

**Jazeera Airways K.S.C  
Kuwait**

**Interim Consolidated Financial Information (Unaudited)  
and  
Independent Auditors' Review Report  
31 March 2009**

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**Jazeera Airways K.S.C.  
Kuwait**

## INDEPENDENT AUDITORS' REVIEW REPORT TO THE BOARD OF DIRECTORS

### Report on Review of Interim Consolidated Financial Information

#### *Introduction*

We have reviewed the accompanying condensed consolidated balance sheet of Jazeera Airways K.S.C. ("the Parent Company") and its subsidiary (together called "the Group") as at 31 March 2009 and the related condensed consolidated statement of income, condensed consolidated statement of comprehensive income, statement of changes in equity and statement of cash flows for the three month period then ended. Management is responsible for the preparation and presentation of this interim consolidated financial information in accordance with International Accounting Standard 34 - Interim Financial Reporting. Our responsibility is to express a conclusion on this interim consolidated financial information based on our review.

#### *Scope of Review*

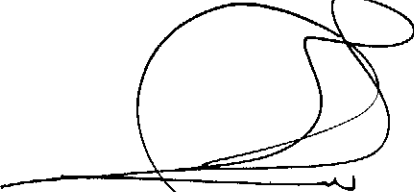
We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

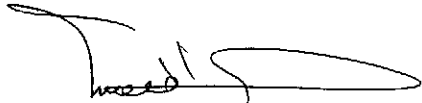
#### *Conclusion*

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim consolidated financial information is not prepared, in all material respects, in accordance with International Accounting Standard 34 - Interim Financial Reporting.

### Report on other Legal and Regulatory Requirements

Furthermore, based on our review, the interim consolidated financial information is in agreement with the books of account of the Parent Company. We further report that, to the best of our knowledge and belief, no contraventions during the period of either the Commercial Companies Law of 1960, as amended, or of the Articles of Association of the Company during the three month period ended 31 March 2009, that might have had a material effect on the business of the Group or on its financial position.

  
**Bader A. Al-Wazzan**  
Licence No. 62A  
PricewaterhouseCoopers

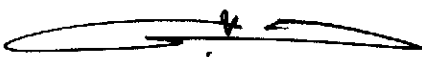
  
**Nasser Abdullah Al Muqait**  
R.A.A. No. 9A  
Al Ahli Bureau

Kuwait  
14 May 2009

**Condensed Consolidated Balance Sheet (Unaudited) as at 31 March 2009**

	Note	Kuwaiti Dinars		
		31 March 2009 (Unaudited)	31 December 2008 (Audited)	31 March 2008 (Unaudited)
<b>ASSETS</b>				
<b>Non-current Assets</b>				
Property and equipment	3	3,929,268	38,380,179	86,626,842
Deposits		-	2,314,215	2,314,215
Receivables from a related party	4	30,078,520	-	-
		<u>34,007,788</u>	<u>40,694,394</u>	<u>88,941,057</u>
<b>Current Assets</b>				
Non current assets classified as held for sale	5	22,736,643	22,736,643	-
Receivables from a related party	4	16,637,636	5,124,641	66,599
Inventories, expendable parts and supplies		137,752	146,008	164,652
Trade and other receivables		2,400,610	1,761,619	1,501,974
Cash and bank balances	6	1,016,930	2,590,672	3,687,745
		<u>42,929,571</u>	<u>32,359,583</u>	<u>5,420,970</u>
<b>Total assets</b>		<u>76,937,359</u>	<u>73,053,977</u>	<u>94,362,027</u>
<b>LIABILITIES AND EQUITY</b>				
<b>Equity</b>				
Share capital	7	19,998,860	19,998,860	19,998,860
Legal reserve		801,461	801,461	335,509
Equity transaction costs		(46,079)	(46,079)	(46,079)
Retained earnings		5,987,927	6,970,389	3,733,696
<b>Equity attributable to the Parent Company's Shareholders</b>		<u>26,742,169</u>	<u>27,724,631</u>	<u>24,021,986</u>
Minority interest		276	276	292
<b>Total equity</b>		<u>26,742,445</u>	<u>27,724,907</u>	<u>24,022,278</u>
<b>Non-current liabilities</b>				
Term loans	8	-	-	42,022,783
Post employment benefits		507,219	457,219	288,171
Lease maintenance provision	9	710,898	158,081	-
		<u>1,218,117</u>	<u>615,300</u>	<u>42,310,954</u>
<b>Current liabilities</b>				
Term loans	8	20,210,229	19,209,799	3,401,568
Loan from a related party		-	-	10,000,000
Due to banks	10	13,358,337	12,147,437	1,820,102
Trade and other payables		7,450,222	7,621,932	6,597,565
Deferred revenue		7,958,009	5,734,602	6,209,560
		<u>48,976,797</u>	<u>44,713,770</u>	<u>28,028,795</u>
<b>Total liabilities and equity</b>		<u>76,937,359</u>	<u>73,053,977</u>	<u>94,362,027</u>

The accompanying notes are an integral part of this interim consolidated financial information.

  
Marwan Marzouk Boodai  
Chairman

**Condensed Consolidated Statement of Income (Unaudited) – Three-months ended 31 March 2009**

	Note	Kuwaiti Dinars	
		Three months ended	
		31 March	
		2009	2008
Revenue		9,947,643	10,780,055
Operating costs		(10,371,514)	(9,617,895)
<b>Gross (loss)/ profit</b>		<b>(423,871)</b>	<b>1,162,160</b>
Other income		288,454	40,165
Administrative expenses		(1,059,357)	(1,036,750)
Finance costs		(426,232)	(744,595)
Foreign currency gain		638,544	1,359,160
<b>(Loss)/ profit before contribution to KFAS, NLST and Zakat</b>		<b>(982,462)</b>	<b>780,140</b>
Contribution to Kuwait Foundation for Advancement of Sciences (KFAS)		-	(7,021)
National Labour Support Tax (NLST)		-	(19,503)
Contribution for Zakat		-	(7,801)
<b>(Loss)/ profit for the period</b>		<b>(982,462)</b>	<b>745,815</b>
<b>Attributable to:</b>			
Shareholders of the Parent Company		(982,462)	745,815
		<b>(982,462)</b>	<b>745,815</b>
<b>(Loss)/earnings per share (fils) - Basic &amp; Diluted</b>	11	<b>(4.91)</b>	<b>3.73</b>

The accompanying notes are an integral part of this interim consolidated financial information.

Condensed Consolidated Statement of Comprehensive Income (Unaudited)  
Three-months ended 31 March 2009

	Kuwaiti Dinars	
	Three months ended 31 March	
	2009	2008
(Loss)/ profit for the period	(982,462)	745,815
Other comprehensive income	-	-
Total comprehensive (expense)/ income for the period	(982,462)	745,815

The accompanying notes are an integral part of this interim consolidated financial information.

**Condensed Consolidated Statement of Changes in Equity (Unaudited) -  
Three months ended 31 March 2009**

	Kuwaiti Dinars				Minority interest	Total equity
	Equity attributable to the Parent Company's Shareholders					
	Share capital	Legal reserve	Equity transaction costs	Retained earnings		
At 1 January 2008	19,998,860	335,509	(46,079)	2,987,881	292	23,276,463
Total comprehensive income for the period	-	-	-	745,815	-	745,815
At 31 March 2008	<u>19,998,860</u>	<u>335,509</u>	<u>(46,079)</u>	<u>3,733,696</u>	<u>292</u>	<u>24,022,278</u>
At 1 January 2009	19,998,860	801,461	(46,079)	6,970,389	276	27,724,907
Total comprehensive expense for the period	-	-	-	(982,462)	-	(982,462)
At 31 March 2009	<u>19,998,860</u>	<u>801,461</u>	<u>(46,079)</u>	<u>5,987,927</u>	<u>276</u>	<u>26,742,445</u>

The accompanying notes are an integral part of this interim consolidated financial information.

**Condensed Consolidated Statement of Cash Flows (Unaudited)**  
**Three months ended 31 March 2009**

	Kuwaiti Dinars	
	31 March 2009 (Unaudited)	31 March 2008 (Unaudited)
	Note	
<b>Cash flows from operating activities</b>		
(Loss)/ profit for the period		(982,462) 745,815
<i>Adjustments for:</i>		
Depreciation		71,102 1,188,737
Finance costs		426,232 744,595
Gain from foreign currency revaluation		(638,544) (1,359,160)
Post employment benefits		50,000 12,835
Lease maintenance provision		552,817 -
Operating (loss)/profit before working capital changes		(520,855) 1,332,822
Increase in due from related party		(2,617,172) -
Decrease (increase) in inventories		8,256 (18,796)
(Increase)/ decrease in trade and other receivables		(313,041) 194,346
(Decrease)/ increase in trade and other payables		(171,710) 102,945
Increase in deferred revenue		2,223,408 926,097
Net cash (used in)/ from operating activities		(1,391,114) 2,537,414
<b>Cash flows from investing activities</b>		
Purchase of property and equipment (net)		(2,606,270) (12,203,090)
Net cash used in investing activities		(2,606,270) (12,203,090)
<b>Cash flows from financing activities</b>		
Increase/ (decrease) in term loans		1,000,430 (2,148,878)
Increase in overdraft		1,210,900 1,820,102
Loan from a related party		- 10,000,000
Finance costs paid		(426,232) (744,595)
Gain on exchange rate changes		638,544 1,359,160
Net cash from financing activities		2,423,642 10,285,789
<b>Net (decrease)/ increase in cash and cash equivalents</b>		(1,573,742) 620,113
<b>Cash and cash equivalents at</b>		
beginning of period		2,548,646 3,026,937
end of period	6	974,904 3,647,050

The accompanying notes are an integral part of this interim consolidated financial information.



**Notes to the Interim Consolidated Financial Information (Unaudited) – 31 March 2009**

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**1. Constitution and activities**

Jazeera Airways K.S.C. (the "Parent Company") was incorporated by Amiri Decree on 3 March 2004 as a Kuwaiti Public Shareholding Company under the laws of Kuwait.

The Parent Company is engaged in the business of air transportation and commercial passenger services under a license from the Directorate General of Civil Aviation, Kuwait and its sole subsidiary owns and leases aircraft and engines. The Parent Company and its subsidiary are together referred to as the "Group" in this interim condensed consolidated financial information.

The Parent Company's sole subsidiary, Jazeera Leasing Company (JLC), was incorporated with a share capital of USD 1,000 equivalent to KD 276 (31 December 2008: KD 276, 31 March 2008: Nil) and is fully owned by a third party. JLC is a Special Purpose Entity ("SPE") set up for the sole purpose of arranging finance for acquiring aircraft and engines and for leasing them to the Parent Company under finance leases. JLC has been consolidated in this financial information in accordance with Interpretation - SIC-12 'Consolidation - Special Purpose Entities' as the Parent Company obtains all of the benefits of its activities.

The address of the registered office of the Parent Company is Kuwait international Airport, State of Kuwait.

The number of personnel employed by the Parent Company as of 31 March 2009 was 557 (31 December 2008: 499, 31 March 2008 - 417).

This interim consolidated financial information was approved for issue by the Board of Directors on 14 May 2009.

**2. Basis of preparation and significant accounting policies**

These interim financial information have been prepared in accordance with International Accounting Standard (IAS)34: Interim Financial Reporting.

This interim financial information does not contain all the information and disclosures required for full financial statements prepared in accordance with International Financial Reporting Standards. In the opinion of management, all adjustments consisting of normal recurring accruals considered necessary for a fair presentation have been included. Operating results for the three-months period ended 31 March 2009 are not necessarily indicative of the results that may be expected for the year ending 31 December 2009. For further information, refer to the financial statements of the Company for the year ended 31 December 2008.

The accounting policies used in the preparation of the interim financial information for the period are consistent with those used in the preparation of the annual financial statements for the year ended 31 December 2008, except for the adoption of the following amendments/new standards.

IAS 1 'Presentation of Financial Statements' (Revised):

This revised standard requires all non-owner changes in equity (i.e. comprehensive income) to be presented separately in a statement of comprehensive income.

IFRS 8 'Operating Segments':

The new standard which replaced IAS 14 'Segment Reporting' requires a 'management approach' under which segment information is presented on the same basis as that used for internal reporting purposes. In addition, segments are reported in a manner that is more consistent with the internal reporting provided to the chief operating decision-maker.

Notes to the Interim Consolidated Financial Information (Unaudited) – 31 March 2009

3. Property and equipment

	Kuwaiti Dinars					Total
	Aircraft & engines	Leasehold improvements	Furniture & equipment	Vehicles	Capital work-in-progress	
<b>Cost</b>						
As at 31 December 2008	163,586	506,188	694,868	10,624	37,732,511	39,107,777
Additions	1,010	13,453	30,848	-	2,560,959	5,074,113
Transfer	-	-	-	-	(36,986,078)	(36,986,078)
As at 31 March 2009	164,596	519,641	725,716	10,624	3,307,392	4,727,968
<b>Depreciation</b>						
As at 31 December 2008	118,795	159,919	444,325	4,559	-	727,598
Charge for the period	10,408	25,590	34,574	530	-	71,102
As at 31 March 2009	129,203	185,509	478,899	5,089	-	798,700
<b>Net book value</b>						
As at 31 March 2009	35,392	334,132	246,817	5,535	3,307,392	3,929,268
As at 31 December 2008	44,791	346,269	250,543	6,065	37,732,511	38,380,179
As at 31 March 2008	61,020,816	253,889	275,554	7,659	25,068,924	86,626,842

Depreciation has been allocated in statement of income as follows:

	Kuwaiti Dinars	
	Three months ended	
	31 March	
	2009	2008
Operating costs	12,211	1,131,253
Administrative expenses	58,891	57,484
	71,102	1,188,737

In accordance with the decision of its Board of Directors, the Parent Company signed a Novation agreement with both the manufacturer and a related party whereby it transferred the benefits of the pre-delivery payments and obligations of its purchase agreement in favour of the related party, with effect from 31 March 2009.

Capital work-in-progress includes pre-payments of KD 2,988,438 (31 December 2008: KD 2,567,299, 31 March 2008: KD 1,809,468) for aircraft maintenance.

4. Receivables from a related party

This represents the following:

- Short term receivables of KD 5,192,742 due against sale of six aircraft and one engine. This carries an annual interest rate of 2% over Kuwait Inter Bank Offered Rate (KIBOR). The effective interest rate as of 31 March 2009 was 6.5% (31 December 2008: 6.5%, 31 March 2008: Nil).
- Pre Delivery Payments made to aircraft supplier which has been transferred in favour of a related party with whom the Company has entered into an operating lease arrangement for the lease of aircraft. This amount is unsecured and is receivable as follows:

	Kuwaiti Dinars
Not later than one year	11,444,894
Later than one year but not later than five years	26,094,554
Later than five years	3,983,966
	41,523,414

This carries an interest charge of 6 months' LIBOR plus 25 basis points. The effective interest rate as of 31 March 2009 was 1.98%.

Notes to the Interim Consolidated Financial Information (Unaudited) – 31 March 2009

5. Non current assets held for sale

	Kuwaiti Dinars		
	31 March 2009 (Unaudited)	31 December 2008 (Audited)	31 March 2008 (Unaudited)
Aircraft and engines	22,736,643	22,736,643	-
	<u>22,736,643</u>	<u>22,736,643</u>	<u>-</u>

The above represents the carrying value of two aircraft and engines that are held for sale following the decision of Group's management to sell the aircrafts to Al Sahaab Aircraft leasing Company W.L.L. The transaction is expected to be completed by 30 July 2009. These are currently under lien for term loans availed by JLC.

6. Cash and bank balances

	Kuwaiti Dinars		
	31 March 2009 (Unaudited)	31 December 2008 (Audited)	31 March 2008 (Unaudited)
Cash on hand	14,569	11,294	9,007
Balances with banks			
- Current Accounts	960,335	2,537,352	3,638,043
- Time Deposits	42,026	42,026	40,965
	<u>1,016,930</u>	<u>2,590,672</u>	<u>3,687,745</u>
Time deposits with banks whose original Maturity period exceeds three months	(42,026)	(42,026)	(40,695)
Cash & cash equivalents in the statement of cash flows	<u>974,904</u>	<u>2,548,646</u>	<u>3,647,050</u>

Notes to the Interim Consolidated Financial Information (Unaudited) – 31 March 2009

9. Lease maintenance provision

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

10. Due to banks

This represents unsecured facility from a local bank denominated in US Dollars. The effective interest rate as of 31 March 2009 on the overdraft was 4.19% to 6.75% (31 December 2008: 4.5%, 31 March 2008 – 5.6%).

11. (Loss)/ earnings per share

(Loss)/earnings per share is calculated based on the (loss)/ net profit for the period and the weighted average number of shares outstanding, as follows:

	Three months ended 31 March (Unaudited)	
	2009	2008
(Loss)/ profit attributable to equity holders of Parent company	(982,462)	745,815
Weighted average number of issued shares	199,988,602	199,988,602
(Loss)/earnings per share (fils) – Basic & Diluted	(4.91)	3.73

12. Related party transactions and balances

In the ordinary course of business, the Parent Company enters into transactions with related parties (directors, key managerial personnel and group companies). Pricing policies and terms of these transactions are approved by the Parent Company's management. Transactions and balances with related parties not disclosed elsewhere in this financial information are as follows:

	Kuwaiti Dinars Three months ended 31 March	
	2009	2008
<b>Transactions</b>		
Sales	92,983	77,237
Administration and distribution expenses	65,266	94,876
<b>Key management compensation</b>		
Salaries and other employment benefits	156,185	76,176

13. Segment information

The Parent Company's sole business segment is the operation of passenger airline service. Since the Parent Company's fleet is flexibly employed across its route network, there is no suitable basis for allocating revenue, expenses, assets and related liabilities to geographical segments.

14. Contingent liabilities and commitments

	Kuwaiti Dinars		
	31 March 2009 (Unaudited)	31 December 2008 (Audited)	31 March 2008 (Unaudited)
Letter of Guarantee	802,733	682,096	527,613

Operating lease commitments

Where the Parent Company is the lessee

	Kuwaiti Dinars
Not later than one year	8,384,688
Later than one year but not later than five years	30,329,122
Later than five years	1,496,523

**Notes to the Interim Consolidated Financial Information (Unaudited) – 31 March 2009**

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The above does not include contingent rent which is linked to market interest rates. The Parent Company is entitled to extend aircraft leases for a further period of one year extendable for another two annual terms.

*Guarantee given in favour of Airbus S.A.S.*

In accordance with the Novation Agreement signed between the Parent Company, the aircraft supplier and a related party, the Parent Company has guaranteed the aircraft supplier the due and punctual observance and performance of all the obligations of the buyer to pay any monies falling due for payments by the buyer under the Novated Purchase Agreement.

**15. Comparative figures**

Certain comparative amounts have been reclassified to conform to the current period presentation, but with no effect on net profit or equity.