

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

**Interim Consolidated Financial Information (Unaudited)
and
Independent Auditors' Review Report
31 March 2011**

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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 statement of financial position of Jazeera Airways K.S.C. ("the Ultimate Parent Company") and its subsidiaries' (together called "the Group") as at 31 March 2011 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 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



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Condensed Consolidated Statement of Financial Position (Unaudited) as at 31 March 2011

	Note	Kuwaiti Dinars		
		31 March 2011 (Unaudited)	31 December 2010 (Audited)	31 March 2010 (Unaudited)
ASSETS				
Non-current Assets				
Property and equipment	4	157,846,342	159,305,419	159,032,191
Deposits	5	683,185	691,560	-
Goodwill		3,443,481	3,443,481	3,446,633
		<u>161,973,008</u>	<u>163,440,460</u>	<u>162,478,824</u>
Current Assets				
Inventories, expendable parts and supplies		190,309	200,699	152,152
Trade and other receivables		1,838,053	1,639,096	2,248,308
Cash and bank balances	6	8,042,185	7,908,558	3,316,872
		<u>10,070,547</u>	<u>9,748,353</u>	<u>5,717,332</u>
Total assets		<u>172,043,555</u>	<u>173,188,813</u>	<u>168,196,156</u>
LIABILITIES AND EQUITY				
Equity				
Attributable to Ultimate Parent Company's shareholders				
Share capital	7	22,000,000	22,000,000	21,998,746
Legal reserve		801,461	801,461	801,461
Equity transaction costs		(46,079)	(46,079)	(46,079)
(Accumulated deficit)/ retained earnings		(5,009,662)	(6,037,884)	(7,732,131)
Foreign currency translation reserve		(1,489,283)	(1,281,795)	-
		<u>16,256,437</u>	<u>15,435,703</u>	<u>15,021,997</u>
Non-controlling interests		<u>287</u>	<u>287</u>	<u>3,173</u>
Total equity		<u>16,256,724</u>	<u>15,435,990</u>	<u>15,025,170</u>
Non-current liabilities				
Term loans	8	68,672,852	71,060,338	79,205,761
Post employment benefits		1,135,134	1,096,642	636,693
Aircraft lease maintenance provision	9	5,773,402	5,161,708	4,314,891
Deposits		1,246,180	1,259,780	-
Due to a related party	10	10,283,055	9,839,325	1,052,052
Advance received from lessee		731,221	308,139	-
Deferred purchase consideration		26,382,874	25,969,901	24,818,706
		<u>114,224,718</u>	<u>114,695,833</u>	<u>110,028,103</u>
Current liabilities				
Term loans	8	7,818,733	7,746,836	7,785,708
Due to banks	11	12,656,746	12,584,195	12,892,828
Trade and other payables		13,458,738	14,015,123	13,367,384
Deferred revenue		7,627,896	8,710,836	9,096,963
		<u>41,562,113</u>	<u>43,056,990</u>	<u>43,142,883</u>
Total liabilities and equity		<u>172,043,555</u>	<u>173,188,813</u>	<u>168,196,156</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 2011

	Note	Kuwaiti Dinars	
		Three months ended 31 March	
		2011	2010
Revenue		11,353,558	9,263,100
Operating costs		(8,592,447)	(11,617,237)
Operating profit/ (loss)		2,761,111	(2,354,137)
Other income		102,518	566,802
Administrative expenses		(955,714)	(920,694)
Restructuring costs	12	(156,066)	-
Finance costs		(1,335,957)	(1,148,361)
Foreign currency gain/ (loss)		684,609	(643,099)
Profit before contribution to taxes		1,100,501	(4,499,489)
Contribution to Zakat Tax		(17,507)	-
Kuwait Foundation for the Advancement of Sciences		(11,005)	-
National Labour Support Tax		(43,767)	-
Profit/ (loss) for the period		1,028,222	(4,499,489)
Attributable to:			
Shareholders of the Ultimate Parent Company		1,028,222	(4,498,814)
Non-controlling interest		-	(675)
		<u>1,028,222</u>	<u>(4,499,489)</u>
Earnings/ (loss) per share (fils) - Basic & Diluted	13	<u>4.67</u>	<u>(20.45)</u>

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

Condensed Consolidated Statement of Comprehensive Income (Unaudited) -
Three months ended 31 March 2011

	Kuwaiti Dinars	
	Three months ended 31 March	
	2011	2010
Profit/ (loss) for the period	1,028,222	(4,499,489)
Exchange differences on translating foreign operation	(207,488)	-
Total comprehensive income/ (expense) for the period	820,734	(4,499,489)

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 2011

	Kuwaiti Dinars							Total equity
	Equity attributable to the Ultimate Parent Company's Shareholders				Foreign currency translation reserve	Non-controlling interest		
	Share capital	Legal reserve	Equity transaction costs	Retained earnings/(accumulated deficit)				
At 1 January 2011	22,000,000	801,461	(46,079)	(6,037,884)	(1,281,795)	287	15,435,990	
Total comprehensive income for the period	-	-	-	1,028,222	(207,488)	-	820,734	
At 31 March 2011	22,000,000	801,461	(46,079)	(5,009,662)	(1,489,283)	287	16,256,724	
At 1 January 2010	21,998,746	801,461	(46,079)	(3,233,317)	-	348	19,521,159	
Acquisition during the period	-	-	-	-	-	3,500	3,500	
Total comprehensive expense for the period	-	-	-	(4,498,814)	-	(675)	(4,499,489)	
At 31 March 2010	21,998,746	801,461	(46,079)	(7,732,131)	-	3,173	15,025,170	

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

Condensed Consolidated Statement of Cash Flows (Unaudited) - Three months ended 31 March 2011

	Kuwaiti Dinars	
	31 March 2011 (Unaudited)	31 March 2010 (Unaudited)
Cash flows from operating activities		
Profit/ (loss) for the period	1,028,222	(4,499,489)
<i>Adjustments for:</i>		
Depreciation	1,307,054	1,362,129
Finance costs	1,335,957	1,148,361
Non cash items and provisions	650,186	756,695
Operating profit/ (loss) before working capital changes	4,321,419	(1,232,304)
Decrease in inventories	10,390	9,449
Decrease in deposits	8,375	-
Increase in trade and other receivables	(198,957)	(316,220)
Decrease in trade and other payables	(556,385)	(805,213)
(Decrease)/ increase in deferred revenue	(1,082,940)	315,622
Net cash from/ (used in) operating activities	2,501,902	(2,028,666)
Cash flows from investing activities		
Purchase of property and equipment (net)	(372,406)	(8,485,944)
Cash from subsidiary on acquisition	-	701,319
Increase in deposits	(287,290)	(947,355)
Advance received from lessee	423,082	
Effects of translations of foreign operations	316,941	-
Net cash from/ (used in) investing activities	80,327	(8,731,980)
Cash flows from financing activities		
(Repayment of)/ proceeds from term loans (net)	(2,315,589)	9,008,672
Proceeds from overdraft	72,551	556,276
Proceeds from loan from related party	443,730	1,052,052
Finance costs paid	(922,984)	(798,829)
Net cash (used in)/ from financing activities	(2,722,292)	9,818,171
Net decrease in cash and cash equivalents	(140,063)	(942,475)
Cash and cash equivalents at		
beginning of period	5,643,197	1,982,475
end of period	6 5,503,134	1,040,000

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

1. Constitution and activities

Jazeera Airways K.S.C. (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 Ultimate Parent Company has the following subsidiaries:

Name of the Company	Percentage of Holding	Description
Al Sahaab Aircraft Leasing Company W.L.L.	100%	Intermediate Parent Company
Sahaab Aviation LLC	100%	Subsidiary of Intermediate Parent Company

The Ultimate Parent Company, the Intermediate Parent Company and the subsidiaries are together referred to in this interim consolidated financial information as the Group.

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 2011 was 417 (31 December 2010: 421, 31 March 2010: 606).

This interim consolidated financial information was approved for issue by the Board of Directors on 03 May 2011.

2. Basis of preparation and significant accounting policies

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

The accounting policies used in the preparation of the interim 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 2010 except for the following revised Standards effective for annual periods beginning on or after 01 January 2011.

IAS 24: Related party disclosures

The amended Standard clarified the definition of a related party and laid down additional requirement for disclosure of outstanding commitments to related parties. The adoption of the amendment did not have any impact on the financial position, performance or disclosures in the interim consolidated financial information of the Group.

IAS 34: Interim Financial Reporting (Revised)

The revised Standard provided clarification about significant events and transactions to be disclosed in the interim consolidated financial information and clarifies how to apply this principle in respect of the financial instruments and their fair values. The adoption of the revision did not have any impact on the financial position or performance of the Group.

This interim consolidated financial information does not contain all the information and disclosures required for full financial statements prepared in accordance with International Financial Reporting Standards. In the opinion of management, all adjustments consisting of normal recurring accruals considered necessary for a fair presentation have been included. Operating results for the three-months period ended 31 March 2011 are not necessarily indicative of the results that may be expected for the year ending 31 December 2011. For further information, refer to the financial statements and notes thereto included in the Group's annual consolidated financial statement for the year ended 31 December 2010.

Notes to the Interim Consolidated Financial Information (Unaudited) – 31 March 2011

2.1 Consolidation

Subsidiaries are those enterprises, including special purpose entities, controlled by the Ultimate Parent Company. Control exists when the Ultimate Parent Company has the power, directly or indirectly, to govern the financial and operating policies of an enterprise so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements on a line-by-line basis, from the date on which control is transferred to the Ultimate Parent Company until the date that control ceases.

Consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances based on financial information of the subsidiary. Intra group balances, transactions, income and expenses are eliminated in full. Unrealised losses resulting from inter-company transactions are also eliminated unless cost cannot be recovered. Profits and losses resulting from intra group transactions that are recognized in assets are eliminated in full. If the parent loses control of a subsidiary, it derecognizes the assets (including any goodwill) and liabilities of the subsidiary at their carrying amounts at the date when control is lost as well as related non controlling interests.

3. Special purpose entity

The Intermediate Parent Company has two subsidiaries, Jazeera Leasing Company (JLC) and Sahaab Aircraft Leasing Company -1 (SALC -1), Cayman Island companies, incorporated with an authorised capital of USD 1,000 and USD 50,000 respectively. The issued and fully paid up capital as of 31 March 2011 is USD 1000 and USD 1 respectively, equivalent to KD 287 and KD 0.277 and are fully owned by third parties. JLC and SALC-1 are Special Purpose Entities ("SPE") set up for the sole purpose of arranging finance for acquiring aircraft and engines and for leasing them to the Intermediate Parent Company under finance leases. JLC and SALC-1 have been consolidated in this financial information in accordance with Interpretation - SIC-12 'Consolidation - Special Purpose Entities' as the Intermediate Parent Company obtains all of the benefits of its activities.

Sahaab Aviation LLC ("Trustor") has created "Sahaab Trust" in association with Wells Fargo Bank Northwest National Association ("Owner Trustee"), a national banking association organised and existing under the laws of the United States of America. Sahaab Trust is a Special Purpose Entity ("SPE") set up for the sole purpose of ensuring regulatory requirement of ownership of aircraft by a citizen of the United States of America. Sahaab Trust has been consolidated in this financial information in accordance with Interpretation - SIC-12 'Consolidation - Special Purpose Entities' as Sahaab Aviation LLC obtains all of the benefits of its activities.

4. Property and equipment

	Kuwaiti Dinars					Total
	Aircraft & engines	Leasehold improvements	Furniture & equipment	Vehicles	Capital work-in-progress	
Cost						
As at 31 December 2010	123,949,355	623,735	1,264,483	10,624	44,281,159	170,129,356
Additions	-	-	10,671	1,029	360,706	372,406
Transfer	3,368,400	-	-	-	(3,368,400)	-
Exchange adjustment	(535,094)	-	-	-	-	(535,094)
As at 31 March 2011	126,782,661	623,735	1,275,154	11,653	41,273,465	169,966,668
Depreciation						
As at 31 December 2010	9,653,546	357,270	804,460	8,661	-	10,823,937
Charge for the period	1,223,421	25,242	58,064	327	-	1,307,054
Exchange adjustment	(10,665)	-	-	-	-	(10,665)
As at 31 March 2011	10,866,302	382,512	862,524	8,988	-	12,120,326
Net book value						
As at 31 March 2011	115,916,359	241,223	412,630	2,665	41,273,465	157,846,342
As at 31 December 2010	114,295,809	266,465	460,023	1,963	44,281,159	159,305,419
As at 31 March 2010	119,139,494	282,940	451,421	3,409	39,154,927	159,032,191

Notes to the Interim Consolidated Financial Information (Unaudited) – 31 March 2011

Depreciation has been allocated in statement of income as follows:

	Kuwaiti Dinars	
	Three months ended	
	31 March (Unaudited)	
	2011	2010
Operating costs	1,223,748	1,282,987
Administrative expenses	83,306	79,142
	<u>1,307,054</u>	<u>1,362,129</u>

Capital work-in-progress includes pre-payments of KD 6,613,389 (31 December 2010: KD 6,310,538, 31 March 2010: KD 4,896,430) for aircraft maintenance.

5. **Deposits**

This represents short term deposit with a lender of term loan. The effective interest rate as at 31 March 2011 ranged from 0.160% to 0.162% (31 December 2010: 0.104% to 0.105%, 31 March 2010: Nil).

6. **Cash and bank balances**

	Kuwaiti Dinars		
	31 March	31 December	31 March
	2011	2010	2010
	(Unaudited)	(Audited)	(Unaudited)
Cash on hand	13,862	12,523	16,293
Current account with banks	5,489,272	5,630,674	1,023,707
Cash & cash equivalents in the statement of cash flows	5,503,134	5,643,197	1,040,000
Time deposits with banks whose maturity period exceeds three months	2,539,051	2,265,361	2,276,872
Cash and bank balances	<u>8,042,185</u>	<u>7,908,558</u>	<u>3,316,872</u>

The effective interest rate as of 31 March 2011 was 1.5% to 2% (31 December 2010: 1.5% to 2%, 31 March 2010: 1.5%).

7. **Share capital**

The authorised, issued and fully paid up capital of the Ultimate Parent Company as of 31 March 2011 is KD 22,000,000, paid in cash (31 December 2010: KD 22,000,000, 31 March 2010: KD 21,998,746) comprising of 220,000,000 shares of 100 fils each (31 December 2010 - 220,000,000 shares of 100 fils each, 31 March 2010 - 219,987,462 shares of 100 fils each).

The extra-ordinary general meeting of share holders held on 13 May 2010 resolved to further increase the authorised and issued share capital of the Ultimate Parent Company by KD 20,000,000 through rights issue of 200,000,000 ordinary shares at 150 fils per share including a premium of 50 fils per share. Subsequently, the ordinary general meeting of shareholders held on 27 September 2010 resolved to revise the rights issue price from 150 fils per share to 100 fils per share. The capital increase is subject to an Amiri Decree approval, which is pending as of the reporting date.

Notes to the Interim Consolidated Financial Information (Unaudited) – 31 March 2011

8. Term loans

	Kuwaiti Dinars		
	31 March 2011 (Unaudited)	31 December 2010 (Audited)	31 March 2010 (Unaudited)
<i>Term loans are repayable as follows:</i>			
Not later than 1 year	7,818,733	7,746,836	7,785,708
Later than 1 year and not later than 2 years	7,841,974	7,843,642	7,746,866
Later than 2 year and not later than 5 years	35,922,268	35,928,113	35,430,002
Later than 5 years	24,908,610	27,288,583	36,028,893
	<u>68,672,852</u>	<u>71,060,338</u>	<u>79,205,761</u>
	<u>76,491,585</u>	<u>78,807,174</u>	<u>86,991,469</u>

The term loans are senior loans and are arranged through JLC, SALC-1 and Owner Trustee. 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 2011 was 1.25% to 6.52% (31 December 2010: 1.24% to 6.52%, 31 March 2010: 1.2% to 6.52%).

The term loans are secured by a first priority charge/pledge over the shares of JLC and SALC-1 and a first priority registered aircraft mortgage over each aircraft.

9. Aircraft 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 a related party

This represents short term unsecured credit facility from a related party carrying an interest rate of CBDR plus 3%. The effective interest rate as of 31 March 2011 was 5.5% (31 December 2010: 5.5%, 31 March 2010: 4.5%).

11. Due to banks

This represents unsecured overdraft facility of USD 45.64 million (31 December 2010: USD 45 million, 31 March 2010: USD 44.35 million) from a local commercial bank which carries an interest rate of 1.25% over funding cost. The effective interest rate as of 31 March 2011 was 5.75% (31 December 2010: 3.31% to 5.75%, 31 March 2010: 3.31%).

12. Restructuring costs

Costs of operations which are not expected to recur in future periods have been restructured and classified separately.

13. Earnings/(loss) per share

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

	Three months ended 31 March (Unaudited)	
	2011	2010
Earnings/ (loss) attributable to share holders of Ultimate Parent company	1,028,222	(4,498,814)
Weighted average number of issued shares	<u>220,000,000</u>	<u>219,987,462</u>
Earnings/ (loss) per share (fils) - Basic & Diluted	<u>4.67</u>	<u>(20.45)</u>

Notes to the Interim Consolidated Financial Information (Unaudited) – 31 March 2011

14. Related party transactions and balances

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 consolidated financial information are as follows:

	Kuwaiti Dinars		
	31 March 2011 (Unaudited)	31 December 2010 (Audited)	31 March 2010 (Unaudited)
Balances			
Due from related party	113,527	22,467	26,853
		Kuwaiti Dinars	
		Three months ended 31 March (Unaudited)	
		2011	2010
Transactions			
Sales and services		348,002	459,109
Administration and distribution expenses		15,651	43,892
Key management compensation			
Salaries and other employment benefits		113,550	89,392

Notes to the Interim Consolidated Financial Information (Unaudited) – 31 March 2011

15. Segment information

The Group derives their revenue primarily from operation of passenger airline service and leasing of aircraft and engines. The segment information provided to the key management for the reportable segments for the three months ended 31 March 2011 is as follows:

	Kuwaiti Dinars					
	Three months period ended 31 March 2011 (Unaudited)			Three months period ended 31 March 2010 (Unaudited)		
	Passenger airline service	Leasing of aircraft	Total	Passenger airline Service	Leasing of aircraft engine	Total
Segment revenue	9,522,913	4,125,158	13,648,071	9,263,100	2,762,926	12,026,026
Less: Intersegment revenue	-	(2,294,513)	(2,294,513)	-	(2,762,926)	(2,762,926)
Revenue from external customers	9,522,913	1,830,645	11,353,558	9,263,100	-	9,263,100
Reportable segment (loss)/ profit before contribution to taxes	(902,950)	2,003,452	1,100,501	(2,552,819)	(1,946,670)	(4,499,489)

Reportable segment's assets and liabilities:

	Kuwaiti Dinars					
	31 March 2011 (Unaudited)			31 December 2010 (Audited)		
	Passenger airline service	Leasing of aircraft and engine	Total	Passenger airline service	Leasing of aircraft and engine	Total
Total assets	83,524,851	88,518,704	172,043,555	84,687,940	88,500,873	173,188,813
Allocated liabilities	46,341,654	82,990,023	129,331,677	47,014,770	84,768,152	131,782,922
Unallocated liabilities	-	-	26,455,154	-	-	25,969,901
Total liabilities	46,341,654	82,990,023	155,786,831	47,014,770	84,768,152	157,752,823
Total assets	83,524,851	88,518,704	172,043,555	84,687,940	88,500,873	173,188,813
Allocated liabilities	46,341,654	82,990,023	129,331,677	47,014,770	84,768,152	131,782,922
Unallocated liabilities	-	-	26,455,154	-	-	25,969,901
Total liabilities	46,341,654	82,990,023	155,786,831	47,014,770	84,768,152	157,752,823
Total assets	83,524,851	88,518,704	172,043,555	84,687,940	88,500,873	173,188,813
Allocated liabilities	46,341,654	82,990,023	129,331,677	47,014,770	84,768,152	131,782,922
Unallocated liabilities	-	-	26,455,154	-	-	25,969,901
Total liabilities	46,341,654	82,990,023	155,786,831	47,014,770	84,768,152	157,752,823
Total assets	83,524,851	88,518,704	172,043,555	84,687,940	88,500,873	173,188,813
Allocated liabilities	46,341,654	82,990,023	129,331,677	47,014,770	84,768,152	131,782,922
Unallocated liabilities	-	-	26,455,154	-	-	25,969,901
Total liabilities	46,341,654	82,990,023	155,786,831	47,014,770	84,768,152	157,752,823

16. Commitments and contingent liabilities

The Group has issued bank guarantees to regulatory agencies and third party service providers amounting to KD 910,337 (31 December 2010: KD 917,767, 31 March 2010: KD 936,418).

The Ultimate Parent Company has also provided guarantee to Jazeera Leasing Company, the lessor of novated lease agreement, in respect of the obligations and liabilities of the Intermediate Parent Company pursuant to the novated lease agreement.

In accordance with the novation agreement, the Ultimate 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.

In March 2011, the Group cancelled the order for acquisition of 25 aircraft out of the remaining 29 aircraft ordered on 18 June 2007. The list price for the order of the remaining 4 aircraft (31 December 2010: twenty nine; 31 March 2010: twenty nine) is approximately KD 77,644,000 (31 December 2010: KD 569,821,000; 31 March 2010: KD 586,467,000). These aircraft have to be acquired over a period of four years.

Operating lease income

The future minimum lease rent receivable on the operating lease is KD 44,858,836 (31 December 2010: KD 46,797,889, 31 March 2010: Nil) and is receivable as follows.

	Kuwaiti Dinars		
	31 March 2011 (Unaudited)	31 December 2010 (Audited)	31 March 2010 (Unaudited)
Not later than one year	5,285,732	5,355,756	-
Later than one year but not later than five years	21,142,930	21,423,024	-
Later than five years	18,430,174	20,019,109	-

17. Comparative figures

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