

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

**Interim Condensed Consolidated Financial Information (Unaudited)  
and  
Independent Auditor's Review Report  
31 March 2016**

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

## INDEPENDENT AUDITOR'S REVIEW REPORT TO THE BOARD OF DIRECTORS

### Report on Review of Interim Condensed Consolidated Financial Information

#### *Introduction*

We have reviewed the accompanying 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 2016 and the related condensed consolidated statements of income, comprehensive income, changes in equity and cash flows for the three month 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, as amended, during the three month period ended 31 March 2016, that might have had a material effect on the business of the Group or on its consolidated financial position.



**Bader A. Al-Wazzan**  
Licence No. 62A  
Deloitte & Touche  
Al-Wazzan & Co.

Kuwait

27 April 2016

Member of Deloitte Touche Tohmatsu Limited

Condensed Consolidated Statement of Financial Position (Unaudited) as at 31 March 2016

|   |   | Kuwaiti Dinars    |                     |                    |
|---|---|-------------------|---------------------|--------------------|
|   |   | 31 March<br>2016  | 31 December<br>2015 | 31 March<br>2015   |
|   |   | (Unaudited)       | (Audited)           | (Unaudited)        |
| <b>ASSETS</b>   |   |                   |                     |                    |
| <b>Non-current assets</b>                                     |   |                   |                     |                    |
|   |   |                   |                     |                    |
|   | Property and equipment  | 5,019,578         | 5,124,488           | 1,855,556          |
|   | Advance for maintenance   | 8,940,406         | 8,671,717           | 7,447,618          |
|   | Security deposit with a lessor  | 2,962,928         | 2,968,048           | 1,419,790          |
|   | Deposits  | -                 | -                   | 1,261,340          |
|   |   | <u>16,922,912</u> | <u>16,764,253</u>   | <u>11,984,304</u>  |
| <b>Current assets</b>   |   |                   |                     |                    |
|   | Inventories, expendable parts and supplies                              | 214,961           | 230,065             | 227,023            |
|   | Trade and other receivables   | 1,876,457         | 1,629,535           | 2,460,714          |
|   | Cash and bank balances  | 30,511,325        | 30,857,236          | 67,002,611         |
|   |   | <u>32,602,743</u> | <u>32,716,836</u>   | <u>69,690,348</u>  |
|   | Assets classified as held for sale                                      | -                 | -                   | 152,267,310        |
|   |   | <u>32,602,743</u> | <u>32,716,836</u>   | <u>221,957,658</u> |
|   | <b>Total assets</b>   | <u>49,525,655</u> | <u>49,481,089</u>   | <u>233,941,962</u> |
| <b>LIABILITIES AND EQUITY</b>                                 |   |                   |                     |                    |
| <b>Equity</b>   |   |                   |                     |                    |
| <b>Attributable to Ultimate Parent Company's shareholders</b> |   |                   |                     |                    |
|   | Share capital   | 20,000,000        | 20,000,000          | 42,000,000         |
|   | Legal reserve   | 1,607,146         | 1,607,146           | 4,482,688          |
|   | Retained earnings   | 11,568,402        | 7,559,273           | 23,034,101         |
|   | Foreign currency translation reserve                                    | -                 | 2,427,421           | 2,135,450          |
|   |   | <u>33,175,548</u> | <u>31,593,840</u>   | <u>71,652,239</u>  |
|   | <b>Non-controlling interests</b>  | -                 | -                   | 428                |
|   | <b>Total equity</b>   | <u>33,175,548</u> | <u>31,593,840</u>   | <u>71,652,667</u>  |
| <b>Non-current liabilities</b>                                |   |                   |                     |                    |
|   | Post employment benefits  | 2,739,071         | 2,669,735           | 2,482,705          |
|   | Reserve for lease maintenance   | 1,728,317         | 1,728,317           | -                  |
|   |   | <u>4,467,388</u>  | <u>4,398,052</u>    | <u>2,482,705</u>   |
| <b>Current liabilities</b>                                    |   |                   |                     |                    |
|   | Term loans  | -                 | -                   | 114,343,941        |
|   | Due to banks  | -                 | -                   | 552,445            |
|   | Trade and other payables  | 6,798,222         | 8,254,333           | 13,635,745         |
|   | Deferred revenue  | 5,084,497         | 5,234,864           | 5,877,982          |
|   |   | <u>11,882,719</u> | <u>13,489,197</u>   | <u>134,410,113</u> |
|   | Liabilities directly associated with assets classified as held for sale | -                 | -                   | 25,396,477         |
|   |   | <u>11,882,719</u> | <u>13,489,197</u>   | <u>159,806,590</u> |
|   | <b>Total liabilities and equity</b>                                     | <u>49,525,655</u> | <u>49,481,089</u>   | <u>233,941,962</u> |

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



Marwan Marzouk Boodai  
Chairman

**Condensed Consolidated Statement of Income (Unaudited) - Three months ended 31 March 2016**

|  | Note | Kuwaiti Dinars                 |                  |
|--|------|--------------------------------|------------------|
|  |      | Three months ended<br>31 March |                  |
|  |      | 2016                           | 2015             |
| <b>Continuing operations</b>   |      |                                |                  |
| Revenue  |      | 11,867,346                     | 12,869,462       |
| Operating costs  |      | (9,252,305)                    | (9,473,258)      |
| <b>Operating profit</b>  |      | <b>2,615,041</b>               | <b>3,396,204</b> |
| Other income   |      | 355,771                        | 475,052          |
| General and administrative expenses                                      |      | (987,364)                      | (969,916)        |
| Finance costs  |      | -                              | (120,990)        |
| Foreign currency loss  |      | (244,321)                      | (39,019)         |
| Foreign currency translation reserve reclassified to statement of income | 6    | 2,427,421                      | -                |
| <b>Profit before contribution and taxes</b>                              |      | <b>4,166,548</b>               | <b>2,741,331</b> |
| Zakat expense  |      | (42,359)                       | (28,693)         |
| Contribution to Kuwait Foundation for the Advancement of Sciences        |      | (37,499)                       | (24,672)         |
| National Labour Support Tax  |      | (105,897)                      | (71,734)         |
| <b>Profit for the period from continuing operations</b>                  |      | <b>3,980,793</b>               | <b>2,616,232</b> |
| <b>Discontinued operations</b>   |      |                                |                  |
| Net profit for the period from discontinued operations                   | 7    | 28,336                         | 398,280          |
| <b>Net profit for the period</b>   |      | <b>4,009,129</b>               | <b>3,014,512</b> |
| <b>Attributable to:</b>  |      |                                |                  |
| Shareholders of the Ultimate Parent Company                              |      | 4,009,129                      | 3,014,512        |
| <b>Earnings per share (fils) - Basic &amp; Diluted</b>                   |      |                                |                  |
| From continuing and discontinued operations                              | 8    | 20.05                          | 7.18             |
| From continuing operations   |      | 19.90                          | 6.23             |
| From discontinued operations   |      | 0.14                           | 0.95             |

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

Condensed Consolidated Statement of Comprehensive Income (Unaudited) -  
Three months ended 31 March 2016

|   | Kuwaiti Dinars                 |                  |
|---|--------------------------------|------------------|
|   | Three months ended<br>31 March |                  |
|   | 2016                           | 2015             |
| Profit for the period   | 4,009,129                      | 3,014,512        |
| <i>Other comprehensive income to be reclassified to profit or loss in subsequent periods:</i> |                                |                  |
| <b>Discontinued Operations</b>  |                                |                  |
| Exchange differences on translating foreign operation   | -                              | 1,161,275        |
| <b>Total comprehensive income for the period</b>  | <u>4,009,129</u>               | <u>4,175,787</u> |
| <b>Attributable to:</b>   |                                |                  |
| Shareholders of the Ultimate Parent Company   | <u>4,009,129</u>               | <u>4,175,787</u> |

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

Condensed Consolidated Statement of Changes in Equity (Unaudited) - Three months ended 31 March 2016

|   | Kuwaiti Dinars  |               |                   |                                      |     |              |
|---|---|---------------|-------------------|--------------------------------------|-----|--------------|
|   | Equity attributable to the Ultimate Parent Company's Shareholders |               |                   | Non-controlling interest             |     | Total equity |
|   | Share capital   | Legal reserve | Retained earnings | Foreign currency translation reserve |     |              |
| 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 (Note 6) | -   | -             | -                 | (2,427,421)                          | -   | (2,427,421)  |
| At 31 March 2016  | 20,000,000  | 1,607,146     | 11,568,402        | -                                    | -   | 33,175,548   |
| At 1 January 2015   | 42,000,000  | 4,482,688     | 20,019,589        | 974,175                              | 428 | 67,476,880   |
| Total comprehensive income for the period   | -   | -             | 3,014,512         | 1,161,275                            | -   | 4,175,787    |
| At 31 March 2015  | 42,000,000  | 4,482,688     | 23,034,101        | 2,135,450                            | 428 | 71,652,667   |

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

Condensed Consolidated Statement of Cash Flows (Unaudited) - Three months ended 31 March 2016

|  | Note | Kuwaiti Dinars                  |                                 |
|--|------|---------------------------------|---------------------------------|
|  |      | 31 March<br>2016<br>(Unaudited) | 31 March<br>2015<br>(Unaudited) |
| <b>Cash flows from operating activities</b>                              |      |                                 |                                 |
| Profit for the period  |      | 4,009,129                       | 3,014,512                       |
| <i>Adjustments for:</i>  |      |                                 |                                 |
| Depreciation   | 3    | 150,785                         | 123,671                         |
| Finance costs  |      | -                               | 768,938                         |
| Foreign exchange loss  |      | 247,951                         | 39,233                          |
| Provision for post employment benefits                                   |      | 145,953                         | 172,435                         |
| Foreign currency translation reserve reclassified to statement of income | 6    | (2,427,421)                     | -                               |
| Operating profit before working capital changes                          |      | 2,126,397                       | 4,118,789                       |
| Decrease/(increase) in inventories                                       |      | 15,104                          | (15,038)                        |
| Decrease/(increase) in deposits  |      | 5,120                           | (31,289)                        |
| Increase in trade and other receivables                                  |      | (246,922)                       | (303,541)                       |
| (Decrease)/increase in trade and other payables                          |      | (1,704,062)                     | 2,197,499                       |
| Decrease in deferred revenue   |      | (150,367)                       | (457,487)                       |
| Post-employment benefits paid  |      | (76,617)                        | (44,428)                        |
| Net cash (used in)/from operating activities                             |      | (31,347)                        | 5,464,505                       |
| <b>Cash flows from investing activities</b>                              |      |                                 |                                 |
| Purchase of equipment  | 3    | (45,875)                        | (8,997)                         |
| Increase in advance for maintenance                                      |      | (268,689)                       | (161,481)                       |
| Increase in time deposits with banks                                     |      | -                               | (1,451,214)                     |
| Increase in advance received from lessee                                 |      | -                               | 1,859,595                       |
| Net cash (used in)/from investing activities                             |      | (314,564)                       | 237,903                         |
| <b>Cash flows from financing activities</b>                              |      |                                 |                                 |
| Repayment of term loans  |      | -                               | (1,939,074)                     |
| Proceeds from overdraft  |      | -                               | 231,083                         |
| Increase in security deposits from lessees                               |      | -                               | 82,522                          |
| Finance costs paid   |      | -                               | (720,298)                       |
| Net cash used in financing activities                                    |      | -                               | (2,345,767)                     |
| <b>Net (decrease)/increase in cash and cash equivalents</b>              |      | (345,911)                       | 3,356,641                       |
| <b>Cash and cash equivalents at</b>                                      |      |                                 |                                 |
| beginning of period  | 4    | 30,857,236                      | 52,490,273                      |
| effects of exchange rate changes on cash and cash equivalents            |      | -                               | (2,615,884)                     |
| end of period  | 4    | 30,511,325                      | 53,231,030                      |

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.
- 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.

Notes to the Interim Condensed Consolidated Financial Information (Unaudited) – 31 March 2016

The Ultimate Parent Company has the following subsidiaries:

| Name of the Company   | Country of Incorporation | Percentage of Holding |               | Description                               |
|---|--------------------------|-----------------------|---------------|---|
|   |                          | 31 March 2016         | 31 March 2015 |   |
| Al Sahaab Aviation Services W.L.L.<br>(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%                  | 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. The management decided to dissolve the subsidiary of the Intermediate Parent Company and the dissolution procedures are in progress.

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

The number of personnel employed by the Group as of 31 March 2016 was 436 (31 December 2015: 430, 31 March 2015: 426).

On 1 February 2016, the new Companies Law No.1 of 2016 was published in the Official Gazette which is effective from 26 November 2012. According to the new law, the Companies law No. 25 of 2012 and its amendments have been cancelled. However, its executive regulations will continue until a new set of executive regulations are issued.

This interim consolidated financial information was approved for issue by the Board of Directors on 27 April 2016.

## 2. Basis of preparation and significant accounting policies

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 2015.

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 2016 are not necessarily indicative of the results that may be expected for the year ending 31 December 2016. 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 2015.

### 2.1 Functional and presentation currency

The functional currency of an entity is the currency of the primary economic environment in which it operates. Accordingly, the functional currency of the Intermediate Parent Company was US Dollars, as it derived its revenue from US Dollars. During the year 2015, the Intermediate Parent Company sold the entire fleet of aircraft. In 2016, the management of the Intermediate Parent Company intends to use the entity for other aviation business, based in Kuwait. Accordingly, with effect from 01 January 2016, the functional currency was changed from US Dollars to Kuwaiti Dinar (Note 6).

Notes to the Interim Condensed Consolidated Financial Information (Unaudited) – 31 March 2016

3. Property and equipment

|                        | Kuwaiti Dinars     |                        |                       |          |                          | Total     |
|------------------------|--------------------|------------------------|-----------------------|----------|--------------------------|-----------|
|                        | Engines & rotables | Leasehold improvements | Furniture & equipment | Vehicles | Capital work-in-progress |           |
| <b>Cost</b>            |                    |                        |                       |          |                          |           |
| As at 31 December 2015 | 5,083,293          | 1,303,817              | 2,100,913             | 28,986   | 46,315                   | 8,563,324 |
| Additions              | 12,388             | -                      | 9,072                 | -        | 24,415                   | 45,875    |
| As at 31 March 2016    | 5,095,681          | 1,303,817              | 2,109,985             | 28,986   | 70,730                   | 8,609,199 |
| <b>Depreciation</b>    |                    |                        |                       |          |                          |           |
| As at 31 December 2015 | 565,518            | 829,235                | 2,029,322             | 14,761   | -                        | 3,438,836 |
| Charge for the period  | 102,729            | 33,905                 | 13,065                | 1,086    | -                        | 150,785   |
| As at 31 March 2016    | 668,247            | 863,140                | 2,042,387             | 15,847   | -                        | 3,589,621 |
| <b>Net book value</b>  |                    |                        |                       |          |                          |           |
| As at 31 March 2016    | 4,427,434          | 440,677                | 67,598                | 13,139   | 70,730                   | 5,019,578 |
| As at 31 December 2015 | 4,517,775          | 474,582                | 71,591                | 14,225   | 46,315                   | 5,124,488 |
| As at 31 March 2015    | 1,140,487          | 530,281                | 110,178               | 9,626    | 64,984                   | 1,855,556 |

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

|                         | Kuwaiti Dinars            |         |
|-------------------------|---------------------------|---------|
|                         | Three months ended        |         |
|                         | 31 March (Unaudited) 2016 | 2015    |
| Operating costs         | 103,815                   | 51,734  |
| Administrative expenses | 46,970                    | 71,937  |
|                         | 150,785                   | 123,671 |

4. Cash and bank balances

|   | Kuwaiti Dinars            |                            |                           |
|---|---------------------------|----------------------------|---------------------------|
|   | 31 March 2016 (Unaudited) | 31 December 2015 (Audited) | 31 March 2015 (Unaudited) |
| Cash on hand  | 24,218                    | 26,627                     | 24,326                    |
| Current account with banks  | 2,390,831                 | 2,615,503                  | 14,365,190                |
| Time deposits with banks  | 28,096,276                | 28,215,106                 | 38,841,514                |
| Cash & cash equivalents in the statement of cash flows              | 30,511,325                | 30,857,236                 | 53,231,030                |
| Time deposits with banks whose maturity period exceeds three months | -                         | -                          | 13,771,581                |
|   | 30,511,325                | 30,857,236                 | 67,002,611                |

The effective interest rate as of 31 March 2016 was 1.75% to 8.25% (31 December 2015: 1.75% to 7.25%; 31 March 2015: 0.01% to 7.25%).

5. Share capital

The authorised, issued and fully paid up share capital of the Ultimate Parent Company as at 31 March 2016 is KD 20,000,000, paid in cash, (31 December 2015: KD 20,000,000; 31 March 2015: KD 42,000,000) comprising of 200,000,000 shares of 100 fils each (31 December 2015: 200,000,000 shares of 100 fils each; 31 March 2015: 420,000,000 shares of 100 fils each).

*Proposed dividend*

The Board of Directors of the Ultimate Parent Company has proposed a cash dividend of 15 fils per share, amounting to KD 3,000,000 for the year ended 31 December 2015 (31 December 2014: KD 20,000,000). This was approved by the Annual General Assembly on 17 April 2016.

Notes to the Interim Condensed Consolidated Financial Information (Unaudited) – 31 March 2016

From continuing operations

|  | Three months ended<br>31 March (Unaudited) |             |
|--|--|-------------|
|  | 2016                                       | 2015        |
| Earnings for the period (in Kuwaiti Dinar)           | 3,980,793                                  | 2,616,232   |
| Weighted average number of shares outstanding        | 200,000,000                                | 420,000,000 |
| <b>Earnings per share (fils) – Basic and Diluted</b> | <b>19.90</b>                               | <b>6.23</b> |

From discontinued operations

|  | Three months ended<br>31 March (Unaudited) |             |
|--|--|-------------|
|  | 2016                                       | 2015        |
| Earnings for the period (in Kuwaiti Dinar)           | 28,336                                     | 398,280     |
| Weighted average number of shares outstanding        | 200,000,000                                | 420,000,000 |
| <b>Earnings per share (fils) – Basic and Diluted</b> | <b>0.14</b>                                | <b>0.95</b> |

9. 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<br>2016<br>(Unaudited) | 31 December<br>2015<br>(Audited) | 31 March<br>2015<br>(Unaudited) |
| <b>Balances</b>        |                                 |                                  |                                 |
| Due from related party | 101,711                         | 34,366                           | 152,628                         |

|  | Kuwaiti Dinars                             |         |
|--|--|---------|
|  | Three months ended<br>31 March (Unaudited) |         |
|  | 2016                                       | 2015    |
| <b>Transactions</b>                      |  |         |
| Sales and services                       | 181,209                                    | 314,790 |
| Administration and distribution expenses | 54,881                                     | 23,894  |
| <b>Key management compensation</b>       |  |         |
| Salaries and other employment benefits   | 137,756                                    | 118,468 |

10. 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.



**Notes to the Interim Condensed Consolidated Financial Information (Unaudited) – 31 March 2016**

**11. 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 (note 7). Accordingly, the passenger airline service information is disclosed as continuing operations and leasing of aircraft is shown as discontinued operations in the condensed consolidated statement of income.

**12. Commitments and contingent liabilities**

The Group has issued bank guarantees to regulatory agencies and third party service providers amounting to KD 4,828,991 (31 December 2015: KD 4,857,140; 31 March 2015: KD 881,948).

**13. Operating lease expense**

The future minimum lease rent payable on the operating lease is KD 66,861,131 (31 December 2015: KD 70,064,914; 31 March 2015: KD 75,852,913) and is payable as follows:

|   | Kuwaiti Dinars                  |                                  |                                 |
|---|---------------------------------|----------------------------------|---------------------------------|
|   | 31 March<br>2016<br>(Unaudited) | 31 December<br>2015<br>(Audited) | 31 March<br>2015<br>(Unaudited) |
| Not later than one year                           | 9,072,317                       | 9,196,149                        | 8,934,894                       |
| Later than one year but not later than five years | 27,216,951                      | 27,588,446                       | 26,804,685                      |
| Later than five years                             | 30,571,863                      | 33,280,319                       | 39,113,334                      |
|   | <u>66,861,131</u>               | <u>70,064,914</u>                | <u>75,852,913</u>               |

**14. Comparative figures**

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