

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

**Interim Condensed Consolidated Financial Information (Unaudited)
and
Independent Auditor's Review Report
31 March 2019**

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

Introduction

We have reviewed the accompanying interim condensed consolidated statement of financial position of Jazeera Airways K.S.C.P. ("the Parent Company") and its subsidiary (together called "the Group") as at 31 March 2019, and the related interim 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 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, as amended, of the Parent Company, during the three-month period ended 31 March 2019, that might have had a material effect on the business of the Group or on its interim condensed consolidated financial position.



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Kuwait
24 April 2019

**Interim Condensed Consolidated Statement of Financial Position (Unaudited)
as at 31 March 2019**

	Note	Kuwaiti Dinars		
		31 March 2019 (Unaudited)	31 December 2018 (Audited)	31 March 2018 (Unaudited)
ASSETS				
Non-current assets				
Property and equipment	4	21,602,587	21,971,472	17,740,503
Right to use of asset	3	53,070,416	-	-
Advance for maintenance		13,890,662	14,166,560	13,426,337
Security deposit with lessors		2,294,709	2,609,919	2,980,543
		<u>90,858,374</u>	<u>38,747,951</u>	<u>34,147,383</u>
Current assets				
Inventories		244,204	247,113	234,512
Security Deposit		1,914,890	1,914,890	-
Trade and other receivables		15,695,055	15,490,885	5,285,692
Cash and bank balances	5	11,352,179	6,465,306	17,726,004
		<u>29,206,328</u>	<u>24,118,194</u>	<u>23,246,208</u>
Total assets		<u>120,064,702</u>	<u>62,866,145</u>	<u>57,393,591</u>
LIABILITIES AND EQUITY				
Equity				
Share capital	6	20,000,000	20,000,000	20,000,000
Legal reserve		4,294,462	4,294,462	3,596,897
Retained earnings		9,230,883	13,541,950	14,250,328
Total equity		<u>33,525,345</u>	<u>37,836,412</u>	<u>37,847,225</u>
Non-current liabilities				
Post employment benefits		2,541,645	2,370,783	2,311,322
Provision for maintenance		1,316,226	1,305,814	1,568,745
Lease liabilities	3	48,675,136	-	-
Other liabilities		-	-	33,975
		<u>52,533,007</u>	<u>3,676,597</u>	<u>3,914,042</u>
Current liabilities				
Trade and other payables		19,206,221	17,057,940	10,351,568
Deferred revenue		4,953,799	4,295,196	5,280,756
Lease liabilities	3	9,846,330	-	-
		<u>34,006,350</u>	<u>21,353,136</u>	<u>15,632,324</u>
Total liabilities and equity		<u>120,064,702</u>	<u>62,866,145</u>	<u>57,393,591</u>

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


Mohammed J M Al-Mousa
Vice-chairman

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

**Interim Condensed Consolidated Statement of Income (Unaudited) -
Three months ended 31 March 2019**

	Note	Kuwaiti Dinars	
		Three months ended 31 March	
		2019	2018
Revenue		21,288,274	14,340,714
Operating costs		(17,078,827)	(13,705,214)
Operating profit		4,209,447	635,500
Other income		52,493	99,763
General and administrative expenses		(1,826,977)	(1,094,779)
Lease finance costs		(659,627)	(3,846)
Foreign currency (loss)/gain		(128,818)	51,255
Expected Credit Loss (ECL) - financial assets		(101,333)	(9,788)
Profit/(loss) before contribution and taxes		1,545,185	(321,895)
Zakat		(17,722)	-
Contribution to Kuwait Foundation for the Advancement of Sciences		(14,497)	-
National Labour Support Tax		(44,304)	-
Profit/(loss) for the period		1,468,662	(321,895)
Attributable to:			
Shareholders of the Parent Company		<u>1,468,662</u>	<u>(321,895)</u>
Earnings per share (fils)	7		
Basic & diluted		7.34	(1.61)

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

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

**Interim Condensed Consolidated Statement of Comprehensive Income (Unaudited) -
Three months ended 31 March 2019**

	Kuwaiti Dinars	
	Three months ended 31 March	
	2019	2018
Profit/ (Loss) for the period	1,468,662	(321,895)
Other comprehensive income		
<i>Other comprehensive income to be reclassified to interim condensed consolidated statement of profit or loss in subsequent periods:</i>		
	-	-
Total comprehensive income for the period	<u>1,468,662</u>	<u>(321,895)</u>
Attributable to:		
Shareholders of the Parent Company	<u>1,468,662</u>	<u>(321,895)</u>

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

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

**Interim Condensed Consolidated Statement of Changes in Equity (Unaudited) –
Three months ended 31 March 2019**

	Kuwaiti Dinars			
	Share capital	Legal reserve	Retained earnings	Total equity
At 1 January 2019	20,000,000	4,294,462	13,541,950	37,836,412
Transition adjustment on adoption of IFRS 16 at 1 January 2019 (Note 3)	-	-	(5,779,729)	(5,779,729)
Balance as at 1 January 2019 (restated)	20,000,000	4,294,462	7,762,221	32,056,683
Total comprehensive income for the period	-	-	1,468,662	1,468,662
At 31 March 2019	<u>20,000,000</u>	<u>4,294,462</u>	<u>9,230,883</u>	<u>33,525,345</u>
At 1 January 2018	20,000,000	3,596,897	14,600,026	38,196,923
Transition adjustment on adoption of IFRS 9 at 1 January 2018	-	-	(27,803)	(27,803)
Balance as at 1 January 2018 (restated)	20,000,000	3,596,897	14,572,223	38,169,120
Total comprehensive income for the period	-	-	(321,895)	(321,895)
At 31 March 2018	<u>20,000,000</u>	<u>3,596,897</u>	<u>14,250,328</u>	<u>37,847,225</u>

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

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

**Interim Condensed Consolidated Statement of Cash Flows (Unaudited) –
Three months ended 31 March 2019**

	Note	Kuwaiti Dinars	
		31 March 2019 (Unaudited)	31 March 2018 (Unaudited)
Cash flows from operating activities			
Profit/(Loss) for the period		1,468,662	(321,895)
<i>Adjustments for:</i>			
Depreciation	3,4	2,875,535	233,917
Finance costs		659,627	3,846
Foreign exchange (gain)/loss		128,818	(51,255)
Provision for post-employment benefits		220,829	135,000
Other income		(15,398)	-
Expected Credit Losses		101,333	(27,803)
Operating profit/(loss) before working capital changes		5,439,406	(28,190)
Decrease in inventories, expendable parts and supplies		2,909	223
Increase in trade and other receivables		(636,962)	(1,347,466)
Increase/(decrease) in provision for maintenance		10,412	(148,386)
Increase in trade and other payables		2,019,462	452,389
Increase in deferred revenue		658,603	1,341,818
Decrease/(increase) in advance for maintenance		275,897	(578,108)
Decrease in security deposit with lessors		(55,012)	(336,396)
Post-employment benefits paid		(49,966)	(233,402)
Net cash from/(used in) operating activities		7,664,749	(877,518)
Cash flows from investing activities			
Purchase of property and equipment	4	(244,599)	(4,205,013)
Increase in other liabilities		-	33,975
Net cash used in investing activities		(244,599)	(4,171,038)
Cash flows from financing activities			
Payment for lease liability		(2,531,392)	-
Finance costs paid		(1,885)	(3,846)
Net cash used in financing activities		(2,533,277)	(3,846)
Net increase/(decrease) in cash and cash equivalents		4,886,873	(5,052,402)
Cash and cash equivalents at beginning of period	5	6,465,306	22,778,406
Cash and cash equivalents at end of period	5	11,352,179	17,726,004

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

Notes to the Interim Condensed Consolidated Financial Information (Unaudited) – 31 March 2019

1. Constitution and activities

Jazeera Airways K.S.C.P. (the "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 Parent Company are –

- Air transportation and related activities
- Investing surplus funds in investment and real estate portfolios managed by specialized companies or entities.

The Parent Company and its subsidiary are together referred to in these interim consolidated financial position as the Group.

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

This interim consolidated financial information was approved for issue by the Board of Directors on 24 April 2019.

2. Basis of preparation and significant accounting policies

This interim condensed consolidated financial information of the Group is prepared in accordance with International Accounting Standard ("IAS") 34: Interim Financial Reporting.

This interim condensed consolidated financial information does not contain all information and disclosures required for complete consolidated financial statements prepared in accordance with International Financial Reporting Standards ("IFRS"). In the opinion of management, all adjustments consisting of normal recurring accruals considered necessary for a fair presentation have been included in this interim condensed consolidated financial information. Operating results for the three months ended 31 March 2019 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2019. For more details, refer to the annual audited consolidated financial statements of the Group for the financial year ended 31 December 2018.

The interim condensed consolidated financial information is presented in Kuwaiti Dinars ("KD").

Changes in accounting policy and disclosures

The accounting policies used in the preparation of the interim condensed consolidated financial information are consistent with those used in the preparation of the annual consolidated financial statements for the year ended 31 December 2018, except for the adoption of IFRS 16 retrospectively from 1 January 2019. The Group has elected to apply the modified retrospective approach as permitted under the specific transitional provisions in the standard. Accordingly, comparative information has not been restated. Instead, the Group has recognised the cumulative effect of initially applying this Standard as an adjustment to the opening balance of retained earnings as at 1 January 2019.

Several other amendments and interpretations apply for the first time in 2019, but do not have an impact on the interim condensed consolidated financial information of the Group.

3. Impact of adoption of IFRS 16 Leases- Right of use assets and lease liabilities

On adoption of IFRS 16 Leases, the Group has recognized the following right of use assets and lease liabilities:

	On 1 January 2019	On 31 March 2019
Right of use assets		
Aircraft	52,841,520	50,645,564
Leasehold land	2,490,984	2,424,852
	<u>55,332,504</u>	<u>53,070,416</u>
Lease liabilities	60,571,338	58,521,466

Accounting policy

The key changes to the Group's accounting policies resulting from its adoption of IFRS 16 Leases are summarized below:

The Group recognizes a right of use asset and a lease liability on the date on which the lessor makes the asset available for use by the Group (the commencement date).

On that date, the Group measures the right of use at cost, which comprises of

- the amount of the initial measurement of the lease liability.
- any lease payments made at or before the commencement date, less any lease incentives received
- any initial direct costs, and
- an estimate of costs to be incurred to restoring the underlying asset to the condition required by the terms and conditions of the lease as a consequence of having used the underlying asset during a particular period; this is recognised as part of the cost of the right of use asset when the Group incurs the obligation for those costs, which may be at the commencement date or as a consequence of having used the asset during a particular period

At the commencement date, the Group measures the lease liability at the present value of the lease payments that are not paid at that date. On that date, the lease payments are discounted using the interest rate implicit in the lease, if that rate can be readily determined. If that rate cannot be readily determined, the Group uses its incremental borrowing rate.

Lease payments included in measurement of the lease liability comprise the following payments for the right to use the underlying asset during the lease term that are not paid at the commencement date:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable
- variable lease payment that are based on an index or a rate
- amounts expected to be payable by the lessee under residual value guarantees
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

Payments associated with leases of low-value assets are recognized on a straight-line basis as an expense in profit or loss.

Initial measurement

The Group has elected to measure the right of use asset and lease liability on 1 January 2019 as follows:

The right of use asset at its carrying amount as if the Standard has been applied since the commencement date but discounted using the Group's incremental borrowing rate and the lease liability at the present value of the remaining lease payments, using the same rate.

The Group has elected to apply the following practical expedients permitted by the Standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics
- reliance on previous assessments on whether leases are onerous
- the accounting for operating leases with a remaining lease term of less than 12 months as at 1 January 2019 as short-term leases
- the exclusion of initial direct costs for the measurement of the right-of-use asset at the date of initial application, and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Group has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made applying IAS 17 and IFRIC 4 *Determining whether an Arrangement contains a Lease*.

Notes to the Interim Condensed Consolidated Financial Information (Unaudited) – 31 March 2019

There were no onerous lease contracts that would have required an adjustment to the right-of-use assets at the date of initial application.

Subsequent Measurement

After the commencement date, the Group measures the right-of-use asset at cost less accumulated depreciation and impairment losses. Depreciation is calculated on a straight line basis over the shorter of the asset's useful life and the lease term. The Group determines whether a right of use asset is impaired and recognizes any impairment loss identified in the statement of income.

After the commencement date, the Group measures lease liability by increasing the carrying amount to reflect interest on the lease liability and reducing the carrying amount to reflect the lease payment made. Each lease payment is allocated between the liability and the finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The constant periodic rate of interest is the discount rate used at the initial measurement of lease liability.

The recognized right-of-use assets relate to the following types of assets

	<u>Aircraft</u>	<u>Leasehold Land</u>
Balance as of 1 January 2019	52,841,520	2,490,984
Add: Additions	-	-
Less: Depreciation (included in operating cost)	<u>(2,195,956)</u>	<u>(66,132)</u>
Closing balance as at 31 March 2019	<u>50,645,564</u>	<u>2,424,852</u>

On adoption of IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 1 January 2019.

	<u>2019</u>
Operating lease commitments as at 31 December 2018	67,033,362
Discounted using the lessee's incremental borrowing rate of at the date of initial application	58,521,466

The Group's weighted average incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 4%. Interest expense on lease liabilities amounted to KD 657,742 for the period ended 31 March 2019.

The Group's leasing activities and how these were accounted for

The Group mostly leases aircraft and aircraft engines for its operations. Lease contracts are typically made for fixed periods of 6 to 14 years for aircrafts and 3-6 months for the engines but may have extension options. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes. Until the 2018 financial year, these leases were classified as operating leases. Payments made under operating leases were charged to profit or loss on a straight-line basis over the period of the lease.

Significant judgments and estimates

The significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the Group's annual consolidated financial statements for the year ended 31 December 2018, except as mentioned below:

Extension and termination options in lease contracts

Extension and termination options are included in a number of leases across the Group. These terms are used to maximise operational flexibility in terms of managing contracts. The majority of extension and termination options held are exercisable both by the Group and the respective lessor.

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). The assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and that is within the control of the lessee.

Notes to the Interim Condensed Consolidated Financial Information (Unaudited) – 31 March 2019

Discounting of lease payments

The lease payments are discounted using the Company's incremental borrowing rate ("IBR"). Management has applied judgments and estimates to determine the IBR at the commencement of lease.

4. Property and equipment

	Kuwaiti Dinars					
	Engines & rotables	Leasehold improvements	Furniture & equipment	Vehicles	Capital work-in-progress	Total
Cost						
As at 31 December 2018	10,173,265	13,630,286	2,985,630	28,986	1,644,969	28,463,136
Additions	-	28,991	95,408	-	120,200	244,599
As at 31 March 2019	<u>10,173,265</u>	<u>13,659,277</u>	<u>3,081,038</u>	<u>28,986</u>	<u>1,765,169</u>	<u>28,707,735</u>
Depreciation						
As at 31 December 2018	2,326,723	1,925,976	2,212,682	26,283	-	6,491,664
Charge for the period	328,961	221,914	62,057	552	-	613,484
As at 31 March 2018	<u>2,655,684</u>	<u>2,147,890</u>	<u>2,274,739</u>	<u>26,835</u>	<u>-</u>	<u>7,105,148</u>
Net book value						
As at 31 March 2019	<u>7,517,581</u>	<u>11,511,387</u>	<u>806,299</u>	<u>2,151</u>	<u>1,765,169</u>	<u>21,602,587</u>
As at 31 December 2018	<u>7,846,542</u>	<u>11,704,310</u>	<u>772,948</u>	<u>2,703</u>	<u>1,644,969</u>	<u>21,971,472</u>
As at 31 March 2018	<u>6,931,231</u>	<u>740,636</u>	<u>58,373</u>	<u>4,452</u>	<u>10,005,811</u>	<u>17,740,503</u>

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

	Kuwaiti Dinars	
	Three months ended 31 March (Unaudited)	
	2019	2018
Operating costs	329,511	150,134
General and administrative expenses	283,973	83,783
	<u>613,484</u>	<u>233,917</u>

5. Cash and bank balances

	Kuwaiti Dinars		
	31 March 2019 (Unaudited)	31 December 2018 (Audited)	31 March 2018 (Unaudited)
Cash on hand	34,004	30,761	24,004
Current account with banks	3,860,194	3,303,510	4,532,386
Time deposits with banks	7,487,768	3,141,485	13,169,614
	<u>11,381,966</u>	<u>6,475,756</u>	<u>17,726,004</u>
Expected credit loss	(29,787)	(10,450)	-
Cash and cash equivalents in the statement of cash flows	<u>11,352,179</u>	<u>6,465,306</u>	<u>17,726,004</u>

The effective interest rate as of 31 March 2019 was 2.8% to 3.37 % (31 December 2018: 2.05% to 3.0%, 31 March 2018: 1.55% to 2.05%).

Notes to the Interim Condensed Consolidated Financial Information (Unaudited) – 31 March 2019

6. Share capital

The authorised, issued and fully paid up share capital of the Parent Company as at 31 March 2019 is KD 20,000,000 paid in cash (31 December 2018: KD 20,000,000; 31 March 2018: KD 20,000,000) comprising of 200,000,000 shares of 100 fils each (31 December 2018: 200,000,000 shares of 100 fils each; 31 March 2018: 200,000,000 shares of 100 fils each).

Dividend

The Annual General Assembly of the shareholders of the Group held on 15 April 2019 approved the distribution of cash dividend of 35 fils per share to the shareholders, amounting to KD 7,000,000 for the year ended 31 December 2018 (31 December 2017: KD 7,000,000: 35 fils per share) .

7. Earnings per share

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

	Three months ended 31 March (Unaudited)	
	2019	2018
Earnings for the period (in Kuwaiti Dinar)	1,468,662	(321,895)
Weighted average number of shares outstanding	200,000,000	200,000,000
Earnings per share (fils) – Basic & Diluted	7.34	(1.61)

8. 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 consolidated financial information are as follows:

	Kuwaiti Dinars		
	31 March 2019 (Unaudited)	31 December 2018 (Audited)	31 March 2018 (Unaudited)
Balances			
Due from/(to) a related party	14,182	7,853	7,158
			Three months ended 31 March (Unaudited)
			2019
			2018
Transactions			
Sales and services		61,152	78,478
General and administrative expenses		221,644	56,751
Key management compensation			
Salaries and other employment benefits		212,580	164,888

9. Segment information

The Group's sole operating segment is operation of a passenger airline service and operation and maintenance of terminal in Kuwait.

Notes to the Interim Condensed Consolidated Financial Information (Unaudited) – 31 March 2019

10. Commitments and contingent liabilities

	Kuwaiti Dinars		
	31 March 2019 (Unaudited)	31 December 2018 (Audited)	31 March 2018 (Unaudited)
Capital Commitments	1,172,309	1,229,830	3,785,250
Bank guarantees	12,311,141	5,872,103	5,454,371
	<u>13,483,450</u>	<u>7,101,933</u>	<u>9,239,621</u>