

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

**Interim Condensed Consolidated Financial Information (Unaudited)
and
Independent Auditor's Review Report
31 March 2017**

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REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL INFORMATION TO THE BOARD OF DIRECTORS OF JAZEERA AIRWAYS K.S.C.P.

Introduction

We have reviewed the accompanying interim condensed consolidated statement of financial position of Jazeera Airways K.S.C.P. ("the Ultimate Parent Company") and its subsidiaries' (together called "the Group") as at 31 March 2017, and the related interim condensed consolidated statements of income, comprehensive income, changes in equity and cash flows for the three months period then ended. Management is responsible for the preparation and presentation of this interim condensed consolidated financial information in accordance with International Accounting Standard 34 - Interim Financial Reporting. Our responsibility is to express a conclusion on this interim condensed 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 condensed 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 condensed consolidated financial information is in agreement with the books of account of the Ultimate Parent Company. We further report that, to the best of our knowledge and belief, we have not become aware of any material violations of the Companies Law No. 1 of 2016 and its executive regulations or of the Memorandum of Incorporation and Articles of Association of the Ultimate Parent Company, during the three months period ended 31 March 2017, that might have had a material effect on the business of the Group or on its consolidated financial position.



Talal Y. Al-Muzaini
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Deloitte & Touche
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Kuwait
4 May 2017

Interim Condensed Consolidated Statement of Financial Position (Unaudited) as at 31 March 2017

	Note	Kuwaiti Dinars		
		31 March 2017 (Unaudited)	31 December 2016 (Audited)	31 March 2016 (Unaudited)
ASSETS				
Non-current assets				
Property and equipment	3	5,819,433	5,624,192	5,019,578
Advance for maintenance		10,920,193	10,432,847	8,940,406
Security deposit with a lessor		2,482,320	2,482,320	2,962,928
		<u>19,221,946</u>	<u>18,539,359</u>	<u>16,922,912</u>
Current assets				
Inventories, expendable parts and supplies		202,971	222,624	214,961
Trade and other receivables		5,633,623	5,508,594	5,909,566
Cash and bank balances	4	28,822,869	29,441,328	30,511,325
		<u>34,659,463</u>	<u>35,172,546</u>	<u>36,635,852</u>
Total assets		<u>53,881,409</u>	<u>53,711,905</u>	<u>53,558,764</u>
LIABILITIES AND EQUITY				
Equity				
Share capital	5	20,000,000	20,000,000	20,000,000
Legal reserve		2,735,709	2,735,709	1,607,146
Retained earnings		6,278,217	14,225,922	11,568,402
Total equity		<u>29,013,926</u>	<u>36,961,631</u>	<u>33,175,548</u>
Non-current liabilities				
Post employment benefits		2,494,389	2,494,102	2,739,071
Reserve for lease maintenance		481,856	1,194,848	1,728,317
		<u>2,976,245</u>	<u>3,688,950</u>	<u>4,467,388</u>
Current liabilities				
Dividend payable	5	7,000,000	-	-
Due to banks		1,472,809	-	-
Trade and other payables		9,643,161	9,584,620	10,831,331
Deferred revenue		3,775,268	3,476,704	5,084,497
		<u>21,891,238</u>	<u>13,061,324</u>	<u>15,915,828</u>
Total liabilities and equity		<u>53,881,409</u>	<u>53,711,905</u>	<u>53,558,764</u>

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


Marzouq Jassim Boodai
Vice Chairman

Interim Condensed Consolidated Statement of Income (Unaudited) - Three months ended 31 March 2017

	Note	Kuwaiti Dinars	
		Three months ended 31 March	
		2017	2016
Continuing operations			
Revenue		10,051,000	11,867,346
Operating costs		(10,138,949)	(9,301,170)
Operating (loss)/profit		(87,949)	2,566,176
Other income		196,021	355,771
General and administrative expenses		(943,232)	(938,499)
Finance costs		(6,659)	-
Foreign currency loss		(105,886)	(244,321)
Foreign currency translation reserve reclassified to statement of income		-	2,427,421
(Loss)/profit before contribution and taxes		(947,705)	4,166,548
Zakat expense		-	(42,359)
Contribution to Kuwait Foundation for the Advancement of Sciences		-	(37,499)
National Labour Support Tax		-	(105,897)
(Loss)/profit for the period from continuing operations		(947,705)	3,980,793
Discontinued operations			
Profit for the period from discontinued operations		-	28,336
(Loss)/profit for the period		(947,705)	4,009,129
Attributable to:			
Shareholders of the Ultimate Parent Company		(947,705)	4,009,129
(Loss)/earnings per share (fils) - Basic & Diluted	6		
From continuing and discontinued operations		(4.74)	20.04
From continuing operations		(4.74)	19.90
From discontinued operations		-	0.14

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

Jazeera Airways K.S.C.P.
Kuwait

Interim Condensed Consolidated Statement of Comprehensive Income (Unaudited) -
Three months ended 31 March 2017

	Kuwaiti Dinars	
	Three months ended 31 March	
	2017	2016
(Loss)/profit for the period	(947,705)	4,009,129
Other comprehensive income		
Items that may be reclassified subsequently to statement of income	-	-
Total comprehensive income for the period	<u>(947,705)</u>	<u>4,009,129</u>
Attributable to:		
Shareholders of the Ultimate Parent Company	<u>(947,705)</u>	<u>4,009,129</u>

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

Interim Condensed Consolidated Statement of Changes in Equity (Unaudited) - Three months ended 31 March 2017

	Kuwaiti Dinars				Total equity
	Share capital	Legal reserve	Retained earnings	Foreign currency translation reserve	
At 1 January 2017	20,000,000	2,735,709	14,225,922	-	36,961,631
Total comprehensive income for the period	-	-	(947,705)	-	(947,705)
Dividend payable (Note 5)	-	-	(7,000,000)	-	(7,000,000)
At 31 March 2017	<u>20,000,000</u>	<u>2,735,709</u>	<u>6,278,217</u>	<u>-</u>	<u>29,013,926</u>
At 1 January 2016	20,000,000	1,607,146	7,559,273	2,427,421	31,593,840
Total comprehensive income for the period	-	-	4,009,129	-	4,009,129
Foreign currency translation reserve reclassified to statement of income	-	-	-	(2,427,421)	(2,427,421)
At 31 March 2016	<u>20,000,000</u>	<u>1,607,146</u>	<u>11,568,402</u>	<u>-</u>	<u>33,175,548</u>

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

Interim Condensed Consolidated Statement of Cash Flows (Unaudited) - Three months ended 31 March 2017

	Note	Kuwaiti Dinars	
		31 March 2017 (Unaudited)	31 March 2016 (Unaudited)
Cash flows from operating activities			
(Loss)/profit for the period		(947,705)	4,009,129
<i>Adjustments for:</i>			
Depreciation	3	188,845	150,785
Finance costs		6,659	-
Foreign exchange loss		105,886	247,951
Provision for post employment benefits		111,733	145,953
Foreign currency translation reserve reclassified to statement of income		-	(2,427,421)
Operating (loss)/profit before working capital changes		(534,582)	2,126,397
Decrease in inventories		19,653	15,104
Decrease in deposits		-	5,120
Decrease in reserve for lease maintenance		(712,992)	-
Increase in trade and other receivables		(125,029)	(246,922)
Decrease in trade and other payables		(47,345)	(1,704,062)
Increase/(decrease) in deferred revenue		298,564	(150,367)
Post-employment benefits paid		(111,446)	(76,617)
Net cash used in operating activities		(1,213,177)	(31,347)
Cash flows from investing activities			
Purchase of equipment (net of disposal)	3	(384,086)	(45,875)
Increase in advance for maintenance		(487,346)	(268,689)
Net cash used in investing activities		(871,432)	(314,564)
Cash flows from financing activities			
Proceeds from overdraft		1,472,809	-
Finance costs paid		(6,659)	-
Net cash from financing activities		1,466,150	-
Net decrease in cash and cash equivalents		(618,459)	(345,911)
Cash and cash equivalents at beginning of period	4	29,441,328	30,857,236
Cash and cash equivalents at end of period	4	28,822,869	30,511,325

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

1. Constitution and activities

Jazeera Airways K.S.C.P. (the "Ultimate Parent Company") was incorporated by Amiri Decree on 3 March 2004 as a Kuwaiti Public Shareholding Company under the laws of Kuwait and is engaged in the business of air transportation and commercial passenger services under a license from the Directorate General of Civil Aviation.

The objects of the Ultimate Parent Company are:-

- Air transportation services without the luxury services.
- Carry out all air transportation and other air services and all other related activities including people air transportation, cargo, goods and mails in Kuwait and abroad.
- Provide aircraft and other related asset purchasing services in favour of others and coordinate with the manufacturers.
- Provide both operating and financing lease services as needed and required by the clients "aviation companies".
- Market the aircraft to cover the medium and long-term needs of the aviation companies that ask for such services.
- Assist aviation companies to market their aircraft through sale or lease.
- Engage in providing and financing the technical support and various assets management services to aviation companies.
- Assist in co-investment processes specialized in the aviation industry.
- Invest whether partially or wholly in supplying aircraft, engines and spare parts as per needs of the clients "aviation companies" and manufacturers.
- Provide all aircraft related services to aviation companies and others whether in Kuwait or abroad, such as: handling, maintenance and other services.
- Booking tickets and passengers' services.
- Supply and deal in delivering and managing all services and products required by aviation sector, in order to properly carry out operations and maintain, support and provide aircraft customs brokerage services.
- Owning real estate and movable property to conduct its operations within the limits as stipulated by law.
- Providing services of financing aircraft purchase projects (in whole or in part) in light of the evaluation studies and determining the factors of risks associated with such projects.
- Establishing and utilizing aircraft service stations, warehouses, hangars, workshops, factories, as well as all machineries, devices and equipment related to the company's purposes.
- Investing in fields of air transportation of passengers, goods, facilities and utilities required to serve the company's purposes or its achievement.
- Founding and establishing branches and agencies of the company in Kuwait and abroad as well as conducting the businesses of ground, technical and commercial agency of Arabian and foreign airlines inside Kuwait and abroad.
- Providing service of tourism, travel and freight and conducting all its related businesses including land conveyance, holidays and flights' integrated services, car rental with or without a driver, as well as all touristic businesses related to the company's purposes, in addition to holding celebrations, competitions, exhibitions, currency exchange transactions and selling goods and products on the company's aircraft, offices and premises, as well as any other hotels, restaurants or touristic entities established or utilized by the ultimate parent company and issuing necessary magazines and publications, including commercial ads.
- Providing services of management and marketing in addition to the consultancy services related to the field of aircraft industry.
- Conducting all air cargo businesses inside and outside Kuwait within the limits as stipulated by law.

Notes to the Interim Condensed Consolidated Financial Information (Unaudited) – 31 March 2017

- Conducting all businesses of transporting, handling, distributing and customs clearance of goods related to air cargo.
- Establishing aviation, wireless studies, engineering, air and ground services institutes, in addition to training the technical personnel in the field of aviation and qualifying the Kuwaiti citizens in order to assume the technical, administrative and commercial businesses required to achieve the company's purposes.
- Owning and granting any privileges, leases or investments, as well as outsourcing any businesses or other rights related aircraft.
- Investing surplus funds in investment and real estate portfolios managed by specialized companies or entities.

The Ultimate Parent Company has the following subsidiaries:

Name of the Company	Country of Incorporation	Percentage of Holding		Description
		31 March 2017	31 March 2016	
Al Sahaab Aviation Services W.L.L. (formerly known as "Al Sahaab Aircraft Leasing Company W.L.L.")	Kuwait	99.99%	99.99%	Intermediate Parent Company
Sahaab Aviation LLC	United States of America	-	100%	Subsidiary of Intermediate Parent Company

The remaining shareholding in the Intermediate Parent Company is held by a party for the beneficial interest of the Ultimate Parent Company.

The Ultimate Parent Company, the Intermediate Parent Company and the subsidiary of Intermediate Parent Company are together referred to in these consolidated financial information as the Group.

The Intermediate Parent Company and subsidiary of the Intermediate Parent Company, which were engaged in leasing aircraft, decided in 2014 to discontinue this business and sell the aircraft. The sale was completed in 2015. The Intermediate Parent Company intends to enter into other aviation business. Sahaab Aviation LLC, the subsidiary of the Intermediate Parent Company, was dissolved during the year 2016.

The address of the registered office of the Ultimate Parent Company is Kuwait International Airport, P.O. Box 29288, Safat 13153, Kuwait.

The number of personnel employed by the Group as of 31 March 2017 was 492 (31 December 2016: 482, 31 March 2016: 436).

This interim consolidated financial information was approved for issue by the Board of Directors on 4 May 2017.

2. Basis of preparation and significant accounting policies

The interim condensed financial information has been prepared in accordance with International Accounting Standard No. 34, Interim Financial Reporting. The accounting policies used in the preparation of the interim condensed consolidated financial information for the period are consistent with those used in the preparation of the annual consolidated financial statements for the year ended 31 December 2016.

This interim condensed consolidated financial information does not contain information and disclosures required for complete consolidated financial statements prepared in accordance with International Financial Reporting Standards. In the opinion of the management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Results for the three months period ended 31 March 2017 are not necessarily indicative of the results that may be expected for the year ending 31 December 2017. For further information, refer to the consolidated financial statements and notes thereto included in the consolidated financial statements of the Group for the year ended 31 December 2016.

Notes to the Interim Condensed Consolidated Financial Information (Unaudited) – 31 March 2017

3. Property and equipment

	Kuwaiti Dinars					Total
	Engines & rotables	Leasehold improvements	Furniture & equipment	Vehicles	Capital work-in-progress	
Cost						
As at 31 December 2016	5,120,236	2,125,341	2,130,850	28,986	296,361	9,701,774
Additions	-	-	1,749	-	384,346	386,095
Disposals	-	-	(2,066)	-	-	(2,066)
As at 31 March 2017	<u>5,120,236</u>	<u>2,125,341</u>	<u>2,130,533</u>	<u>28,986</u>	<u>680,707</u>	<u>10,085,803</u>
Depreciation						
As at 31 December 2016	975,447	1,010,525	2,072,505	19,105	-	4,077,582
Charge for the period	103,610	74,981	9,168	1,086	-	188,845
Disposals	-	-	(57)	-	-	(57)
As at 31 March 2017	<u>1,079,057</u>	<u>1,085,506</u>	<u>2,081,616</u>	<u>20,191</u>	<u>-</u>	<u>4,266,370</u>
Net book value						
As at 31 March 2017	<u>4,041,179</u>	<u>1,039,835</u>	<u>48,917</u>	<u>8,795</u>	<u>680,707</u>	<u>5,819,433</u>
As at 31 December 2016	<u>4,144,789</u>	<u>1,114,816</u>	<u>58,345</u>	<u>9,881</u>	<u>296,361</u>	<u>5,624,192</u>
As at 31 March 2016	<u>4,427,434</u>	<u>440,677</u>	<u>67,598</u>	<u>13,139</u>	<u>70,730</u>	<u>5,019,578</u>

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

	Kuwaiti Dinars	
	Three months ended 31 March (Unaudited) 2017	2016
Operating costs	104,696	103,815
Administrative expenses	84,149	46,970
	<u>188,845</u>	<u>150,785</u>

4. Cash and bank balances

	Kuwaiti Dinars		
	31 March 2017 (Unaudited)	31 December 2016 (Audited)	31 March 2016 (Unaudited)
Cash on hand	21,473	26,803	24,218
Current account with banks	2,013,166	2,570,201	2,390,831
Time deposits with banks	26,788,230	26,844,324	28,096,276
Cash & cash equivalents in the statement of cash flows	<u>28,822,869</u>	<u>29,441,328</u>	<u>30,511,325</u>

The effective interest rate as of 31 March 2017 was 1.6% to 13.25% (31 December 2016: 1.45% to 13%; 31 March 2016: 1.75% to 8.25%).

5. Share capital

The authorised, issued and fully paid up share capital of the Ultimate Parent Company as at 31 March 2017 is KD 20,000,000, paid in cash, (31 December 2016: KD 20,000,000; 31 March 2016: KD 20,000,000) comprising of 200,000,000 shares of 100 fils each (31 December 2016: 200,000,000 shares of 100 fils each; 31 March 2016: 200,000,000 shares of 100 fils each).

Notes to the Interim Condensed Consolidated Financial Information (Unaudited) – 31 March 2017

Dividend

The Annual General Assembly of the shareholders of the Ultimate Parent Company held on 30 April 2017 approved the distribution of cash dividend of 35 fils per share to the shareholders, amounting to KD 7,000,000, for the year ended 31 December 2016 (31 December 2015: KD 3,000,000).

6. (Loss)/earnings per share

Earnings per share is calculated based on the earnings attributable to the equity shareholders of the Ultimate Parent Company for the period and the weighted average number of shares outstanding, as follows:

From continuing and discontinued operations

	Three months ended 31 March (Unaudited)	
	2017	2016
(Loss)/earnings for the period (in Kuwaiti Dinar)	(947,705)	4,009,129
Weighted average number of shares outstanding	200,000,000	200,000,000
(Loss)/earnings per share (fils) – Basic and Diluted	(4.74)	20.04

From continuing operations

	Three months ended 31 March (Unaudited)	
	2017	2016
(Loss)/earnings for the period (in Kuwaiti Dinar)	(947,705)	3,980,793
Weighted average number of shares outstanding	200,000,000	200,000,000
(Loss)/earnings per share (fils) – Basic and Diluted	(4.74)	19.90

From discontinued operations

	Three months ended 31 March (Unaudited)	
	2017	2016
Earnings for the period (in Kuwaiti Dinar)	-	28,336
Weighted average number of shares outstanding	200,000,000	200,000,000
Earnings per share (fils) – Basic and Diluted	-	0.14

7. Related party transactions and balances

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions. In the ordinary course of business, the Group enters into transactions with related parties (directors, key managerial personnel and group companies). Pricing policies and terms of these transactions are approved by the Group's management. Transactions and balances with related parties not disclosed elsewhere in this interim condensed consolidated financial information are as follows:

	Kuwaiti Dinars		
	31 March 2017 (Unaudited)	31 December 2016 (Audited)	31 March 2016 (Unaudited)
Balances			
Due from a related party	20,113	40,708	101,711

Notes to the Interim Condensed Consolidated Financial Information (Unaudited) – 31 March 2017

	Kuwaiti Dinars	
	Three months ended 31 March (Unaudited)	
	2017	2016
Transactions		
Sales and services	80,193	181,209
General and administrative expenses	28,519	54,881
Key management compensation		
Salaries and other employment benefits	144,389	137,756

8. Taxes

The Ultimate Parent Company has exemptions from tax liability under bilateral tax agreement with countries to which it operates passenger flights. However, the Ultimate Parent Company is contingently liable for any taxes that may finally be determined by the taxation authorities of those countries.

The Group is liable for alternate minimum tax on sale of four aircraft owned by Sahaab Aviation LLC, incorporated in the United States of America. In 2016, the Group paid this tax based on tax return filed and is now awaiting tax assessment order.

9. Segment information

The Group derives their revenue primarily from operation of passenger airline service. On 15 January 2015, the Group entered into an agreement to sell its entire fleet of aircraft to third parties with effective economic date as of 23 December 2014. Accordingly, the passenger airline service information is disclosed as continuing operations and leasing of aircraft is shown as discontinued operations in the interim condensed consolidated statement of income.

10. Commitments and contingent liabilities

The Group has issued bank guarantees to regulatory agencies and third party service providers amounting to KD 6,912,451 (31 December 2016: KD 6,404,586; 31 March 2016: KD 4,828,991).

11. Operating lease expense

The future minimum lease rent payable on the operating lease is KD 58,757,056 (31 December 2016: KD 61,179,632; 31 March 2016: KD 66,861,131) and is payable as follows:

	Kuwaiti Dinars		
	31 March 2017 (Unaudited)	31 December 2016 (Audited)	31 March 2016 (Unaudited)
Not later than one year	9,223,331	9,245,983	9,072,317
Later than one year but not later than five years	27,669,993	27,737,950	27,216,951
Later than five years	21,863,732	24,195,699	30,571,863
	<u>58,757,056</u>	<u>61,179,632</u>	<u>66,861,131</u>

12. Comparative figures

Certain prior period amounts have been reclassified to conform to current period presentation with no effect on net profit or equity.