

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

**Interim Consolidated Financial Information (Unaudited)
and
Independent Auditors' Review Report
30 September 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 September 2009 and the related condensed consolidated statement of income, statement of comprehensive income for the three month and nine month periods then ended and statement of changes in equity, statement of cash flows for the nine 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

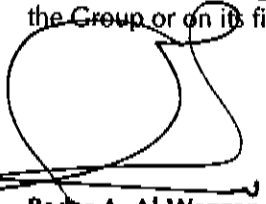
We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial 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 of the Commercial Companies Law of 1960, as amended, or of the Articles of Association of the Parent Company have occurred during the period ended 30 September 2009 that might have had a material effect on the business of the Group or on its financial position.


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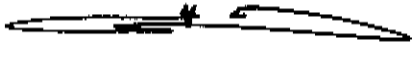

Nasser Abdullah Al Muqait
R.A.A. No. 9A
Al Ahli Bureau

Kuwait
12 November 2009

Condensed Consolidated Balance Sheet (Unaudited) as of 30 September 2009

	Note	Kuwaiti Dinars		
		30 September 2009 (Unaudited)	31 December 2008 (Audited)	30 September 2008 (Unaudited)
ASSETS				
Non-Current Assets				
Property and equipment	3	5,013,999	38,380,179	93,849,883
Deposits		-	2,314,215	2,314,215
Due from a related party	4	31,508,232	-	-
		<u>36,522,231</u>	<u>40,694,394</u>	<u>96,164,098</u>
Current Assets				
Non current assets held for sale	5	22,736,643	22,736,643	-
Due from a related party	4	11,259,229	5,124,641	-
Inventories, expendable parts and supplies		142,335	146,008	155,568
Trade and other receivables		1,909,865	1,761,619	1,182,440
Cash and bank balances	6	2,610,740	2,590,672	423,321
		<u>38,658,812</u>	<u>32,359,583</u>	<u>1,761,329</u>
Total assets		<u>75,181,043</u>	<u>73,053,977</u>	<u>97,925,427</u>
LIABILITIES AND EQUITY				
Equity				
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		3,495,469	6,970,389	4,468,951
Equity attributable to the Parent Company's Shareholders		<u>26,249,597</u>	<u>27,724,631</u>	<u>24,757,241</u>
Minority interest		276	276	292
Total equity		<u>26,249,873</u>	<u>27,724,907</u>	<u>24,757,533</u>
Non-current liabilities				
Term loans	8	-	-	40,519,502
Post employment benefits		602,018	457,219	357,597
Lease maintenance provision	9	2,536,791	158,081	-
		<u>3,138,809</u>	<u>615,300</u>	<u>40,877,099</u>
Current liabilities				
Term loans	8	16,481,239	19,209,799	3,477,485
Due to banks	10	11,310,616	12,147,437	11,693,224
Trade and other payables		9,571,831	7,621,932	5,589,634
Loan from related party		-	-	6,003,531
Deferred revenue		8,428,675	5,734,602	5,526,921
		<u>45,792,361</u>	<u>44,713,770</u>	<u>32,290,795</u>
Total liabilities and equity		<u>75,181,043</u>	<u>73,053,977</u>	<u>97,925,427</u>

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


Marwan Marzouk Boodai
Chairman

**Condensed Consolidated Statement of Income (Unaudited) -
Nine-months ended 30 September 2009**

	Kuwaiti Dinars				
	Three months ended 30 September		Nine months ended 30 September		
	Note	2009	2008	2009	2008
Revenue		15,919,239	15,339,925	35,992,733	37,560,887
Operating costs		(14,288,645)	(11,873,727)	(36,197,442)	(32,416,466)
Gross profit/ (loss)		1,630,594	3,466,198	(204,709)	5,144,421
Other income		410,636	146,708	2,395,036	271,345
Administrative expenses		(982,356)	(893,983)	(3,098,012)	(2,970,369)
Finance costs		(331,397)	(691,922)	(1,126,671)	(2,026,457)
Foreign exchange gain/ (loss)		35,268	(325,684)	559,322	1,130,296
Profit/ (loss) before contribution to KFAS, NLST and Zakat		762,745	1,701,317	(1,475,034)	1,549,236
Contribution to Kuwait Foundation for Advancement of Sciences (KFAS)		-	(13,943)	-	(13,943)
National Labour Support Tax (NLST)		-	(38,731)	-	(38,731)
Contribution for Zakat		-	(15,492)	-	(15,492)
Profit/ (loss) for the period		762,745	1,633,151	(1,475,034)	1,481,070
Attributable to:					
Shareholders of the Parent Company		762,745	1,633,151	(1,475,034)	1,481,070
Profit/ (loss) per share (fils) - Basic & Diluted	11	3.47	7.42	(6.71)	6.73

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

**Condensed Consolidated Statement of Comprehensive Income (Unaudited) -
Nine-months ended 30 September 2009**

	Kuwaiti Dinars			
	Three months ended 30 September		Nine months ended 30 September	
	2009	2008	2009	2008
Profit/ (loss) for the period	762,745	1,633,151	(1,475,034)	1,481,070
Other comprehensive income	-	-	-	-
Total comprehensive income/ (expense) for the period	762,745	1,633,151	(1,475,034)	1,481,070

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

**Condensed Consolidated Statement of Changes in Equity (Unaudited) -
Nine months ended 30 September 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
Total comprehensive income for the period	-	-	-	1,481,070	-	1,481,070
At 30 September 2008	19,998,860	335,509	(46,079)	4,468,951	292	24,757,533
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)	-	-
Total comprehensive expense for the period	-	-	-	(1,475,034)	-	(1,475,034)
At 30 September 2009	21,998,746	801,461	(46,079)	3,495,469	276	26,249,873

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

Jazeera Airways K.S.C
Kuwait

**Condensed Consolidated Statement of Cash Flows (Unaudited) -
Nine months ended 30 September 2009**

	Kuwaiti Dinars	
	30 September 2009 (Unaudited)	30 September 2008 (Unaudited)
Note		
Cash flows from operating activities		
(Loss)/ profit for the period	(1,475,034)	1,481,070
<i>Adjustments for:</i>		
Depreciation	205,674	3,584,795
Finance costs	1,126,671	2,026,457
Lease maintenance provision	2,378,710	-
Post employment benefits	144,799	82,263
Gain on foreign currency revaluation	(559,322)	(1,130,296)
Operating profit before working capital changes	1,821,498	6,044,289
Decrease/ (increase) in inventories	3,673	(9,712)
(Increase)/ decrease in trade and other receivables	(148,248)	580,477
Decrease in due from a related party	2,032,221	-
Increase/ (decrease) in trade and other payables	2,033,797	(904,987)
Increase in deferred revenue	2,694,073	243,457
Net cash from operating activities	8,437,014	5,953,524

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

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 September 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 September 2009 was 610 (31 December 2008: 499, 30 September 2008 - 479).

This interim consolidated financial information was approved for issue by the Board of Directors on 12 November 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 nine-months period ended 30 September 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 September 2009

3. Property and equipment

	Kuwaiti Dinars					Total
	Aircraft & engines	Leasehold improvements	Furniture & equipment	Vehicles	Capital work-in – progress	
Cost						
As at 31 December 2008	163,586	506,188	694,868	10,624	37,732,511	39,107,777
Additions	3,697	21,840	75,288	-	3,724,747	3,825,572
Transfer	-	-	-	-	(36,986,078)	(36,986,078)
As at 30 September 2009	167,283	528,028	770,156	10,624	4,471,180	5,947,271
Depreciation						
As at 31 December 2008	118,795	159,919	444,325	4,559	-	727,598
Charge for the period	27,786	74,718	101,576	1,594	-	205,674
As at 30 September 2009	146,581	234,637	545,901	6,153	-	933,272
Net book value						
As at 30 September 2009	20,702	293,391	224,255	4,471	4,471,180	5,013,999
As at 31 December 2008	44,791	346,269	250,543	6,065	37,732,511	38,380,179

Depreciation has been allocated in statement of income as follows:

	Kuwaiti Dinars		Kuwaiti Dinars	
	Three months ended		Nine months ended	
	30 September	30 September	30 September	30 September
	2009	2008	2009	2008
Operating costs	9,747	1,132,696	32,776	3,404,635
Administrative expenses	55,462	65,273	172,898	180,160
	65,209	1,197,969	205,674	3,584,795

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 a related party, with effect from 31 March 2009.

Capital work-in-progress includes pre- payments of KD 3,956,712 (31 December 2008: KD 2,567,299, 30 September 2008: KD 2,336,164) for aircraft maintenance.

4. Due from a related party

This represents 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 September 2009 (Unaudited)	31 December 2008 (Audited)	30 September 2008 (Unaudited)
Not later than one year	11,259,229	-	-
Later than one year but not later than five years	25,669,270	-	-
Later than five years	5,838,962	-	-
	31,508,232	-	-
	42,767,461	-	-

This carries an interest charge of 6 months' LIBOR plus 25 basis points. The effective interest rate as of 30 September 2009 was 1.98% (31 December 2008: Nil, 30 September 2008: Nil).

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

5. Non current assets held for sale

	Kuwaiti Dinars		
	30 September 2009 (Unaudited)	31 December 2008 (Audited)	30 September 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 03 December 2009. These are currently under lien for term loans availed by JLC- 2.

6. Cash and bank balances

	Kuwaiti Dinars		
	30 September 2009 (Unaudited)	31 December 2008 (Audited)	30 September 2008 (Unaudited)
Cash on hand	18,178	11,294	16,033
Balances with banks			
- Current Accounts	2,234,121	2,537,352	366,593
- Time Deposits	358,441	42,026	40,695
	<u>2,610,740</u>	<u>2,590,672</u>	<u>423,321</u>
Time deposits with banks whose original maturity period exceeds three months	<u>(358,441)</u>	<u>(42,026)</u>	<u>(40,695)</u>
Cash & cash equivalents in the statement of cash flows	<u>2,252,299</u>	<u>2,548,646</u>	<u>382,626</u>

7. Share capital

The Extra-ordinary General Meeting held on 05 June 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 Extra-ordinary General Meeting.

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

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

8. Term loans

	Kuwaiti Dinars		
	30 September 2009 (Unaudited)	31 December 2008 (Audited)	30 September 2008 (Unaudited)
<i>Term loans are repayable as follows:</i>			
Not later than 1 year	16,481,239	19,209,799	3,477,485
Later than 1 year and not later than 5 years	-	-	19,274,071
Over five years	-	-	21,245,431
	<u>16,481,239</u>	<u>19,209,799</u>	<u>43,996,987</u>

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

The term loans are senior loans and are arranged through JLC-2. They are denominated in US Dollars and represents amount due to a consortium of European banks. The effective interest rate as of 30 September 2009 was 2.32% to 3.65% (31 December 2008 – 5.40% o 5.50%, 30 September 2008: 4.095% 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 overdraft facility from a local bank denominated in US Dollars. The effective interest rate as of 30 September 2009 was 3.63% (31 December 2008: 4.5%, 30 September 2008 - 4.5 %).

11. Earnings per share

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

	Three months ended 30 September Unaudited		Nine months ended 30 September Unaudited	
	2009	2008	2009	2008
Profit/ (loss) attributable to equity holders of Parent company	762,745	1,633,151	(1,475,034)	1,481,070
Weighted average number of issued shares	219,987,462	219,987,462	219,987,462	219,987,462
Earnings/ (loss) per share (fils) - Basic & Diluted	3.47	7.42	(6.71)	6.73

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 September 2009 (Unaudited)	31 December 2008 (Audited)	30 September 2008 (Unaudited)	
Balances				
Due from a related party	204,941	-	54,549	
	Kuwaiti Dinars		Kuwaiti Dinars	
	Three months ended 30 September		Nine months ended 30 September	
	2009	2008	2009	2008
Transactions				
Sales and services	615,787	62,328	1,153,837	216,469
Administration and distribution expenses	57,799	47,553	225,939	226,428
Capital expenditure	-	90,000	-	90,000
Premium on novation of purchase agreement of aircraft	-	-	604,699	-
Key management compensation				
Salaries and other employment benefits	185,416	79,600	500,591	232,156

Notes to the Interim Consolidated Financial Information (Unaudited) - 30 September 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. Derivatives

During the period the Group has entered into commodity rate swaps of Jet fuel to manage its exposure to price variances. The notional quantity outstanding as of 30 September 2009 was 30,000 barrels. The Group has fair valued these derivative instruments outstanding as of 30 September 2009 and the resultant unrealised loss of KD 53,426 has been taken to statement of income.

15. Commitments and contingent liabilities

	Kuwaiti Dinars		
	30 September 2009 (Unaudited)	31 December 2008 (Audited)	30 September 2008 (Unaudited)
Letter of Guarantee	823,084	682,096	531,531

Operating lease commitments:

Where the Parent Company is the lessee

	Kuwaiti Dinars		
	30 September 2009 (Unaudited)	31 December 2008 (Audited)	30 September 2008 (Unaudited)
Not later than one year	11,199,555	7,941,072	-
Later than one year but not later than five years	38,361,622	29,845,704	-
Later than five years	5,614,892	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.

16. Comparative figures

Certain comparative amounts have been reclassified to conform to the current period presentation, but with no effect on previously reported net profit or equity.