

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

**Interim Consolidated Financial Information (Unaudited)
and
Independent Auditors' Review Report
31 March 2008**

PRICEWATERHOUSECOOPERS 

**AL-AHLI BUREAU
Certified Accountants**

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Bader & Co. PricewaterhouseCoopers

P.O. Box 20174, Safat 13062
7th Floor, Dar Al-Awadi Complex
Ahmed Al-Jaber Street, Sharq - Kuwait
Telephone (965) 2408844
Facsimile (965) 2408855
E-mail: pwc.kwt@kw.pwc.com

Certified Accountants

P.O. Box 5689 Safat
13057 Kuwait
Tel (965) 2461218
2432263
Fax (965) 2465378

INDEPENDENT AUDITORS' REVIEW REPORT TO THE BOARD OF DIRECTORS

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

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 of 31 March 2008 and the related condensed consolidated statements of 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

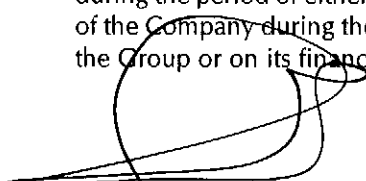
Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim consolidated financial information is not prepared, in all material respects, in accordance with International Accounting Standard 34: Interim Financial Reporting.

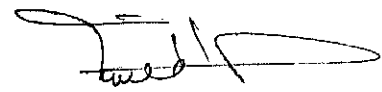
Other Matters

As stated in Note 2, the comparative figures for the period ended 31 March 2007 were not subjected to review in accordance with the International Standards on Auditing applicable to review engagements.

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 period ended 31 March 2008, 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

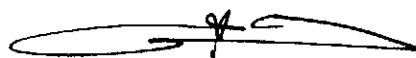

Nasser Abdullah Al Muqait
R.A.A. No. 9A
Al Ahli Bureau

Kuwait
18 May 2008

Condensed Consolidated Balance Sheet (Unaudited) as of 31 March 2008

	Note	Kuwaiti Dinars		
		31 March 2008 (Unaudited)	31 December 2007 (Audited)	31 March 2007 (Unaudited)
ASSETS				
Non-current Assets				
Property and equipment	3	86,626,842	75,612,489	59,490,763
Deposits	4	2,314,215	2,314,215	219,735
		<u>88,941,057</u>	<u>77,926,704</u>	<u>59,710,498</u>
Current Assets				
Inventories, expendable parts and supplies		164,652	145,856	122,803
Trade and other receivables		1,568,573	1,762,918	1,052,683
Cash and bank balances	5	3,687,745	3,067,632	3,881,678
		<u>5,420,970</u>	<u>4,976,406</u>	<u>5,057,164</u>
Total assets		<u>94,362,027</u>	<u>82,903,110</u>	<u>64,767,662</u>
LIABILITIES AND EQUITY				
Equity				
Share capital	6	19,998,860	19,998,860	10,000,000
Legal reserve		335,509	335,509	104,480
Equity transaction costs		(46,079)	(46,079)	-
Retained earnings		3,733,696	2,987,881	1,455,341
Equity attributable to the Parent Company's		<u>24,021,986</u>	<u>23,276,171</u>	<u>11,559,821</u>
Minority interest		292	292	292
Total equity		<u>24,022,278</u>	<u>23,276,463</u>	<u>11,560,113</u>
Non-current liabilities				
Term loans	7	42,022,783	44,067,095	40,254,747
Post employment benefits		288,171	275,334	153,524
		<u>42,310,954</u>	<u>44,342,429</u>	<u>40,408,271</u>
Current liabilities				
Term loans	7	3,401,568	3,506,134	3,630,240
Loan from a related party	8	10,000,000	-	-
Bank overdraft	9	1,820,102	-	-
Trade and other payables		6,597,565	6,494,620	4,564,124
Deferred revenue		6,209,560	5,283,464	4,604,914
		<u>28,028,795</u>	<u>15,284,218</u>	<u>12,799,278</u>
Total liabilities and equity		<u>94,362,027</u>	<u>82,903,110</u>	<u>64,767,662</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 2008**

	Note	Kuwaiti Dinars	
		Three months ended	
		31 March 2008 (Unaudited)	31 March 2007 (Unaudited)
Revenue		10,780,055	7,385,044
Operating costs		(9,617,895)	(6,096,882)
Gross profit		1,162,160	1,160,155
Other income	10	1,399,325	516,426
Administrative expenses		(1,036,750)	(698,265)
Finance costs		(744,595)	(577,136)
Contribution to Kuwait Foundation for Advancement of Sciences (KFAS)		(7,021)	(4,763)
Provision for National Labour Support Tax (NLST)		(19,503)	-
Zakat		(7,801)	-
Profit for the period		745,815	524,425
Attributable to:			
Shareholders of the Parent Company		745,815	524,425
Minority interest		-	-
		745,815	524,425
Earnings per share (fils) - Basic & Diluted	11	3.73	5.24

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 2008

	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 2007	10,000,000	104,480	-	930,916	292	11,035,688
Profit for the period	-	-	-	524,425	-	524,425
At 31 March 2007	<u>10,000,000</u>	<u>104,480</u>	<u>-</u>	<u>1,455,341</u>	<u>292</u>	<u>11,560,113</u>
At 1 January 2008	19,998,860	335,509	(46,079)	2,987,881	292	23,276,463
Profit 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>

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

Jazeera Airways K.S.C
Kuwait

Condensed Consolidated Statement of Cash Flows (Unaudited)
Three months ended 31 March 2008

	Note	Kuwaiti Dinars	
		31 March 2008 (Unaudited)	31 March 2007 (Unaudited)
Cash flows from operating activities			
Profit for the period		745,815	524,425
<i>Adjustments for:</i>			
Depreciation		1,188,737	1,122,464
Finance costs		744,595	577,136
Post employment benefits		12,835	26,286
Gain on foreign currency revaluation		(1,359,160)	(210,146)
Operating profit before working capital changes		1,332,822	2,040,165
Increase in inventories		(18,796)	(9,785)
Decrease/ (increase) in trade and other receivables		194,346	(70,390)
Increase in trade and other payables		102,945	345,021
Increase in deferred revenue		926,097	2,225,645
Net cash from operating activities		2,537,414	4,530,656
Cash flows from investing activities			
Purchase of property and equipment		(12,203,090)	(7,943,626)
Increase in deposits		-	(75,140)
Net cash used in investing activities		(12,203,090)	(8,018,766)
Cash flows from financing activities			
(Decrease)/ Increase in term loans		(2,148,878)	7,124,243
Increase/ (decrease) in bank overdraft		1,820,102	(925,250)
Loan from a related party		10,000,000	-
Finance costs paid		(744,595)	(577,136)
Gain on exchange rate changes		1,359,160	210,146
Net cash from financing activities		10,285,789	5,832,003
Net increase in cash and cash equivalents		620,113	2,343,893
Cash and cash equivalents at			
beginning of period		3,026,937	1,497,090
end of period	5	3,647,050	3,840,983

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

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 292 (31 December 2007: KD 292, 31 March 2007: KD 292) 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 2008 was 417 (31 December 2007: 410, 31 March 2007 - 363).

This interim consolidated financial information was approved for issue by the Board of Directors on 18 May 2008.

2. Basis of preparation and significant accounting policies

This interim consolidated financial information has been prepared in accordance with IAS 34: Interim Financial Reporting. The accounting policies used in the preparation of the interim consolidated financial information are consistent with those used in the annual consolidated financial statements for the year ended 31 December 2007.

This interim consolidated financial information does not contain all of the information and notes required for complete 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. Results for the interim period are not necessarily indicative of the results that may be expected for the year ending 31 December 2008. For further information, refer to the financial statements and notes thereto included in the Group's audited financial statements for the year ended 31 December 2007.

Comparative figures for the period ended 31 March 2007 were extracted from the books of the Group and were not subjected to review in accordance with the International Standard on Auditing applicable to review engagements.

The Group's current liabilities exceed current assets (excluding deferred revenue) by KD 16,398,265 (31 December 2007: KD 5,024,348, 31 March 2007: KD 3,137,200). This financial information have been prepared on a going concern basis as the Board of Directors and management expect the cash flow position to continually improve and the Group to continue to receive financial support from shareholders and lenders.

Notes to the Interim Consolidated Financial Information (Unaudited) – 31 March 2008

3. Property and equipment

	Kuwaiti Dinars					Total
	Aircraft & engines	Leasehold improvements	Furniture & equipment	Vehicles	Capital work-in-progress	
Cost						
As at 31 December 2007	68,830,039	341,428	589,208	10,624	12,885,283	82,656,582
Additions	3,195	4,527	11,727	-	12,183,641	12,203,090
As at 31 March 2008	<u>68,833,234</u>	<u>345,955</u>	<u>600,935</u>	<u>10,624</u>	<u>25,068,924</u>	<u>94,859,672</u>
Depreciation						
As at 31 December 2007	6,684,097	74,844	282,718	2,434	-	7,044,093
Charge for the period	1,128,321	17,222	42,663	531	-	1,188,737
As at 31 March 2008	<u>7,812,418</u>	<u>92,066</u>	<u>325,381</u>	<u>2,965</u>	<u>-</u>	<u>8,232,830</u>
Net book value						
As at 31 March 2008	<u>61,020,816</u>	<u>253,889</u>	<u>275,554</u>	<u>7,659</u>	<u>25,068,924</u>	<u>86,626,842</u>
As at 31 December 2007	<u>62,145,942</u>	<u>266,584</u>	<u>306,490</u>	<u>8,190</u>	<u>12,885,283</u>	<u>75,612,489</u>
As at 31 March 2007	<u>53,309,872</u>	<u>68,466</u>	<u>233,871</u>	<u>3,170</u>	<u>5,875,384</u>	<u>59,490,763</u>

Depreciation has been allocated in statement of income as follows:

	Three months ended 31 March	
	2008 (Unaudited)	2007 (Unaudited)
Operating costs	1,131,253	1,086,375
Administrative expenses	57,484	36,089
	<u>1,188,737</u>	<u>1,122,464</u>

Capital work-in-progress includes pre-delivery payments of KD 23,077,617 (31 December 2007: KD 11, 228, 189, 31 March 2007: KD 5,074,964) for purchase of thirty four aircraft (31 December 2007: thirty four, 31 March 2007: five). The cost and net book value also include pre-payments of KD 1,809,468 (31 December 2007: KD 1,515,901, 31 March 2007: KD 782,451) for aircraft maintenance.

Aircraft and engines with a net book value of KD 60,968,912 (31 December 2007: KD 61,819,354, 31 March 2007: KD 53,254,315) are under lien for term loans availed by JLC.

4. Deposits

This represents firm order payments of KD 2,314,215 (31 December 2007: KD 2,314,215, 31 March 2007: KD 219,735) for purchase of thirty four aircraft (31 December 2007: thirty four, 31 March 2007 five).

5. Cash and bank balances

	Kuwaiti Dinars		
	31 March 2008 (Unaudited)	31 December 2007 (Audited)	31 March 2007 (Unaudited)
Cash on hand	9,007	8,286	2,929
Balances with banks			
- Current Accounts	3,638,043	3,018,651	3,838,054
- Time Deposits	40,695	40,695	40,695
	<u>3,687,745</u>	<u>3,067,632</u>	<u>3,881,678</u>
Time deposits with banks whose original maturity period exceeds three months	<u>(40,695)</u>	<u>(40,695)</u>	<u>(40,695)</u>
Cash & cash equivalents in the statement of cash flows	<u>3,647,050</u>	<u>3,026,937</u>	<u>3,840,983</u>

Notes to the Interim Consolidated Financial Information (Unaudited) – 31 March 2008

6. Share capital

The authorized capital of the Parent Company as of 31 March 2008 is KD 20,000,000 (31 December 2007: KD 20,000,000, 31 March 2007: KD 10,000,000) comprising of 200,000,000 shares of 100 fils each (31 December 2007 -200,000,000 shares of 100 fils each, 31 March 2007 - 100,000,000 shares of 100 fils each).

The issued and fully paid up capital of the Parent Company as of 31 March 2008 is KD 19,998,860 (31 December 2007: 19,998,860, 31 March 2007: KD 10,000,000) comprising of 199,988,602 shares of 100 fils each (31 December 2007 -199,988,602 shares of 100 fils each, 31 March 2007 - 100,000,000 shares of 100 fils each).

7. Term loans

	Kuwaiti Dinars		
	31 March 2008 (Unaudited)	31 December 2007 (Audited)	31 March 2007 (Unaudited)
<i>Term loans are repayable as follows:</i>			
Not later than 1 year (current portion)	3,401,568	3,506,134	3,630,240
Later than 1 year and not later than 5 years	18,605,283	18,822,115	16,124,905
Later than 5 years	23,417,500	25,244,980	24,129,842
	<u>42,022,783</u>	<u>44,067,095</u>	<u>40,254,747</u>
Term loans (non-current portion)	<u>45,424,351</u>	<u>47,573,229</u>	<u>43,884,987</u>

The term loans are senior loans and are arranged through JLC. They are denominated in US Dollars and represent amounts due to a local bank and a consortium of European banks. The effective interest rate as of 31 March 2008 was 3.99% to 6.52% (31 December 2007 - 6.26% to 6.52%, 31 March 2007: 6.49% to 6.75%).

The term loans are secured by a first priority charge / pledge over the shares of JLC and a first priority registered aircraft mortgage over each aircraft.

8. Loan from related party

This represents short term unsecured credit facility from a related party carrying an interest rate of 7.0625%.

9. Bank overdraft

This unsecured facility from a local bank is denominated in US Dollars. The effective interest rate as of 31 March 2008 on the overdraft was 5.6% (31 December 2007 and 31 March 2007 - Nil).

10. Other income

This includes gains of KD 1,359,160 (31 March 2007 KD : 210,146) from foreign currency transactions and translations.

11. Earnings per share

Earnings per share is calculated based on the net profit for the period and the weighted average number of shares outstanding, as follows:

	Three months ended 31 March	
	2008 (Unaudited)	2007 (Unaudited)
Profit attributable to equity holders of Parent company	745,815	524,425
Weighted average number of issued shares	199,988,602	100,000,000
Earnings per share (fils) – Basic & Diluted	<u>3.73</u>	<u>5.24</u>

Notes to the Interim Consolidated Financial Information (Unaudited) – 31 March 2008

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		
	31 March 2008 (Unaudited)	31 December 2007 (Audited)	31 March 2007 (Unaudited)
Transactions			
Sales	77,237	254,284	80,100
Administration and distribution expenses	94,876	247,998	50,451
Key management compensation			
Salaries and other employment benefits	76,176	257,389	47,111
Balances			
Due from related party	66,599	95,342	95,202

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. Commitments and contingent liabilities

	Kuwaiti Dinars		
	31 March 2008 (Unaudited)	31 December 2007 (Audited)	31 March 2007 (Unaudited)
Letter of Guarantee	527,613	431,482	238,194

The Parent Company is contractually committed to the acquisition of thirty four aircraft (31 December 2007 thirty four, 31 March 2007: five) with a list price of approximately KD 650,692,000 (31 December 2007: KD 650,692,000, 31 March 2007 KD: 101,006,500) over a period of seven years.