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Conference Title: **Jazeera 3Q19 Results Conference Call**

Moderator: **Hatem Alaa**

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Operator: Good day, and welcome to the Jazeera Airways' Third Quarter 2019 Conference Call. Today's conference is being recorded. At this time, I would like to turn the conference over to Hatem Alaa. Sir, please go ahead.

Hatem Alaa: Hello everyone. This is Hatem Alaa from EFG Hermes. And welcome to Jazeera Airways' 3Q 2019 Results Conference Call. I'm pleased to have on the call today Jazeera's CEO, Rohit Ramachandran, and the company's CFO, Krishnan Balakrishnan.

I'll now hand over the call to Rohit for a quick presentation that will be followed by a Q&A session. Rohit, please go ahead.

Rohit Ramachandran: Thank you very much, Hatem. Good afternoon, everyone. It really gives me great pleasure to welcome you once again to the Jazeera Airways earnings conference call for the third quarter.

I'm sure that by now you would've read our preliminary results published after the Board meeting yesterday, posting the strongest third quarter and nine months results ever in the company's history, even when comparing it with the time when we used to have the aircraft leasing business many years ago.

We look at this as a very positive sign that we are strategically headed in the right direction, and see it as an encouragement to continue our business development activities. As you are familiar by now, we will go through the coming slides in order to dig deeper into the details of our operational and financial performance, as well as the outlook for the third quarter – fourth quarter of the year. And also shed some light on some of the interesting initiatives that we are working on.

So, I suggest that you can open the presentation that was uploaded to our website a little while ago. And I will jump directly into slide #7.

The airline posted yet another quarter of growth in this year. The number of passengers that we carried was up by 14% over an already strong third quarter of last year. This was driven by a slight increase in our load factors and an addition of two aircraft to our fleet during the summer season. Utilization of our aircraft remained practically the same during the year with a marginal 2% drop to 14.5 hours, which is still industry leading.

Further, the third quarter yields also saw a decent increase of 5%, standing at almost KWD49 up from KWD46.5 in the same comparable period last year. We continue to keep a close eye on external factors affecting yield movement, while maintaining an internal focus on this critical KPI.

In the next slide, as a result of these operational achievements, Jazeera revenue for the period came in at KWD35.5 million, up from KWD29.2 million in the comparable quarter, reflecting a growth of 21%, while operating profit soared to 38% at KWD10.5 million. Net profit reported for the third quarter is KWD9.9 million, the highest ever in the history of the company. These earnings come as an outcome of our relentless analysis of the regional aviation ecosystem and a continuous, almost fanatical focus, on implementing our cost control mechanisms and expansion plans, which combined, gradually positively impacting our financial results.

In the next slide, you will see that our e-commerce and ancillary revenue are also showing healthy signs of growth as we continue to modify our offering in order to better interact with the needs of our customers.

Moving onto the nine months operational highlights in the next slide. Jazeera – the number of passengers that we carried for the year increased by 18% to stand at 1.8 million compared to 1.5 million last year, while also driving up our load factors by 2% during the first nine months of the year, to register at 78%. Utilization is also up 1%, while yields increased by significant 7.3%.

So, the next slide, these operational achievements were translated into a strong financial performance with a 30% increase in revenue at KWD83 million versus KWD64 million during the first nine months. In the absence of any one-offs or any unfavorable events, you will recall that we had a couple of one-offs last year. This year we did not have any. This means that Jazeera's operating profit increased by 91% to KWD17 million, while net profit jumped by 90% to KWD16 million against KWD8.5 million in the comparable period last year.

Once again, this marks the highest nine months net profit in the history of the company. Similarly, we also managed to grow our ancillary revenue by 32% during the first nine months of the year.

Moving onto slide 14. We'd like to cover some of the recent operational highlights. We are proud to announce that we started flying to London Gatwick on October 27th to become the first low-cost airline from the GCC to ever land into London. Initially, we started a four-times-a-week service and that will be ramped up to a daily service in December. Further, as we take delivery of new aircraft, we are also announcing the launch of several new routes, one of which is to Osh in Kyrgyzstan.

Now, I will cover some of the new routes as we move into the next slides. But Osh, in particular, is interesting because it is currently unserved to the Middle East and Kyrgyzstan is an Islamic country. And with this service, we are able to cater to a large number of them who want to travel for the Umrah and Hajj pilgrimage. In fact, we have operators who were already contracted 75%

of our flights. We're also planning to start, during this quarter, Karachi and Kathmandu, both of which I will cover in slightly greater detail later in the presentation.

One of the focus during the year was to regain our preeminent position with respect to on-time performance. I'm very happy to announce that in addition to the financial results, our on-time performance during the third quarter and the very important summer period made a remarkable recovery and now, we are in the 90% range. This was achieved by the addition of one more gate in our Jazeera Terminal T5, and also supported by the two new aircraft that joined the fleet during the high season.

Further, we also are developing new sales ventures, including a new Jazeera holiday service in partnership with one of the large travel companies in the Gulf.

Going to slide 15, you will see that our market share on almost all the destinations that we serve remains strong, especially when focusing on the destinations that were launched since the beginning of last year, as Jazeera gradually becomes a key player on these routes and passengers become more familiar with our brand.

In slide 16, we highlight the evolution and the composition of our network as we increase our operation into Eastern Europe or the CIS and the Indian subcontinent. In the latter, we continue to carry more passengers to and from our six operating destinations in the subcontinent and this will be complemented with the new routes in the coming days.

Year-to-date, we witnessed growth in the number of passengers to all destinations that we operate to. However, of course, the composition of the total figure in this pie chart will continue to be altered as we launch more and more new destinations.

Let's now move onto some information about our Jazeera Terminal T5. I'm glad to announce that T5 reported a third quarter of profit since the opening, registering an EBITDA of KWD632,000 and a net profit of KWD418,000 in the third quarter of 2019. For second half of the year, we're seeing some positive dynamics as we now have managed to receive all the required licensing, which means that we are now able to collect rent from all the units that have already been leased on both the land sites and air sites.

All 1.8 million Jazeera passengers flew through T5 during the year, which is encouraging, significant improvements in retail offering. In the meantime, other revenue streams such as lounges, parking and concessions and now – are now either fully operational or in the last stages of being implemented.

A word about our outlook for the rest of the year. Looking into the fourth quarter, we have strategically opted to increase the number of destinations that we start in this quarter as we gradually received additions to our fleet. We already welcomed one of the three brand new A320neos that were scheduled for delivery in the fourth quarter, which came in on October 18th, which is last month. And this was the aircraft nine days later that flew to London.

Further, the new deliveries, along with the existing fleet, will be used to start operations to seven other destinations, bringing the total number of destinations launched in 2019 to nine after taking Bodrum into account.

Now which are these destinations? If you look at the slide, you will see London, which have already started; Osh in Kyrgyzstan that we started last week; Kathmandu and Nepal launching in about two weeks; Karachi launching in the last week of this month; Chittagong in Bangladesh launching next month; Al Ain in UAE launching next month; Dammam in Saudi Arabia launching next month; and Abha in Saudi Arabia launching in very early January.

One thing you will find in all these new routes that we are operating is with the exception of one, which is Dammam, all the others are brand new connectivity into Kuwait, which means that currently no airline serves on these routes. So, seven out of eight of these new routes are new virgin opportunities.

Moving onto the next slide. On a different note, we have discussed previously during our earlier calls and in some of our meetings with investors, but I wanted to provide a little bit more details during today's call on some of the key cost-cutting initiatives that we believe will have a material impact on Jazeera's financial performance.

One of the biggest cost components for any airline, including us, is engineering and maintenance costs. So, we have put this cost element under our microscope and actively pursuing cost-saving initiatives in this area. For a start, we are evaluating the construction of our own Jazeera hangar in Kuwait and this will support all the maintenance activities to be performed on our aircraft. We are also going to be bringing in-house some of the line and light maintenance activities that are currently outsourced to the other base carrier in Kuwait.

Moreover, we are renegotiating major maintenance costs related to components as well as engines. Along with other contract renegotiations, we expect to see a significant impact on our overall maintenance costs, hence the total costs measured in terms of cost per passenger. And this will certainly have, in 2020, a positive impact on our bottom line.

One other point I would like to mention with respect to Q4, all of you are aware that Q4 is traditionally the weakest quarter for airlines in our region and we expect it to be no different. However, we have chosen to invest in the future of Jazeera by launching all these new services. As you can see from our track record over the last two or three years, our new routes are chosen with care and these routes significantly contribute to the bottom line once they are mature. But it's very normal in our business for new routes to take three to six months to mature. So, as usual, Q4 expected to be a tough quarter but we have taken it upon ourselves to make sure that during this quarter we invest in our future.

With this, I conclude my section of the presentation and hand you over to our Chief Financial Officer, Krishnan, for a detailed discussion on the financials. Krishnan, over to you.

Krishnan Balakrishnan: Thank you, Rohit, and a very good afternoon to all the people on the call. Thank you for joining us today. On the next slide, this is slide #22, the basic parameters relating to our third quarter performance are listed. As most of these have already been addressed in Rohit's presentation, I will not dwell on those. I will take you straight to slide #23 where we have the financial position.

The operating revenues went up in this quarter as compared to the last year third quarter by 21.4%. And this was mainly because we had an improvement in the yield which contributed KWD1.3 million. The increase in the number of passengers contributed KWD4.1 million, and the terminal [inaudible] division profit was KWD418,000 as compared to the loss of KWD200,000 in the same quarter last year.

If you go down to the operating expenses, the costs have gone up by 15.7%, which is significantly lower than the revenue increase. And this is primarily – the increase is only mainly because of the volumes of the transactions that have increased because we have additional operations in third quarter of 2019. As a result, the operating profit went up by 37.6% and the net profit went up by 41%.

On the balance sheet position, if you see, the cash balance we have as on end of September 2019 has gone up to KWD18.4 million, which is an improvement of 36%. In the next slide, I'll take you through the reasons for this. The fixed assets have gone up by about KWD6 million. The total assets have gone up by about KWD66 million. And the liabilities have also gone up from KWD21.7 million to KWD86 million. We will go through the details as to why these increases have happened in the next slide.

If you kindly go to slide #26, the assets have increased by KWD66 million, mainly because of the IFRS 16 implementation relating to leased aircraft – leased assets. The impact on the asset side was an increase of KWD48.5 million. The cash and bank balances increased by about KWD12 million, mainly because of the better operating cash profits and the cash we recovered from the lessors by replacing the cash maintenance reserves with bank guarantees.

The major cash outflow during the period was the KWD7 million dividend payout we made in the month of May, as well as the purchase of one LEAP engine, which we procured in the month of May as well. So, despite that, our overall cash balance has gone up by the KWD12 million as mentioned.

If you look at the liabilities increase of KWD64 million, it was driven by two main factors. One was KWD54 million of the IFRS 16 related liabilities going up in the balance sheet and the maintenance reserves, the bank guarantees we have issued to the lessors and where we have taken the cash back from the lessors. So, that's why the liabilities have gone up by KWD64 million.

I will now take you back to the slide #24, where briefly we will talk about the fuel hedging. As mentioned in our previous call, we had – we have been – Rohit had mentioned that we are looking at ways to mitigate our risks so far as the fuel costs are concerned. The Board approved the hedging of about 25% of our annual requirement – rather, up to 25% of our annual requirement if the Brent barrel comes to US$60 a barrel.

Accordingly, in the month of September, we hedged 25,000 barrels per month for the next 24 months, starting September 2019, at a price of US$57 per barrel of Brent. In 2019, for the month, we made a profit on this hedge of US$130,000 because the average price for September was higher than US$57.

The next slide 25 is information on the movement of Brent and the fuel as a percentage of our cost.

And with that, I conclude my part of the presentation and hand you over back to Rohit.

Rohit Ramachandran: Thank you very much, Krishnan. I'm now ready to take any questions that you might have.

Operator: Thank you sir. If you would like to ask a question, please signal by pressing star one on your telephone keypad. If you're using a speakerphone, please make sure your mute function is turned off to allow your signal to reach our equipment. Again, please press star one to ask a question. We'll pause for just a moment to allow everyone the opportunity to signal for questions.

Our first question will come from Karim Abadir with FIM Partners.

Karim Abadir: Hi gentlemen. Congratulations on the great results. I just have two questions. One is on the growth in yields, so 7% growth. Can you just talk a bit about where that growth came from? And then my second question is in regards to the terminal. Is there any update on the airport tax negotiations with the government? And then, is there any update on terminal expansions going forward? Thank you.

Rohit Ramachandran: Thank you, Karim. I appreciate both questions. As you know, yield is largely a function of market demand and supply factors. Having said that, there are also ways that you can mitigate some of the markets demand and supply factors with certain yield improvement initiatives.

Some of these yield improvement initiatives, including reducing our reliance on low-yield traffic, volume traffic, group traffic, we have begun to put into place since last year. In addition to that, moving forward this year with a more robust and aggressive sales teams that we have put in place in most of our outstation markets, as in we were always in a strong position in Kuwait. But over the last two years, we have dramatically improved our contribution from our outstations. That has also helped to improve yield in addition to the seat[?] factors when it comes to the sales coming in from outstations.

There were some route-specific temporary yield benefits that we received. One of them had to do with the grounding of the MAXs. And so, the carriers that operate the MAX, most predominantly the low-cost carrier based in the UAE, had to temporarily reduce services into Kuwait. And on that one route, we had a temporary benefit in yield increase.

Similarly, with the demise of Jet Airways in India, had a temporary benefit on the Mumbai route, which is the only route that they used to operate. All this with respect to Dubai and Mumbai did have positive impact on our yield.

Coming to your two questions regarding the terminal, I understand that the issue of the airport passenger service field is still under discussion and debate and consultation with the government as well as the parliament. I'm of very confident that certainly some, if not all, of the proposed amount will be implemented. It's only logical that it is, because Kuwait remains by far the lowest departure tax regime in the GCC and I'm certain that no government at this stage wants to leave money on the table. And we expect to be a beneficiary of that decision as well.

Regarding terminal expansion, you're very right. We are now slowly approaching the design capacity of the terminal. And much before we hit that limit, we have begun working on Phase 1.5 as well as Phase 2 of the expansion of the terminal. Phase 1.5 is a very quick, relatively inexpensive way for us to increase the capacity in our terminal by about 600,000 passengers. And this should be done before next summer; I'm confident it will be done before next summer.

We are also adding four extra check-in counters and two extra ground gates under Phase 1.5. Phase 2 involves a dramatic increase in the capacity of the terminal, and this includes physically building additional facilities. And the design process of that initiative is ongoing currently. That, of course, will take another year and a half to two years to materialize.

I hope I've been able to answer your question, Karim.

Karim Abadir: Yes, thank you very much. And I just have one follow-on question. Obviously, I know that you guys responded to it but there was a report saying there was a court decision on the balloon incident. I mean, I know you made an announcement. But maybe if you can just elaborate that one more time and if there's any update on that, that would be great. Thank you.

Rohit Ramachandran: Sure, Karim. There are two specific and different issues at play here. One is the case pertaining to the Ministry of Defense putting up these claims against Jazeera and that is currently in the courts, which we are vigorously defending because we believe that their position does not have merits. So, that is now going through the Experts Committee, which is evaluating the quantum and who is responsible for the entire incident.

The recent ruling that you're referring to, has to do with the case against the pilots concerned. I am – I have two responses to that. One, yet, again, I think that this is a wider issue where there are multiple parties involved. With respect to the court, we respectfully disagree with the outcome. This is also a very preliminary ruling. There are at least four additional levels of appeal available to us and we expect this to be overturned in one of the earlier courts of appeal.

The second response, of course, which is a logical one and obvious one, is this has nothing directly to do with Jazeera. This is against the pilot and the pilot is mounting a robust defense in this particular case.

In any event, we have had multiple confirmations in writing from our insurers that any possible damages that accrue from this case are fully covered by our insurance policies.

I hope I'm able to answer your question adequately, Karim.

Karim Abadir: Yes, thank you very much and again congratulations on the results.

Rohit Ramachandran: Thank you very much, Karim.

Operator: Thank you. Our next question comes from Thomas[?] Jefferson[?] with Victory Capital. Sir, your line is open.

Thomas Jefferson: Yes, thank you. Yes, hi. So, a couple of questions. One, I was hoping you could comment on what you're now seeing in the competitive environment and what that means for yields. We saw obviously growth this past quarter. Do you imagine that to be sustainable, or is that just a function of the handful of routes where you specifically outline specific incidences with the low-ost carrier in Dubai and Jet Airways? So, that's question one.

Question two, at what point do you think we'll begin to see the full revenue generation capacity of the terminal? Should that be in Q4 of this year or some point earlier next year? And then, with respect to the terminal as well, I wanted to ask you, do you now have the ability to clear customs as a non-Kuwaiti in Terminal T5, or do you start to go to the other terminal?

Rohit Ramachandran: Thank you very much. Let me begin with your first question regarding the competitive environment. Our region continues to have more airplanes that it really requires. It's also true that we, as Jazeera, are surrounded by government-owned big boys who don't have the same profit imperatives that we do.

Having said that, that's not really new. This is something that we have been facing since the day we were born. I think the best way to sustain and grow and remain profitable in this ecosystem is to fanatically keep your costs low so that even at the risk of yields being eroded, you still remain highly profitable.

So, on one hand, that's what we're doing because that's what we have control over. When it comes to the irrationality of some of our competitors, we don't have direct control over that. What we can do, for example – right now by the way we're going through a pretty intense fare war on the Kuwait-Dubai sector. There are days where Emirates is cheaper than Jazeera Airways.

So, how do we handle it? We compete aggressively on the segment of traffic between Dubai and Kuwait, sure. But also we go after traffic from Dubai to many other places that the pricing between these two points is not a factor. For example, we carry a lot of traffic from Dubai to Lahore. We carry a lot of traffic from Dubai to points in the CIS, such as Baku and Tbilisi.

We most recently are seeing very encouraging bookings from Dubai to London because the pricing on Jazeera as an only low-cost carrier operating from the Gulf to London is lower than the direct carriers from Dubai to London. And so we can offset some of the risks of irrational pricing on any one or two or three routes.

The reality is Q4 is going to be a tough quarter. We have to roll up our sleeves, compete aggressively and make sure that we come out on top. And that's what is the instruction been given to our sales teams and revenue management and yield management teams.

Coming to your two questions regarding T5. It was only in early October that we managed to get all the municipality approvals necessary for the leasing of space on the land side. So, we are now aggressively moving forward with the backlog of the tenants that had approached us and we still did manage to accommodate them because of the license issue. Now we have all the licenses and our commercial team that manages leasing of space at the terminal is actually extremely busy, for the last month and the next two months, in clearing this backlog.

Will you see the full impact of terminal lease revenue in Q4? I would say you'd see a significant impact but not the full impact. But you will definitely see the full impact in 2020. Air side, as you know, we are practically 100% sold out with respect to lease space. The interesting thing to see is if you look at even the best malls that are in Kuwait, you have an average per square meter lease of about KWD40, KWD45 per square meter. We are being very selective in getting in tenants into the terminal only for rates that are a minimum of four times that, sometimes five times that.

Coming to your question regarding visa on arrival, I'm happy to report that I think approximately two months ago we now have a full-fledged visa on arrival service, a desk manned with immigration officials, fingerprinting machines, all the necessary technology there for eligible non-Kuwaiti, non-GCC residents to get a visa on arrival in Jazeera Terminal T5. And that was a big, big victory in order to encourage corporate travel and business travel coming through T5.

I hope that adequately answers your question.

Thomas Jefferson: Thank you.

Operator: Thank you. As a reminder, if you'd like to ask a question, please press star one at this time. Our next question comes from Tujad[?] Eshwar[?] with Franklin Templeton.

Jagadishwar Pasunoori: Hi. This is Jagadishwar Pasunoori from Franklin Templeton. Congratulations on good set of number and results. I have couple of questions. Okay. Can you please talk about your experiences, progress and challenges on London route? That's one question.

And can you talk about – like, I heard this in the news somewhere, I've read in the news that you are planning to order for 20 to 25 single-aisle aircraft. What is the progress so far?

The third question is your marketing expenditure was KWD1.3 million in 2018. Is it going to significantly increase this year and next year? Because you're adding new planes and new routes because I see so many ads coming on YouTube. Thank you.

Rohit Ramachandran: Right. Thank you, Jagadish. Appreciate your questions as usual. London is really a learning experience for us. The reason for that is the cost dynamics, the operational challenges, and even the products; this is actually the very first time so there's really no benchmark in terms of having a low cost peer or rival on this route. So, we are actually creating something new.

We began work on operation to London actually 10 months ago. What we wanted to do was operate London before the summer, which is really when we get the benefit of the summer peak. Unfortunately, as I'm sure you know, Airbus globally has delayed deliveries of their narrow-body aircraft because of a huge backlog, which they attribute to delayed engines. The consequence of that was that the airplanes we were supposed to get earlier in the year are now – only now coming in, one in October and two in November.

As a result of that, we had to delay the launch of London. One of the big challenges, as you know, is to get slots at mainline London airports. So, both Heathrow, which is notoriously difficult, and Gatwick, which is also now getting extremely difficult, getting slots is a challenge. However, with a great deal of perseverance from our head of projects, who actually coordinated the whole thing, we managed to get daily slots into London Gatwick at the time of our choosing without paying a single penny or buying the slots from another airway.

Actually, this should sit on the asset side of our balance sheet because tomorrow, if we want to lease or sell these slots, we will have the ability to monetize it. Okay?

Now, the challenge is we need to build better and better connectivity onto the London service. So as we get more aircraft, as we get more destinations, we will be able to derisk the London service by connecting more and more points onto the Kuwait-London and London-Kuwait vice-versa service. The initial start has been strong. I was on the first flight from London. We had about 125 passengers on route, which is exceptionally good for a brand new route.

We expect November to be challenging and very tough because it's a low season. We expect December and January, based on the forward bookings, to be excellent. And then we have to build the route to be sustainable year round, like we do with all of our routes.

Coming to your question regarding our fleet growth. Now, I have a slightly different approach when it comes to fleet. Most of the airlines in this part of the world, they place large aircraft orders and then they're stuck with airplanes and they don't know where to fly these airplanes. What we have been doing is being opportunistic to go after distressed units that lessors or manufacturers find themselves with, and then we get them at lease rates that are practically world-record lease rates for A320neos.

The last few airplanes, plus the next four airplanes next year, we have secured at far lower than market prices for the A320neo lease. And this is because we're not stuck with an aircraft order that we placed, but we're opportunistically looking at which lessor is in trouble with the units and we go and take those unit off their hands at prices that are favorable to us.

So far, this has worked for us but it's obvious that this is not a sustainable model. And as we grow in size, we will need to adopt a more formal process for fleet management as well as when it comes to fleet renewal, which needs to begin in 2022 as the first of our aircraft starts going back. And that is why we are in discussions with Airbus to actually begin the process of evaluating an aircraft order that takes time. There is no rush from my point of view and we need to make sure that we get the right price if and when we go ahead with this.

Of course, the interesting thing is that now, in addition to the neo, there are a couple of technological advancements that allow us to look at other aircrafts in the same family. This includes the recently launched A320neo XLR, standing for extra-long range. This will be – this will begin delivery around 2023.

And with the same operational metrics, with the same pilots without additional retraining, the same spares can be used on most of these airplanes, but it gives you dramatically better range, almost 80% better range. And so, we're also in discussion with Airbus, starting from 2023-2024, to evaluate this aircraft because by then we would have more or less covered all the organic destinations within five hours flying time. And we should be ready to have the reach to slightly further destinations, but at the same or similar cost structures because going for a wide-body is completely out of the question for Jazeera.

Your third question regarding marketing expenses, I'm glad you said that you saw our ads on YouTube and similar online and social media, because it would've worried me if you said you saw our ads on TV or the newspapers. Now, for us, most airlines, they spend approximately 2.5% to 5% of their revenue as advertising. If you notice, for us, it's well below that range. And the reason why you find us being effective in getting our message out, but still being about half of what most airlines spend per revenue is because we believe in getting most of our advertising and marketing and PR reach to social media and online channels.

There are two advantages to this. One, of course, we manage our costs better. Two, there is ROI and measurability, which means that you can exactly measure the impact of each ad and each dollar spent in terms of return on investment. And that's why we focus now predominantly on digital channels.

I hope that answers your question, Jagadish.

Jagadishwar Pasunoori: Yeah. So but overall – I mean, you're not going out of your range to spend in this year or next year, right? I mean –

Rohit Ramachandran: No. If anything, this should bring in economies of scale, that as we grow, with the exception of advertising the new route launches in some cases, overall as we grow, the percentage of spend in terms of revenue should come down.

Jagadishwar Pasunoori: Okay, great. I have three more questions but I can come back later.

Rohit Ramachandran: Okay, let's hear from somebody else. Any questions?

Operator: Thank you. Our next question comes from Gus[?] [inaudible] with [inaudible] Capital.

Gus: Yeah. Hi Rohit. I hope you're well. And congrats on a great quarter. I just – I have a couple of questions about your capital allocation. And just starting with the dividend, I mean, the company's earnings potential has picked up dramatically. So, I'm wondering how you're thinking about the dividend for this year and how the Board is thinking about the dividend, given that you have the capacity potentially to double the dividend if you want to. So, that's the first.

And secondly just moving onto your capital allocation priorities. Outside of the terminal, are there any other projects the company envisions spending CAPEX on?

And then finally with the terminal, how much do you envision it will cost for these short-term expansion and then also for the long-term expansion? And will you be using equity or will you be borrowing to do that?

Rohit Ramachandran: All right, thank you very much for your questions. I will take them in the same order. Let me begin with question on dividends and let me be very politically correct here by saying that the payment of dividends and the decision of dividends is the prerogative of the Board and subsequently the AGM. Having said that, I would see no reason – there are two considerations. The first one, I would see no reason for us to change our dividend policy compared to the past. So, the policy is not an absolute number. The policy has been a percentage and I would see no reason to change that. But once again, it's a prerogative of the Board.

Second, it is my view as well, if I may also speak on behalf of the Board, that there is no desire on our part to keep more cash within the company than is absolutely necessary. In other words, after allocating all the necessary working capital and the amount of CAPEX, we have no desire to retain any additional cash within the company. So, I hope that answers your question as directly or indirectly as possible. Okay?

Regarding capital allocation, there are two projects that are likely to require some CAPEX. One is the terminal expansion, which includes 1.5 as well as Phase 2, both of them. And the second one is what I mentioned earlier regarding us evaluating the feasibility and the financial justification for building our own hangar, engineering hangar. Both of this are currently going through evaluation but both of this will be very logical in terms of the spend that we intent to do. It's a bit premature to go into specific numbers at this point but these are the only ones that have a possibility of being included in the CAPEX for next year.

With respect to the cost of T5 expansion, the imminent expansion, which is Phase 1.5, is likely to be a relatively small amount of CAPEX. By that, I mean six figures in KWD and not more, perhaps the low six figures. When it comes to Phase 2, that, of course, will go through a more intense evaluation process and it's a bit premature to go into the quantum of CAPEX For Phase 2.

Now, we retain the option of either funding these projects through our internal reserves or going out either in terms of borrowing or other vehicles. Here, it's worth remembering that so far even the entire cost of the terminal and the building of the terminal were funded internally by Jazeera.

I hope that answers your question.

Gus: It does. Thank you.

Operator: Thank you. Again as a reminder, if you'd like to –

Rohit Ramachandran: Any other questions?

Operator: Again, as a reminder, if you would like to ask a question, please press star one at this time. We now have a follow-up from Mr. Eshwar from Franklin Templeton.

Jagadishwar Pasunoori: Hi. This is Jagadishwar again. A couple of questions, on the hedging, you guys talked about like 25,000 barrels per month. So, if you look at on a year basis, how much it is as a percentage of overall fuel consumption? That's one thing.

Rohit Ramachandran: 20%.

Jagadishwar Pasunoori: And then the second thing – 20%. I mean, so, so far you have done 20%?

Rohit Ramachandran: Yes.

Jagadishwar Pasunoori: Okay, great. And another question is, has the net income gone down or gone up because of IFRS 16 implementation? I think you have implemented starting this year. And another question is if you start a new plane, what are the typical losses that you have to report until that plane becomes a breakeven? I mean, do you guys try to consolidate numbers and see what are the typical losses that you report? You said maturity will take like three to six months. And on the fourth thing, for Terminal Phase 2 expansion, do you already have access to the land?

Krishnan Balakrishnan: Okay. Hi Jagadish, Krishnan here. I will take the first question and then hand over to Rohit for the other two. On the hedging, he's already addressed. On the – yeah, so that is 20% of our annual requirement today that we have hedged.

You then asked about the IFRS 16. Today, the impact of about KWD5.5 million was taken in the retained earnings as on January 1st 2019. The ongoing P&L, you do not see a major impact. It is probably about KWD50,000 or KWD60,000 that we have seen so far as an impact.

The other two questions, I'll give to Rohit.

Rohit Ramachandran: Yeah, Jagadish. When you say when does an airplane become profitable, I assume you mean when does the route become profitable. Am I right?

Jagadishwar Pasunoori: Let's say you are using a new plane to London and you got a new plane. So, you might be spending, investing on the crew and then all other staff. But it breaks even only after –

Rohit Ramachandran: It doesn't work like that.

Jagadishwar Pasunoori: Okay.

Rohit Ramachandran: We don't have a P&L per aircraft, okay? So, an aircraft has certain fixed costs and the routes have fixed and variable costs, right? So, you can have a P&L per route and you can have then the P&L for the whole airline. Okay?

Jagadishwar Pasunoori: Okay.

Rohit Ramachandran: So, when I was talking about the routes taking three to six months to mature, what it means is that the route needs to not only cover its direct operating costs but also needs to cover its share of the fixed cost. So, to give you an example, a route from here to Dubai, the direct operating costs is the cost associated with fuel, the cost associated with engineering on the aircraft, the pilot allowances for that particular flight, the ground-handling, the landing, the parking; all of that is direct operating cost.

You also have fixed cost for the company, which is the rent of the building, my salary, all of those things are fixed cost, which you incur whether the route operates or not or the flight operates or not. Now for a route to be profitable, it needs to not only cover all its direct operating cost of the route but also cover its share of the fixed costs. And the fixed costs are allocated on all our routes in proportion to their lengths.

I hope that answers the question.

Jagadishwar Pasunoori: Okay, great. How about the land? Do you already have access to the Phase 2 expansion or does it need more time?

Rohit Ramachandran: Yeah. So, we have received in principal approval from the regulator that they will support and approve our Phase 2 and they agree that there is a need for Phase 2. So, that milestone have been crossed. Our teams are currently in discussions with the regulator as well as Oppenheimer, which is the master plan design consultant for Kuwait International Airport, the entire master plan of the project of the whole airport. And we have identified three possible sites for Phase 2. And that's currently ongoing to look at the pros and cons, and then layer down the specific piece of land that's ongoing.

But certainly, the regulator accepts the need for our expansion and they support Jazeera's ongoing growth and expansion.

Jagadishwar Pasunoori: Okay, great. Can you please remind me the current capacity of the Phase 1? It's KWD3.5 million?

Rohit Ramachandran: KWD3.5 million, correct.

Jagadishwar Pasunoori: Okay, great. Thank you. Thanks a lot. Good luck.

Rohit Ramachandran: If there are no – thank you very much, Jagadish. If there are no further questions, I want to thank you all and hand you back to Hatem of EFG Hermes.

Hatem Alaa: Thank you, Rohit, very much for the call. It's been very useful. Thank you everyone for dialing in. Have a good day. Thank you.

Rohit Ramachandran: Thank you. Bye-bye.

Operator: Thank you, ladies and gentlemen. This concludes today's teleconference. You may now disconnect.