger being BankMuscat. The loan is repayable in 40 equal quarterly installments commencing from February 2004. The Company has the option to repay the loan in part or full on any of the repayment dates. The Government of Oman has given a guarantee for the repayment of the loan and the aircraft is mortgaged in favour of Government of Sultanate of Oman (Notes 5 and 19).

The second term loan in the amount of RO 2,895,449 denominated in US Dollars is for the purchase of spares for the Boeing aircraft. The loan is a syndicated loan participated by one foreign and two local banks with a lead arranger being BankMuscat. The loan is repayable in 40 equal quarterly installments commencing from February 2004. The Company has the option to repay the loan in part or full on any of the repayment dates. The Government of Oman has given a guarantee for the repayment of the loan and the spares are mortgaged in favour of Government of Sultanate of Oman (Note 19).

The rate of interest on the above loans is three months LIBOR + 0.9%. The effective rate of interest on the above loans was in the range of 3.17% to 5.92% per annum (2007 - 5.92% to 6.29 % per annum).

18. Finance lease liabilities

The Company has finance lease liabilities in respect of three (2007 - two) Boeing 737-800 aircrafts. Finance lease liabilities are payable as follows:

	Minimum lease payments		Present value of minimum lease payments	
	2008 RO'000	2007 RO'000	2008 RO'000	2007 RO'000
Less than one year	**4,487**	2,917	**3,159**	2,057
Between one year and five years	**22,434**	14,580	**17,921**	11,693
More than five years	**12,760**	7,430	**11,687**	6,941
	39,681	24,927	**32,767**	20,691
Future finance charges	**(6,914)**	(4,236)	**-**	-
Total	**32,767**	20,691	**32,767**	20,691

Under the terms of the lease agreement no contingent rents are payable.

19. Government soft loan

	2008 RO '000	2007 RO '000
Government soft loan	**80,000**	10,000
Less: deferred government grant	**(30,641)**	(3,389)
	49,359	6,611

The Government of the Sultanate of Oman has provided the interest free loans of RO 80 million. The first loan was disbursed in January and February 2005 amounting to RO 10 million. The loan is repayable in 10 equal annual instalments from January

Notes to the financial statements
for the year ended 31 December 2008 *(continued)*

19. Government soft loan (continued)

2011. The loan is secured against a mortgage of one B 737-700 aircraft and associated spares. Under the loan agreement signed with the Government, the Company cannot distribute any profit if any instalment is due and not paid by the Company.

The second loan was disbursed in May, October and December 2008 amounting to RO 70 million for the purchase and lease of aircrafts. The loan is repayable in 20 equal half yearly instalments from May 2014.

Soft loan from the Government is stated at amortised cost. In accordance with Capital Market Authority (CMA) circular 1 of 2002 and IAS 39, the difference between the carrying value and fair value of the loan has to be shown as "deferred government grant" and is to be recognised as income over the loan period as necessary to match it with the related costs, which it is intended to compensate on a systematic basis. The current market weighted average interest rate has been considered for this calculation. However, the current portion of recognised deferred government income is equivalent to the related interest cost. Hence, there is no impact on the current year results.

20. Employees' end of service benefits

Movement in the provision for end of service benefits during the year is as follows:

	2008 RO '000	2007 RO '000
1 January	**2,312**	2,163
Charge for the year	**675**	472
Payments during the year	**(190)**	(323)
31 December	**2,797**	2,312

21. Deferred tax liability

Deferred income taxes are calculated on all temporary differences under the liability method using a principal tax rate of 12%. The net deferred tax (liability) / asset and deferred tax charge in the income statement are attributable to the following items:

	1 Jan 2008 RO '000	**Charged to income statement RO '000**	**31 Dec 2008 RO '000**	1 Jan 2007 RO '000	Charged to income statement RO '000	31 Dec 2007 RO '000
Asset						
Carried forward losses	**1,886**	**(495)**	**1,391**	2,300	(414)	1,886
Liability						
Accelerated tax depreciation	**(2,992)**	**(390)**	**(3,382)**	(2,387)	(605)	(2,992)
	(1,106)	**(885)**	**(1,991)**	(87)	(1,019)	(1,106)

22. Trade and other payables

	2008 RO '000	2007 RO '000
Trade payables	**7,603**	6,943
Advances from customers	**10,692**	8,934
Other payables	**14,036**	10,346
Accrued expenses	**7,177**	4,762
	39,508	30,985

Trade payables include aggregate amounts of RO 2,186,054 (2007 - RO 1,920,989) due in foreign currencies, mainly in Indian Rupees and US Dollars.

Trade payables include amounts due to related parties amounting to RO 336,000 (2007 - RO 236,455).

23. Net assets per share

Net asset per share is calculated by dividing the net assets at the year end by the number of shares outstanding as follows:

	2008	2007
Net assets (RO '000)	**36,698**	79,446
Number of shares outstanding at balance sheet date ('000s)	**50,000**	50,000
Net assets per share (RO)	**0.734**	1.589

24. Revenue

	2008 RO '000	2007 RO '000
Scheduled services – international	**114,594**	77,536
Scheduled services – domestic	**13,174**	9,444
Air charter services	**10,869**	7,107
Handling fees	**10,771**	11,785
Catering	**3,443**	4,626
Other revenue	**397**	90
	153,248	110,588

25. Expenditure

	2008 RO '000	2007 RO '000
Operating lease rentals on aircraft	**27,757**	11,662
Fuel cost	**59,739**	25,339
Maintenance cost	**8,163**	6,055
Other aircraft operating expenses	**18,580**	9,942
Passenger related costs	**10,716**	6,828
Cost of catering materials consumed	**3,088**	2,484
Employee costs	**44,553**	28,190
Insurance costs	**968**	860
Omani training and development costs	**636**	322
Depreciation	**6,832**	5,403
Amortisation / impairment	**1,546**	-
Others	**12,626**	8,605
	195,204	105,690
Employee cost includes the following:		
Wages and salaries	**35,395**	23,235
Other benefits	**7,535**	3,658
Increase in liability for employee benefits	**675**	472
Contribution to a defined retirement plan	**948**	825
	44,553	28,190

26. Interest and investment income

Interest on term deposits	**1,762**	2,722
Dividends	**17**	9
	1,779	2,731

Notes to the financial statements
for the year ended 31 December 2008 *(continued)*

27. Aviation services agreement and combined term sheet agreement

In accordance with the aviation services agreement between the Company and the Ministry of Communications, Government of the Sultanate of Oman (the "Government"), the Company has been granted the right to operate domestic and international airline services and to provide aircraft passenger and cargo handling facilities and airline catering and other services in Oman. The Company has the sole right to use the utilities and facilities provided by the Government for such purposes. The agreement was for a period of twenty years up to 24 May 2001.

In June 2001 through a combined term sheet agreement, the Director General of Civil Aviation and Meteorology (DGCAM), acting in accordance with a Cabinet Decision of 4 April 2000 and a decision issued by the Committee of Ministers dated 13 June 2000, extended the Company's ground handling and cargo handling services concessions, for a period of five years, and its catering services concession for a period of ten years, all effective from 1 January 2002. The Company's rights to operate its scheduled and charter airline services were extended for an indefinite period.

During the year 2007, the ground handling concession has been extended till 2010 or the opening of new international airport terminal, whichever is earlier and cargo handling services concession has been extended till 31 December 2008. The Company has paid the charges payable to the concerned concessionaire Oman Airport Management Company SAOC (OAMC) in line with the amounts payable under the amended terms of the concession agreements as enumerated herein.

Subsequent to 31 December 2008, the Company has received an intimation from OAMC expressing its intention to extend the ground handling concession till 31 December 2011 and the cargo handling services concession till 31 December 2009 on the existing terms.

The following charges set out in the aviation services agreement are included in the financial statements:

	2008 RO '000	2007 RO '000
Rent	**200**	200
Concession fee	**805**	971

Under the combined term sheet agreement, effective 1 January 2002, the Company will pay to the Airport Operating Company the following concession fees:

Ground handling fee	:	2% of monthly turnover from NOC handling, crew transport and radio rental revenue provided to third parties.
		7.5% of the monthly turnover received from ground handling services provided to third parties.
Cargo handling fee	:	2% of monthly turnover from agency commission and 50% of demurrage collected from third parties.
		7.5% of the monthly turnover received from cargo handling services provided to third parties.
Catering fees	:	5% of the monthly turnover received from catering services provided for use on Airport for third parties and 3% of monthly turnover for off-airport catering services.

28. Income tax charge

Income tax is provided as per the provisions of the law of income tax on companies in the Sultanate of Oman as adjusted for items that are either disallowed or non-available. No amount of tax provision was necessary during the year as the Company had taxable loss for the current year. The Secretariat General for Taxation at the Ministry of Finance has not completed the Company's tax assessments for the years from 2005 to 2007. The deferred tax on all temporary differences have been calculated and dealt with in the income statement (Note 21).

The Company has tax losses available for offset against future taxable profits as follows:

	2008 RO '000	2007 RO '000
Available to 31 December 2007 - assessed	**3,791**	4,124
Available to 31 December 2008 - assessed	**-**	3,791
	3,791	7,915

29. Basic and diluted earnings per share

	2008	2007
(Loss) / profit for the year (RO '000)	**(42,755)**	4,020
Weighted average number of shares outstanding during the year ('000)	**50,000**	42,858
Basic and diluted (loss) / earnings per share (Baisa)	**(855)**	94

The par value of each share is RO 1. The earnings per share is calculated by dividing the profit for the year by the weighted average number of shares outstanding during the year.

30. Related parties

Related parties comprise the shareholders, Directors, key management personnel and business entities in which they have the ability to control or exercise significant influence in financial and operating decisions.

The Company maintains balances with these related parties which arise in the normal course of business from the commercial transactions and are entered into at terms and conditions which the Directors consider to be comparable with those adopted for arms length transactions with third parties. Outstanding balances at period end are unsecured and settlement occurs in cash.

No expenses have been recognised in the year for impaired debts in respect of amounts owed by related parties.

Following is the summary of significant transactions with related parties during the year:

	2008 RO '000	2007 RO '000
Expenses		
Purchase of goods / services	**4,708**	3,368

The amount due from / due (to) related parties are included in Note 11 and 22 respectively.

Key management personnel benefits

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly, including any Director (whether executive or otherwise).

	2008 RO '000	2007 RO '000
Short term benefits	**151**	99
Post employment benefits	**9**	7
Directors' remuneration and sitting fees	**22**	35
	182	141

31. Business and geographical segments

a. Operating segment

The Company is organised into four major operating divisions - airline, ground and catering cargo handling. The airline division provides passenger and cargo services on a scheduled and charter basis. The catering division provides in-flight and airport retail catering services. The cargo division provides cargo handling services. The ground handling division provides airline support services.

Notes to the financial statements

for the year ended 31 December 2008 *(continued)*

31. Business and geographical segments (continued)

The Company reports its primary segments information separately for its airline and catering divisions and by combining its cargo and ground handling divisions. This information is presented as follows:

	Airline		Catering		Ground and cargo handling		Total	
	2008 RO'000	2007 RO'000	**2008 RO'000**	2007 RO'000	**2008 RO'000**	2007 RO'000	**2008 RO'000**	2007 RO'000
Revenue								
Total revenue	**141,983**	97,031	**9,963**	8,192	**12,382**	11,767	**164,328**	116,990
Inter division revenue	**(762)**	(483)	**(6,520)**	(3,566)	**(4,195)**	(2,443)	**(11,477)**	(6,492)
Other income	**-**	-	**-**	-	**-**	-	**397**	90
External revenue	**141,221**	96,548	**3,443**	4,626	**8,187**	9,324	**153,248**	110,588
Segment (loss) profit including inter division (loss) / profit	**(39,948)**	2,718	**3,317**	2,713	**1,056**	2,509	**(35,575)**	7,940
Common costs							**(6,381)**	(3,042)
Operating (loss) / profit							**(41,956)**	4,898
Finance cost							**(1,686)**	(1,688)
Interest and investment income							**1,779**	2,731
Share of profits of an associate company							**797**	622
Increase / (decrease) in fair value of long-term receivables							**1**	(553)
Concession fee							**(805)**	(971)
Deferred tax charge							**(885)**	(1,019)
(Loss) / profit for the year							**(42,755)**	4,020

As each of the Company's divisions operate within the airline industry, the Company's reporting structure encompasses the assets and liabilities for all the divisions and hence segmental analysis of assets and liabilities is not provided.

b. Geographical segment

Although the Company's geographic business segments are managed centrally, they operate in two principal geographical markets, the domestic market in the Sultanate of Oman and the overseas markets. The following table shows the distribution of the Company's revenues; inclusive of inter division revenues, by geographical market:

	Oman		Overseas		Total	
	2008 RO'000	2007 RO'000	**2008 RO'000**	2007 RO'000	**2008 RO'000**	2007 RO'000
Revenue	**49,734**	38,971	**114,594**	77,536	**164,328**	116,507

32. Commitments and contingencies

a. Capital commitments

	2008 RO '000	2007 RO '000
Capital expenditure commitments	**2,220**	1,009

b. Operating lease commitments

Details of aircraft lease agreements are as follows:

32. Commitments and contingencies (continued)

Aircraft type	Lease agreements signed	Aircraft delivered against lease agreements	Aircraft to be delivered in future periods
737-800	9	(6)	3
737-700	1	(1)	-
A310-314	2	(2)	-
A330-200	2	-	2
	14	(9)	5

The fixed lease commitments against 9 (2007: 10) delivered aircrafts are as follows:

	2008 RO '000	2007 RO '000
Not later than one year	16,413	11,422
Later than one year and not later than five years	35,951	13,849
After five years	9,929	5,089
	62,293	30,360

The fixed lease commitments against 5 (2007: 8) aircrafts to be delivered in future periods are as follows:

	2008 RO '000	2007 RO '000
Not later than one year	7,048	11,495
Later than one year and not later than five years	54,119	111,238
After five years	68,973	132,314
	130,140	255,047

In addition to the above fixed lease commitments, there is a variable lease rental element depending on the flying hours of the leased aircraft.

c. Letters of credit and guarantees

	2008 RO '000	2007 RO '000
Letters of credit	1,597	948
Bank guarantees	475	-
	2,072	948

The above letters of credit and guarantees were issued in the normal course of business.

33. Financial risk management

Financial instruments carried on the balance sheet comprise cash and cash equivalents, term deposits, trade and other receivables, trade and other payables and interest-bearing loans and borrowings.

Financial assets are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows have been impacted.

The classification of financial assets depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

Notes to the financial statements

for the year ended 31 December 2008 *(continued)*

Financial risk factors

Overview

The Company has exposure to the following risks from its use of financial instruments:

- **Credit risk**
- **Liquidity risk**
- **Market risk**

The Company's activities expose it to a variety of financial risks: market risk, credit risk and liquidity risk. The Company's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Company's financial performance.

Risk management is carried out by finance department under policies approved by the Management.

(i) Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from the Company's receivables from customers.

Trade and other receivables

The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer. Owing to the nature of the Company's operations, it undertakes transactions with a large number of customers in various countries.

The Company has established credit policies and procedures that are considered appropriate and commensurate with the nature and size of receivables.

In monitoring customer credit risk, customers are segmented according to their credit characteristics in the following categories:

- Airlines and charterers
- Travel agents
- Government customers
- Other customers

The potential risk in respect of amounts receivable is limited to their carrying values as Management regularly reviews these balances whose recoverability is in doubt.

The Company establishes a provision for impairment that represents its estimate of potential losses in respect of trade and other receivables. The main components of this loss are a specific loss component that relates to individual exposures.

Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The exposure to credit risk at the balance sheet date was on account of:

	2008 RO '000	2007 RO '000
Long term receivables	**3,791**	2,946
Trade receivables	**12,307**	12,526
Other receivables	**8,812**	7,242
Term deposits	**32,000**	47,587
Cash and cash equivalents	**12,322**	6,790
	69,232	77,091

The exposure to credit risk for trade receivables at the balance sheet date by type of customer was:

	2008 RO '000	2007 RO '000
Travel agents	**8,709**	8,866
Airlines and charterers	**2,118**	1,638
Ministries	**1,102**	745
Other customers	**378**	1,624
	12,307	12,873

Financial risk factors (Credit risk continued)

The age of trade receivables and related impairment loss at the balance sheet date was:

	2008		2007	
	Gross RO '000	**Impairment RO '000**	Gross RO '000	Impairment RO '000
Not past due	**8,625**	**-**	7,005	-
Past due 0 - 180 days	**3,388**	**-**	5,119	-
Past due 181 - 365 days	**70**	**-**	71	-
1 - 2 years	**33**	**16**	118	51
More than 2 years	**493**	**286**	560	296
	12,609	**302**	12,873	347

(a) Included in the Company's trade receivable balance are debtors with a carrying amount of RO 3.682 million (2007: 5.521 million) which are past due at the balance sheet date for which the Company has not provided as there has not been a significant change in credit quality and the amounts are still considered recoverable. The Company holds collaterals in respect of certain parties in the form of cash deposits / bank guarantees to the extent of RO 1.889 million. The average collection period of these receivables is 30 days (2007 - 43 days).

(b) The movement in provision for impaired debts has been disclosed in Note 11.

The allowance account in respect of trade receivables is used to record impairment losses unless the Company is satisfied that no recovery of the amount owing is possible, at which point the amount considered irrecoverable is written off against allowance account.

(ii) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure, as far as possible that it will have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

Typically the Company ensures that it has sufficient cash on demand to meet expected operational expenses including the servicing of financial obligations. This excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters. The Company has access to credit facilities.

		Amount due and payable in future between			
31 December 2008	**Carrying amount RO '000**	**6 months or less RO '000**	**6 - 12 months RO '000**	**1 - 2 years RO '000**	**2 years Beyond RO '000**
Trade payables	**7,267**	**7,267**	**-**	**-**	**-**
Due to related parties	**336**	**336**	**-**	**-**	**-**
Advances from customers	**10,692**	**10,692**	**-**	**-**	**-**
Other payables	**21,213**	**21,213**	**-**	**-**	**-**
Loans and borrowings	**41,220**	**2,410**	**2,440**	**4,986**	**31,384**
	80,728	**41,918**	**2,440**	**4,986**	**31,384**
31 December 2007					
Trade payables	6,707	6,707	-	-	-
Due to related parties	236	236	-	-	-
Advances from customers	8,934	8,934	-	-	-
Other payables	15,108	15,108	-	-	-
Loans and borrowings	30,834	1,863	1,885	3,837	23,249
	61,819	32,848	1,885	3,837	23,249

Notes to the financial statements
for the year ended 31 December 2008 *(continued)*

Financial risk factors (Liquidity risk continued)

Advances from customers represent tickets sold but not flown as at the balance sheet date.

(iii) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

The Company undertakes certain transactions denominated in foreign currencies. Hence, exposures to exchange rate fluctuations arise.

Aircraft lease foreign currency exchange rate risk

There are no significant exchange rate risks as all aircraft lease rental agreements, new aircraft commitments and deposits are made in US Dollars to which Rials Omani is fixed.

Interest rate risk

The Company has long term borrowings, which are interest bearing and exposed to changes in market interest rates.

At the balance sheet date the interest rate profile of the Company's interest bearing financial instruments was:

	2008 RO '000	2007 RO '000
Fixed rate instruments		
Financial assets	**32,000**	47,587
Financial liabilities	**41,220**	30,834

Fair value sensitivity analysis for fixed rate instruments

The Company does not account for any fixed rate financial assets or liabilities at fair value through profit or loss. Therefore a change in interest rates at the balance sheet date would not affect profit or loss.

34. Fair value of assets and liabilities

The fair value of the financial assets and liabilities approximates their carrying value as stated in the balance sheet.

35. Capital management

The Company's objectives when managing capital are to safeguard its ability to continue as a going concern and benefit other stake holders. The management's policy is to maintain a strong capital base so as to maintain creditor and market confidence and to sustain future development of the business.

36. Approval of the financial statements

The financial statements were approved by the Board of Directors and authorised for issue in their meeting held on 15 March 2009.

37. Comparative figures

Certain comparative figures have been regrouped and reclassified wherever necessary to match with current year presentation.

From the arrival of a modern long-haul fleet to the launch of new destinations across the globe, from an enhanced team of committed professionals to a more delightful travel experience, the new Oman Air is on its way, ready to fly you to the world.

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