

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

**Interim Consolidated Financial Information (Unaudited)  
and  
Independent Auditors' Review Report  
30 June 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 of 30 June 2009 and the related condensed consolidated statement of income, statement of comprehensive income, statement of changes in equity and statement of cash flows for the six 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.

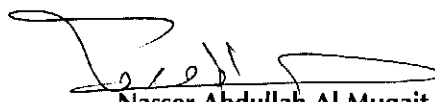
*Conclusion*

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 period ended 30 June 2009, that might have had a material effect on the business of the Group or on its financial position.

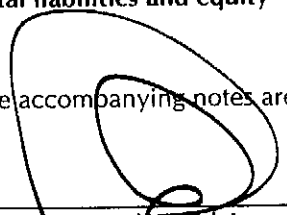
  
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**Condensed Consolidated Balance Sheet (Unaudited) as of 30 June 2009**

	Note	Kuwaiti Dinars		
		30 June 2009 (Unaudited)	31 December 2008 (Audited)	30 June 2008 (Unaudited)
<b>ASSETS</b>				
<b>Non-current Assets</b>				
Property and equipment	3	4,500,909	38,380,179	87,725,047
Deposits		-	2,314,215	2,314,215
Receivables from related party	4	30,389,685	-	-
		<u>34,890,594</u>	<u>40,694,394</u>	<u>90,039,262</u>
<b>Current Assets</b>				
Non current assets classified as held for sale	5	22,736,643	22,736,643	-
Receivables from related party	4	15,666,758	5,124,641	-
Inventories, expendable parts and supplies		138,641	146,008	165,031
Trade and other receivables		1,306,780	1,761,619	1,266,106
Cash and bank balances	6	1,723,980	2,590,672	3,288,979
		<u>41,572,802</u>	<u>32,359,583</u>	<u>4,720,116</u>
<b>Total assets</b>		<u>76,463,396</u>	<u>73,053,977</u>	<u>94,759,378</u>
<b>LIABILITIES AND EQUITY</b>				
<b>Equity</b>				
Share capital	7	21,998,746	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		2,732,724	6,970,389	2,835,801
<b>Equity attributable to the Parent Company's</b>		<u>25,486,852</u>	<u>27,724,631</u>	<u>23,124,091</u>
Minority interest		276	276	292
<b>Total equity</b>		<u>25,487,128</u>	<u>27,724,907</u>	<u>23,124,383</u>
<b>Non-current liabilities</b>				
Term loans	8	-	-	41,400,266
Post employment benefits		580,448	457,219	321,323
Lease maintenance provision	9	1,592,715	158,081	-
		<u>2,173,163</u>	<u>615,300</u>	<u>41,721,589</u>
<b>Current liabilities</b>				
Term loans	8	19,898,734	19,209,799	3,123,242
Due to banks	10	9,810,738	12,147,437	11,437,489
Trade and other payables		8,028,181	7,621,932	6,873,909
Deferred revenue		11,065,452	5,734,602	8,478,766
		<u>48,803,105</u>	<u>44,713,770</u>	<u>29,913,406</u>
<b>Total liabilities and equity</b>		<u>76,463,396</u>	<u>73,053,977</u>	<u>94,759,378</u>

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

  
Jassim Marzouk Boodai  
Vice-Chairman

Condensed Consolidated Statement of Income (Unaudited) -  
Six-months ended 30 June 2009

	Kuwaiti Dinars			
	Three months ended		Six months ended	
	30 June		30 June	
Note	2009	2008	2009	2008
Revenue	10,125,851	11,440,907	20,073,494	22,220,962
Operating costs	(11,537,283)	(10,924,844)	(21,908,797)	(20,542,739)
<b>Gross profit</b>	<b>(1,411,432)</b>	<b>516,063</b>	<b>(1,835,303)</b>	<b>1,678,223</b>
Other income	1,695,946	118,796	1,984,400	124,636
Administrative expenses	(1,056,299)	(1,039,636)	(2,115,656)	(2,076,386)
Finance costs	(369,042)	(589,939)	(795,274)	(1,334,534)
Foreign exchange (loss)/gain	(114,619)	96,821	524,054	1,455,981
<b>Loss for the period before taxes and contributions</b>	<b>(1,255,446)</b>	<b>(897,895)</b>	<b>(2,237,779)</b>	<b>(152,080)</b>
Taxes and contribution	-	-	-	-
<b>Loss for the period</b>	<b>(1,255,446)</b>	<b>(897,895)</b>	<b>(2,237,779)</b>	<b>(152,080)</b>
<b>Attributable to:</b>				
Shareholders of the Parent Company	(1,255,446)	(897,895)	(2,237,779)	(152,080)
	<u>(1,255,446)</u>	<u>(897,895)</u>	<u>(2,237,779)</u>	<u>(152,080)</u>
<b>Loss per share (fils)</b>				
- Basic & Diluted	11 (5.71)	(4.08)	(10.17)	(0.69)

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

Condensed Consolidated Statement of Comprehensive Income (Unaudited) -  
Six-months ended 30 June 2009

		Kuwaiti Dinars			
		Three months ended		Six months ended	
		30 June		30 June	
Note		2009	2008	2009	2008
	Loss for the period	(1,255,446)	(897,895)	(2,237,779)	(152,080)
	Other comprehensive income	-	-	-	-
	<b>Total comprehensive expense for the period</b>	<b>(1,255,446)</b>	<b>(897,895)</b>	<b>(2,237,779)</b>	<b>(152,080)</b>

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

**Condensed Consolidated Statement of Changes in Equity (Unaudited) -  
Six months ended 30 June 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
Loss for the period	-	-	-	(152,080)	-	(152,080)
At 30 June 2008	19,998,860	335,509	(46,079)	2,835,801	292	23,124,383
At 1 January 2009	19,998,860	801,461	(46,079)	6,970,389	276	27,724,907
Issue of bonus shares	1,999,886	-	-	(1,999,886)	-	-
Loss for the period	-	-	-	(2,237,779)	-	(2,237,779)
At 30 June 2009	21,998,746	801,461	(46,079)	2,732,724	276	25,487,128

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

**Condensed Consolidated Statement of Cash Flows (Unaudited) -  
Six months ended 30 June 2009**

	Kuwaiti Dinars	
	30 June 2009 (Unaudited)	30 June 2008 (Unaudited)
<b>Cash flows from operating activities</b>		
Loss for the period	(2,237,779)	(152,080)
<i>Adjustments for:</i>		
Depreciation	140,463	2,386,826
Finance costs	795,274	1,334,534
Lease maintenance provision	1,434,634	-
Post employment benefits	123,229	45,989
Gain on foreign currency revaluation	(524,054)	(1,455,981)
Operating (loss)/profit before working capital changes	(268,233)	2,159,288
Decrease/(increase) in inventories	7,367	(19,175)
Decrease in trade and other receivables	454,839	496,812
Increase in due from related party	(1,631,509)	-
Increase in trade and other payables	406,249	379,289
Increase in deferred revenue	5,330,850	3,195,302
Net cash from operating activities	<u>4,299,563</u>	<u>6,211,516</u>
<b>Cash flows from investing activities</b>		
Purchase of property and equipment (net)	(3,247,271)	(14,499,384)
Net cash used in investing activities	<u>(3,247,271)</u>	<u>(14,499,384)</u>
<b>Cash flows from financing activities</b>		
Increase/(decrease) in term loans	688,935	(3,049,721)
(Decrease)/increase in overdraft	(2,336,699)	11,437,489
Finance costs paid	(795,274)	(1,334,534)
Gain on foreign currency revaluation	524,054	1,455,981
Net cash (used in)/from financing activities	<u>(1,918,984)</u>	<u>8,509,215</u>
<b>Net (Decrease)/increase in cash and cash equivalents</b>	<u>(866,692)</u>	<u>221,347</u>
<b>Cash and cash equivalents at</b>		
beginning of period	2,548,646	3,026,937
end of period	5 <u>1,681,954</u>	<u>3,248,284</u>

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



**Notes to the Interim Consolidated Financial Information (Unaudited) - 30 June 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 - 2), was incorporated with a share capital of USD 1,000 equivalent to KD 276 (31 December 2008: KD 276, 30 June 2008: 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 30 June 2009 was 612 (31 December 2008: 499, 30 June 2008 - 448).

This interim consolidated financial information was approved for issue by the Board of Directors on 13 August 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 six-months period ended 30 June 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) - 30 June 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	2,976	18,008	64,130	-	3,162,157	3,247,271
Transfer	-	-	-	-	(36,986,078)	(36,986,078)
As at 30 June 2009	<u>166,562</u>	<u>524,196</u>	<u>758,998</u>	<u>10,624</u>	<u>3,908,590</u>	<u>5,368,970</u>
<b>Depreciation</b>						
As at 31 December 2008	118,795	159,919	444,325	4,559	-	727,598
Charge for the period	19,418	51,664	68,319	1,062	-	140,463
As at 30 June 2009	<u>138,213</u>	<u>211,583</u>	<u>512,644</u>	<u>5,621</u>	<u>-</u>	<u>868,061</u>
<b>Net book value</b>						
As at 30 June 2009	<u>28,349</u>	<u>312,613</u>	<u>246,354</u>	<u>5,003</u>	<u>3,908,590</u>	<u>4,500,909</u>
As at 31 December 2008	<u>44,791</u>	<u>346,269</u>	<u>250,543</u>	<u>6,065</u>	<u>37,732,511</u>	<u>38,380,179</u>

Depreciation has been allocated in statement of income as follows:

	Kuwaiti Dinars		Kuwaiti Dinars	
	Three months ended		Six months ended	
	30 June		30 June	
	2009	2008	2009	2008
Operating costs	10,817	1,140,686	23,027	2,271,939
Administrative expenses	58,547	57,403	117,436	114,887
	<u>69,364</u>	<u>1,198,089</u>	<u>140,463</u>	<u>2,386,826</u>

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 3,427,636 (31 December 2008: KD 2,567,299 30 June 2008: KD 2,032,994) for aircraft maintenance.

4. Receivables from a related party

This represents the following:

- Short term unsecured receivables of KD 3,080,292 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 30 June 2009 was 5% (31 December 2008: 6.5%, 30 June 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		
	30 June 2009	31 December 2008	30 June 2008
	(Unaudited)	(Audited)	(Unaudited)
Not later than one year	12,586,466	-	-
Later than one year but not later than five years	25,709,560	-	-
Later than five years	4,680,125	-	-
	<u>42,976,151</u>	<u>-</u>	<u>-</u>

This carries an interest charge of 6 months' LIBOR plus 25 basis points. The effective interest rate as of 30 June 2009 was 1.98%.

Notes to the Interim Consolidated Financial Information (Unaudited) - 30 June 2009

5. Non current assets held for sale

	Kuwaiti Dinars		
	30 June 2009 (Unaudited)	31 December 2008 (Audited)	30 June 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 27 October 2009. These are currently under lien for term loans availed by JLC- 2.

6. Cash and bank balances

	Kuwaiti Dinars		
	30 June 2009 (Unaudited)	31 December 2008 (Audited)	30 June 2008 (Unaudited)
Cash on hand	18,617	11,294	7,795
Balances with banks			
- Current Accounts	1,663,337	2,537,352	3,240,489
- Time Deposits	42,026	42,026	40,695
	<u>1,723,980</u>	<u>2,590,672</u>	<u>3,288,979</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>1,681,954</u>	<u>2,548,646</u>	<u>3,248,284</u>

7. Share capital

The Extra-ordinary General Meeting held on 27 May 2009 approved the distribution of bonus shares in the ratio of 1 share for every 10 shares held amounting to KD 2,000,000 for the year 2008 to the registered shareholders as of the date of the Annual General Meeting held on 6 May 2009.

Accordingly, the authorized capital of the Parent Company as of 30 June 2009 is KD 22,000,000 (31 December 2008: KD 20,000,000, 30 June 2008: KD 20,000,000) comprising of 220,000,000 shares of 100 fils each (31 December 2008 -200,000,000 shares of 100 fils each, 30 June 2008 - 200,000,000 shares of 100 fils each).

The issued and fully paid up capital of the Parent Company as of 30 June 2009 is KD 21,998,746 (31 December 2008: 19,998,860, 30 June 2008: KD 19,998,860) comprising of 219,987,462 shares of 100 fils each (31 December 2008 -199,988,602 shares of 100 fils each, 30 June 2008 -199,988,602 shares of 100 fils each).

8. Term loans

	Kuwaiti Dinars		
	30 June 2009 (Unaudited)	31 December 2008 (Audited)	30 June 2008 (Unaudited)
<i>Term loans are repayable as follows:</i>			
Not later than 1 year	19,898,734	19,209,799	3,123,242
Later than 1 year and not later than 5 years	-	-	41,400,266
	<u>19,898,734</u>	<u>19,209,799</u>	<u>44,523,508</u>

**Notes to the Interim Consolidated Financial Information (Unaudited) - 30 June 2009**

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 30 June 2009 was 2.32% to 2.39% (31 December 2008 – 5.40% to 5.50%, 30 June 2008: 3.99% to 6.52%).

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.

**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 30 June 2009 on the overdraft was 3.63% to 9.25% (31 December 2008: 4.5%, 30 June 2008 – 4.25%).

**11. Earnings per share**

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

	Three months ended		Six months ended	
	30 June		30 June	
	(Unaudited)		(Unaudited)	
	2009	2008	2009	2008
Loss attributable to equity holders of Parent company	(1,255,446)	(897,895)	(2,237,779)	(152,080)
Weighted average number of issued shares	219,987,462	219,987,462	219,987,462	219,987,462
<b>Earnings per share (loss) (fils) – Basic &amp; Diluted</b>	<b>(5.71)</b>	<b>(4.08)</b>	<b>(10.17)</b>	<b>(0.69)</b>

**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			
	30 June	31 December	30 June	
	2009	2008	2008	
	(Unaudited)	(Audited)	(Unaudited)	
<b>Balances</b>				
Due from related party	207,601	-	58,301	
	Kuwaiti Dinars		Kuwaiti Dinars	
	Three months ended		Six months ended	
	30 June		30 June	
	2009	2008	2009	2008
<b>Transactions</b>				
Sales and services	445,067	76,904	538,050	154,141
Administration and distribution expenses	102,874	83,999	168,140	178,875
Premium on novation of purchase agreement of aircraft	604,699	-	604,699	-
<b>Key management compensation</b>				
Salaries and other employment benefits	158,992	76,380	315,175	152,556

Notes to the Interim Consolidated Financial Information (Unaudited) - 30 June 2009

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		
	30 June 2009 (Unaudited)	31 December 2008 (Audited)	30 June 2008 (Unaudited)
Letter of Guarantee	702,690	682,096	645,501

*Operating lease commitments*

*Where the Parent Company is the lessee*

	Kuwaiti Dinars		
	30 June 2009 (Unaudited)	31 December 2008 (Audited)	30 June 2008 (Unaudited)
Not later than one year	11,221,040	7,941,072	-
Later than one year but not later than five years	40,086,976	29,845,704	-
Later than five years	6,800,283	2,663,819	-

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.