


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

**Consolidated Annual Financial Statements and
Independent Auditors' Report
31 December 2007**

PRICEWATERHOUSECOOPERS 

**AL-AHLI BUREAU
Certified Accountants**

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Jazeera Airways K.S.C.
Kuwait

INDEPENDENT AUDITORS' REPORT TO THE SHAREHOLDERS

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Jazeera Airways K.S.C. (the "Parent Company") and its subsidiary (together the "Group"), which comprise the consolidated balance sheet as of 31 December 2007 and the consolidated statement of income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended and a summary of significant accounting policies and other explanatory notes.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

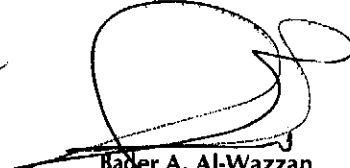
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

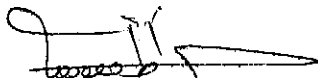
Opinion

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2007, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Report on other Legal and Regulatory Requirements

Furthermore, in our opinion, proper books of accounts have been kept by the Parent Company, and the financial statements, together with the contents of the report of the Board of Directors relating to these financial statements, are in accordance therewith. We further report that we obtained all the information and explanations that we required for the purpose of our audit; and that the consolidated financial statements incorporate all information that is required by Commercial Companies Law of 1960, as amended, and by the Parent Company's Articles of Association; that an inventory was duly carried out; and that, to the best of our knowledge and belief, no violations of the Commercial Companies Law of 1960, as amended, or of the Articles of Association have occurred during the year ended 31 December 2007 that might have had a material effect on the business of the Group or on its consolidated financial position.


Bader A. Al-Wazzan
Licence No. 62A
PricewaterhouseCoopers


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

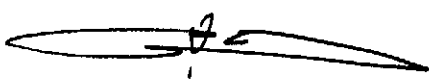
Kuwait
18 March 2008

Jazeera Airways K.S.C
Kuwait

Consolidated Balance Sheet as of 31 December 2007

	Note	Kuwaiti Dinars	
		2007	2006
ASSETS			
Non-current Assets			
Property and equipment	4	75,612,489	52,669,597
Deposits	5	2,314,215	144,595
		<u>77,926,704</u>	<u>52,814,192</u>
Current Assets			
Inventories, expendable parts and supplies		145,856	113,018
Trade and other receivables	6	1,762,918	982,293
Cash and bank balances	7	3,067,632	1,537,785
		<u>4,976,406</u>	<u>2,633,096</u>
Total assets		<u>82,903,110</u>	<u>55,447,288</u>
LIABILITIES AND EQUITY			
Equity			
Share capital	8	19,998,860	10,000,000
Legal reserve	9	335,509	104,480
Equity transaction costs		(46,079)	-
Retained earnings		2,987,881	930,916
Equity attributable to the Parent Company's Shareholders		<u>23,276,171</u>	<u>11,035,396</u>
Minority interest		292	292
Total equity		<u>23,276,463</u>	<u>11,035,688</u>
Non-current liabilities			
Term loans	10	44,067,095	31,947,343
Post employment benefits		275,334	127,238
		<u>44,342,429</u>	<u>32,074,581</u>
Current liabilities			
Term loans	10	3,506,134	4,813,401
Bank overdraft		-	925,250
Trade and other payables	11	6,494,620	4,219,099
Deferred revenue		5,283,464	2,379,269
		<u>15,284,218</u>	<u>12,337,019</u>
Total liabilities and equity		<u>82,903,110</u>	<u>55,447,288</u>

The accompanying notes are an integral part of these consolidated financial statements.


Marwan Marzouk Boodai
Chairman

Consolidated Statement of Income - Year ended 31 December 2007

	Note	Kuwaiti Dinars	
		2007	2006
Revenue	12	34,709,392	21,531,981
Operating costs	13	(28,362,965)	(15,799,865)
Gross profit		6,346,427	5,732,116
Other income	14	3,680,942	1,025,018
General and administrative expenses	15	(4,876,923)	(2,278,570)
Finance costs		(2,840,157)	(1,966,250)
Contribution to Kuwait Foundation for Advancement of Sciences (KFAS)		(20,793)	(9,403)
Zakat		(1,502)	-
Profit for the year		2,287,994	2,502,911
Attributable to:			
Shareholders of the Parent Company		2,287,994	2,502,911
Minority interest		-	-
		2,287,994	2,502,911
Earnings per share (fils) – Basic and Diluted	16	20.12	25.03

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity – Year ended December 2007

	Kuwaiti Dinars					Total equity
	Equity attributable to the Parent Company's Shareholders				Minority interest	
	Share capital	Legal reserve	Equity transaction costs	Retained earnings / (accumulated deficit)		
At 1 January 2007	10,000,000	104,480	-	930,916	292	11,035,688
Rights issue	9,998,860	-	-	-	-	9,998,860
Rights issue expenses	-	-	(46,079)	-	-	(46,079)
Total expenses directly recognised in equity	-	-	(46,079)	-	-	(46,079)
Profit for the year	-	-	-	2,287,994	-	2,287,994
Total income/ (expenses) for 2007	-	-	(46,079)	2,287,994	-	2,241,915
Transfer to reserves	-	231,029	-	(231,029)	-	-
At 31 December 2007	19,998,860	335,509	(46,079)	2,987,881	292	23,276,463
At 1 January 2006	10,000,000	-	-	(1,467,515)	292	8,532,777
Profit for the year	-	-	-	2,502,911	-	2,502,911
Transfer to reserves	-	104,480	-	(104,480)	-	-
At 31 December 2006	10,000,000	104,480	-	930,916	292	11,035,688

The accompanying notes are an integral part of these consolidated financial statements

Consolidated Statement of Cash Flows –Year ended 31 December 2007

	Note	Kuwaiti Dinars	
		2007	2006
Cash flows from operating activities			
Profit for the year		2,287,994	2,502,911
<i>Adjustments for:</i>			
Depreciation		3,866,015	2,849,935
Finance costs		2,840,157	1,966,250
Write-off of equipment		-	1,207
Post employment benefits		148,096	105,138
Gain on foreign currency revaluation		(2,558,129)	(325,095)
Operating profit before working capital changes		6,584,133	7,100,346
Increase in inventories		(32,838)	(75,003)
Increase in trade and other receivables		(780,625)	(547,066)
Increase in trade and other payables		2,275,521	2,653,510
Increase in deferred revenue		2,904,195	1,870,773
Net cash from operating activities		10,950,386	11,002,560
Cash flows from investing activities			
Acquisition of property and equipment		(26,808,907)	(22,653,099)
(Increase)/ decrease in deposits		(2,169,620)	1,495
Time deposits with banks		-	(40,695)
Net cash used in investing activities		(28,978,527)	(22,692,299)
Cash flows from financing activities			
Capital contribution – Rights issue		9,998,860	-
Expenses of rights issue		(46,079)	-
Increase in term loans		10,812,485	14,482,342
Repayment of Bank overdraft		(925,250)	(378,461)
Finance costs		(2,840,157)	(1,966,250)
Effects of exchange rate changes on term loan		2,595,980	295,161
Net cash from financing activities		19,595,839	12,432,792
Net increase in cash and cash equivalents		1,567,698	743,053
Cash and cash equivalents at			
beginning of year		1,497,090	724,103
Effects of exchange rate changes on cash and cash equivalents		(37,851)	29,934
end of year	7	3,026,937	1,497,090

The accompanying notes are an integral part of these consolidated financial statements

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 (note 3) owns and leases aircraft and engines. The Parent Company and its subsidiary are together referred to as the "Group" in these consolidated financial statements.

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

The Parent Company was listed on the Kuwait Stock Exchange on 14 January 2008.

These consolidated financial statements have been approved for issue by the Board of Directors on 18 March 2008 and are subject to approval of shareholders at their forthcoming annual general assembly meeting.

2. Basis of preparation and significant accounting policies

2.1 Basis of preparation

These consolidated financial statements have been prepared in compliance with International Financial Reporting Standards (IFRS) under the historical cost convention. The accounting policies used in the preparation of these consolidated financial statements are consistent with those used in the preparation of the annual consolidated financial statements for the year ended 31 December 2006.

During the year, the Group applied IFRS 7: Financial Instruments: Disclosures and amendment to International Accounting Standard (IAS) 1. As a result, additional disclosures are made that will enable users to evaluate:

- the significance of financial instruments for the Group's financial position and performance;
- the nature and extent of risks arising from financial instruments to which the Group is exposed during the period and at the reporting date, and how the Group manages those risks; and
- the Group's objectives, policies and processes for managing its capital.

The International Accounting Standards Board (IASB) issued / revised the following Standards which are not yet effective and accordingly have not been adopted by the Group:

- 1) IFRS 8: Operating Segments, which will be effective for annual periods beginning on or after 1 January 2009, will result in disclosure of information to evaluate the nature and financial effects of the business activities in which the Group engages and the economic environments in which it operates.
- 2) IAS 1: Presentation of Financial Statements (Revised), which will be effective for annual periods beginning on or after 1 January 2009, will impact the presentation of financial statements to enhance the usefulness of information presented.

The Group's current liabilities exceed current assets (excluding deferred revenue) by KD 5,024,348 (31 December 2006: KD 7,324,654). These financial statements have been prepared on a going concern basis as the Board of Directors and management expect the cash flow position to continually improve and the Group to continue to receive financial support from shareholder and lenders

In preparing these consolidated financial statements, the financial statements of the Parent Company and the subsidiaries have been combined on a line by line basis, after eliminating intra group transactions and resulting unrealized profits in full and using uniform accounting policies for like transactions and other events in similar circumstances.

The preparation of these consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that may affect amounts reported in these consolidated financial statements, as actual results could differ from those estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a high degree of judgment or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 23.

2.2 Consolidation

Subsidiaries are those enterprises, including special purpose entities, controlled by the Parent Company. Control exists when the 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 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 subsidiaries. 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.

2.3 Financial instruments

Classification and measurement

The Group classifies its financial assets as "loans and receivables" and its financial liabilities as "other than at fair value through profit or loss".

All financial assets and liabilities are initially recognized at cost which includes transaction costs.

Loans and receivables

These are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These are carried at amortized cost using the effective yield method, less any provision for impairment.

Financial liabilities

Financial liabilities are carried at amortized cost using the effective yield method.

Recognition and de-recognition

A financial asset or a financial liability is recognized when the Group becomes a party to the contractual provisions of the instrument. A financial asset is de-recognised either when the Group has transferred substantially all the risks and rewards of ownership or when it has neither transferred nor retained substantially all the risks and rewards and when it no longer has control over the asset or a proportion of the asset. A financial liability is de-recognized when the obligation specified in the contract is discharged.

All regular way purchases and sales of financial assets are recognized using settlement date accounting.

Fair values

Fair values of quoted instruments are based on quoted closing bid prices. If the market for a financial asset is not active or the financial instrument is unquoted, fair value is derived from recent arm's length transactions, discounted cash flow analysis, other valuation techniques commonly used by market participants or determined with respect to market values of similar instruments.

The fair value of financial instruments carried at amortized cost is estimated by discounting the future contractual cash flows at the current market interest rates for similar financial instruments.

Impairment

A financial asset is impaired if its carrying amount is greater than its estimated recoverable amount. An assessment is made at each balance sheet date to determine whether there is objective evidence that a specified asset, or a group of similar assets, may be impaired. If such evidence exists, any impairment loss is recognized in the statement of income.

2.4 Property and equipment

Property and equipment are stated at historical cost less accumulated depreciation and provisions for impairment, if any. The cost of property and equipment consists of their purchase price and other directly attributable costs incurred up to bringing them to operating condition and ready for their intended use. The cost of aircraft and engines also includes borrowing costs.

Notes to the Consolidated Financial Statements - 31 December 2007

Upon acquisition of new aircraft, an inspection component is recognised for the estimated costs of performing regular major inspections of engines and airframe. This is treated as a separate asset and its cost is reduced from the original cost of the aircraft and engines, as its useful life is different from that of the aircraft or the engine to which it relates. The cost of property and equipment less estimated residual values is depreciated on straight-line basis over their estimated useful lives as follows:

	Years
Leasehold improvements	5
Furniture & equipments	3-5
Aircraft and engines	23
Rotables	2-3
Vehicles	5

The cost of the inspection component is depreciated over 5,000 to 15,000 flying hours, being the normal period between inspections. The cost of each subsequent major inspection is capitalised and the remaining cost, if any, of the previous inspection is written off.

Capital work-in-progress is stated at cost and includes advance payments made in respect of aircraft purchase commitments. When the asset is ready for its intended use, it is transferred from capital work-in-progress to the appropriate category under property and equipment and is depreciated from that date.

Rotable spare parts are classified as property and equipment if they are expected to be used over more than one period and are depreciated over their useful lives.

Repairs and maintenance costs are charged to consolidated statement of income during the period in which they are incurred. Major modifications and improvements to property and equipment are capitalised and depreciated over the remaining useful life of the related asset.

The carrying amounts of property and equipment are reviewed at each balance sheet date to determine whether there is any indication of impairment in the carrying value. If any such indication exists, an impairment loss is recognised in consolidated statement of income, being the difference between the carrying value and the asset's recoverable amount. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units).

2.5 Inventories, expendable parts and supplies

Inventories, expendable parts and supplies are valued at the lower of weighted average cost and net realizable value after provision for slow moving and obsolete items

2.6 Cash and cash equivalents

Cash and time deposits with banks whose original maturities do not exceed three months are classified as cash and cash equivalents in statement of cash flows.

2.7 Accounting for leases

Where the Group is the lessee

Operating lease

Leases of property and equipment under which all the risks and rewards of ownership are effectively retained by the lessor are classified as operating leases. Payments made under operating leases are charged to statement of income on a straight-line basis over the term of the lease.

Finance lease

Leases of property and equipment where the Group assumes substantially all the benefits and risks of ownership are classified as finance leases. Finance leases are recognised as assets in the balance sheet at the estimated present value of the related lease payments. Each lease payment is allocated between the liability and finance charge so as to produce a constant periodic rate of interest on the liability outstanding.

