

Key Data

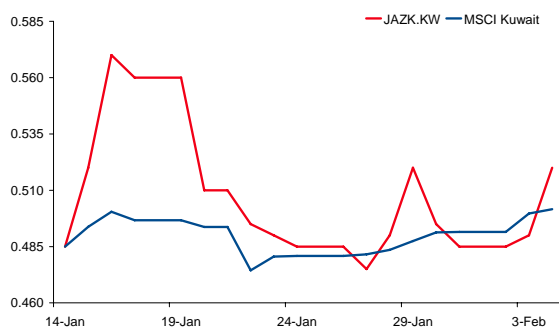
Current Price*	Avg. Value Traded per Day
KD 0.520	n.a.**
52-Week High	Market Cap
n.a.**	KD 104 mln
52-Week Low	Current Number of Shares
n.a.**	200 mln
Reuters	Bloomberg
JAZK.KW	JAZEERA KK
Ownership Structure	
Privately Held: 30%	Public: 70%

Sources: Reuters, and NBK Capital

*Price as of close on February 4, 2008

**The company was listed on January 14, 2008

Rebased Performance



Sources: MSCI, Reuters, and NBK Capital

Key Ratios

	2007 e	2008 f	2009 f	2010 f	2011 f
P/E	66.0	25.6	15.2	13.9	10.3
EPS Growth	n.a.	158%	68%	10%	34%
EV/ EBITDAR	15.2	11.4	6.8	4.4	3.2
EBITDAR Margin	27%	25%	24%	23%	24%
EBITDAR Growth	26%	33%	69%	52%	40%
Dividend Yield	0.0%	0.0%	0.0%	0.0%	0.0%
PBV	4.6	3.9	3.1	2.5	2.0
ROAE	9%	16%	23%	20%	22%
9M2007 EBITDAR a		4Q2007 EBITDAR e			
KD 6.7 mln		KD 2.5 mln			
1Q2008 EBITDAR f		2Q2008 EBITDAR f			
KD 1.9 mln		KD 2.5 mln			

Sources: Reuters and NBK Capital

a = actual, f = forecast and e=estimate

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Highlights

12-Month Fair Value: KD 0.544

Recommendation: Hold – Risk Level*: 4**

Reason for Report: Initiation of Coverage

- Jazeera Airways was established following an initiative by the Kuwaiti government to deregulate the aviation sector as the challenges experienced by the state owned Kuwait Airways resulted in the Kuwaiti aviation sector lagging behind its neighbors.
- Jazeera Airways, which has opted to follow the operating model of a low-cost carrier, has a lean management structure, a new fleet, and an outstanding punctuality record which gives it an advantage over its main rival, Kuwait Airways—an airline which suffers from managerial problems, a bad record for punctuality, an old fleet, and a poor brand image.
- Today Jazeera Airways has a fleet of six Airbus A320 and an order for another 34, the first of which is scheduled to be delivered in 2009. To offset the effect of the uneven spread of delivery and its time span, the airline will opt to lease a number of aircraft between 2009 and 2012. Also, the company has started using Dubai as a second base of operation and has plans to grow its network from both Kuwait and Dubai.
- By offering a premium cabin class, Jazeera Airways has made an important adjustment to the operating model of a low-cost carrier, allowing it to cater to business travelers and image oriented passengers.
- According to estimates provided by Jazeera Airways, the airline is expected to post for 2007 revenues of KD 34.7 million and a net income of KD 1.6 million.
- We forecast both revenue and net income to grow in 2008 by 39% and 158%, respectively. Also, we forecast both revenue and net income will grow at 39% and 22%, respectively, between 2009 and 2013.
- We arrived at a 12-month fair value for Jazeera Airways of KD 0.544 per share by using two valuation methods: discounted cash flow (DCF) and peer comparison based on forward PEG (price-to-earnings ratio to growth) multiples. With an upside potential of 4.6%, we are initiating coverage with a "Hold" recommendation.

***Please refer to the second page for recommendations and risk ratings.

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Risk and Recommendation Guide

Recommendation	Upside (Downside) Potential	Risk Level*				
		1	2	3	4	5
Buy	more than 20%					
Accumulate	between 10% and 20%					
Hold	between -5% and 10%					
Reduce	between -10% and -5%					
Sell	less than -10%					

*1 being least risky

EXECUTIVE SUMMARY

Following an initiative by the Kuwaiti government to deregulate the aviation sector, Jazeera Airways was established on 12 June 2004 as the first entirely private airline in the Middle East. Jazeera Airways, which opted to follow the low-cost carrier operating model, began operations on 30 October 2005. Today, Jazeera Airways has a fleet of six Airbus A320 aircraft, and existing orders with Airbus for 34 new aircraft, the first of which is scheduled to be delivered in 2009. To offset the effect of the uneven spread of delivery and its time span, the airline will opt to lease a number of aircraft between 2009 and 2012. Also, the company has started using Dubai as a second base of operation and has plans to grow its network from Kuwait and Dubai.

Not only was Jazeera Airways successful in its implementation of the low-cost carrier operating model, it was able to turn profitable in 2006, its first full year of operations. The airline's profitability in 2006 was impressive, with an EBITDAR margin of 34%, a figure not easily achieved in the airline industry. According to estimates provided by Jazeera Airways, the airline is expected to post 2007 revenues of KD 34.7 million—an increase of 61% over 2006, and net income of KD 1.6 million—a decline of 36% from 2006. Since EBITDAR in 2007 is estimated to have increased by 26%, the decline in net income is not as troublesome as it is significantly influenced by an increase in interest payments.

From a valuation standpoint, using a combination of discounted cash flow (DCF) and peer comparison based on forward PEG multiples; we believe that the fair value of the share is KD 0.544. This represents a 4.6% upside potential from yesterday's close; hence our "Hold" recommendation.

From our subjective criteria for risk, we have assigned Jazeera Airways a risk rating of 4 on a scale of 1 to 5. This value takes into account the following major risks that may affect the value of the company:

- The airline industry is known to have very high operating leverage due to its high fixed-cost structure. Therefore, minor changes in passenger traffic or fare structure could lead to fluctuations in operating results.
- The grant of the second commercial license by the Kuwaiti government to Wataniya Airways means that Jazeera Airways will be facing new competition in its main market. Furthermore, several new startups in GCC are opting to follow the low-cost carrier operating model. These new, well capitalized, startups are also planning to pursue an aggressive growth strategy, which may lead to a change in industry dynamics which could either benefit or be a detriment to Jazeera Airways.

VALUATION

The aim of this valuation exercise is to use fundamental analysis to establish a fair value estimate of the share price that should prevail for Jazeera Airways during the next 12 months. There is no guarantee that this value is achievable in that time, because a wide range of variables and market dynamics affect the market price of an asset.

Each investor must use his or her favorite mix of fundamental research, technical analysis, and market intelligence to arrive at an investment decision that matches his or her objectives and tolerance for risk.

We arrived at a 12-month fair value for Jazeera Airways of KD 0.544 per share by using two valuation methods: discounted cash flow (DCF) and peer comparison based on forward PE-to-growth (PEG) multiples. We specified a weight for each method, as shown in Figure 1. A greater weight is assigned to DCF, as this method examines the fundamentals of the company to determine its future cash-generating ability. The 12-month fair value target of KD 0.544 is 4.6% higher than yesterday's close; hence our "Hold" recommendation.

Figure 1 Fair Value per Share

Our 12-month fair value for Jazeera Airways is KD 0.544

Valuation Method	Value	Weight
Discounted cash flow	KD 0.575	70%
Peer comparison	KD 0.473	30%
Weighted average fair value	KD 0.544	100%

Source: NBK Capital

DISCOUNTED CASH FLOW VALUATION

Our DCF valuation (Figure 2) is based on forecasted financial results through 2016. The DCF valuation is a function of these major variables, as estimated by our models:

- Future net operating profit less adjusted taxes (NOPLAT), which is driven primarily by expectations of sales and operating expenses
- Future changes in working capital
- Future net expenditures on fixed assets
- The weighted average cost of capital (WACC), which is a weighted average of our estimated cost of equity and the after-tax cost of debt
- The long-term expected growth rate in NOPLAT and the expected rate of return on net new invested capital (RONIC)

From the forecasted financial results, we extracted the free cash flows that were used in our valuation. We discounted those cash flows to a point 12 months in the future, to

obtain an estimate of the value of the company's operations. After subtracting net debt, we arrived at a total equity value of KD 114.9 million.

In order to estimate the value of Jazeera Airways' operations, we incorporated a varying WACC in our model. Our selection of a cost of equity of 12.1% is based mainly on interest rate levels and the operating environment.

Figure 2 DCF Valuation

Figures in KD Millions*		Forecast								
Fiscal Year Ends December	2008	2009	2010	2011	2012	2013	2014	2015	2016	
Net Operating Profit after Tax	6.8	9.6	10.6	14.7	22.5	26.6	29.0	27.3	27.0	
Add: Depreciation and Amortization	5.5	6.6	9.5	11.9	17.8	27.0	34.0	39.5	38.3	
Gross Cash Flow	12.3	16.3	20.1	26.6	40.2	53.6	63.0	66.8	65.3	
(Incr.)Decr. in Working Capital	1.9	7.0	9.5	8.6	14.1	9.5	10.5	5.8	0.9	
(Incr.)Decr. in Operating Fixed Assets	(4.4)	(24.3)	(28.6)	(55.8)	(94.2)	(97.8)	(97.5)	(0.0)	(0.0)	
Free Cash Flow from Operations	9.8	(1.1)	1.0	(20.6)	(39.8)	(34.7)	(24.0)	72.6	66.2	
Terminal Value	-	-	-	-	-	-	-	-	298.8	
Value of Operations in 12 Months	149.0									
Add: Excess Cash	10.8									
Add: Value of Long-Term Investments	-									
Add: Value of Other Long-Term Assets	-									
Less: Total Debt	(44.9)									
Less: Minority Interest	(0.0)									
Value of Equity in 12 Months	114.9									
Per Share Value in KD	0.575									

Source: NBK Capital
*Except per share value

Using the DCF valuation method, we arrived at a fair value per share of KD 0.575

Sensitivity Analysis

We performed a sensitivity analysis (Figure 3) on two important inputs for our DCF valuation model: The cost of equity and the perpetual growth rate used to calculate the terminal value.

Figure 3 DCF Sensitivity

		Growth				
		4.50%	4.75%	5.00%	5.25%	5.50%
Cost of Equity*	11.1%	KD 0.651	KD 0.658	KD 0.664	KD 0.672	KD 0.680
	11.6%	KD 0.609	KD 0.613	KD 0.618	KD 0.622	KD 0.628
	12.1%	KD 0.569	KD 0.572	KD 0.575	KD 0.577	KD 0.580
	12.6%	KD 0.533	KD 0.534	KD 0.535	KD 0.536	KD 0.537
	13.1%	KD 0.499	KD 0.499	KD 0.499	KD 0.498	KD 0.498

Source: NBK Capital
*Variations in the cost of equity result in variations in WACC

PEER GROUP COMPARISON

Because of the shortage of listed airlines in the Middle East, and since Air Arabia is the only company comparable to Jazeera Airways, we have selected seven other low-cost carriers from around the world upon which to conduct the peer valuation exercise. We obtained the consensus forward earnings per share (EPS) and the consensus earnings growth estimates for each company (for Air Arabia we used our latest forecast). The simple average PEG for the sample, excluding the highest and lowest values, was 0.68. Jazeera Airways currently trades at a PEG of 0.75, based on our 2008 forecast EPS and earnings growth rate for the next five years. Using the simple average PEG excluding

outliers we estimate the value of Jazeera Airways' share, based on a forecasted EPS of KD 0.020, at KD 0.473 (9% lower than the current market price of KD 0.520).

Figure 4 Forward PE Comparison

Company	Market Data		2008 Forecast EPS	PEG
	Price*	Market Cap (USD Millions)		
Virgin Blue (AUD)	1.53	1,455	0.23	3.81
Southwest (USD)	12.18	8,941	0.68	1.15
Ryanair (EUR)	3.60	7,948	0.34	0.81
Air Arabia (AED)	2.01	2,672	0.12	0.58
easyJet (GBP)	466.75	3,880	42.00	0.61
AirAsia (MYR)	1.63	1,197	0.10	0.50
WestJet (CAD)	18.60	2,419	1.53	0.44
jetBlue (USD)	6.89	1,242	0.17	0.42
Weighted average				0.95
Simple average				1.04
Simple average excluding outliers				0.68
Median				0.60

The average PEG for the sample, excluding the outliers, stands at 0.68

Sources: Bloomberg and NBK Capital
*Prices retrieved on February 3, 2008

RISKS

- Most destinations in the network of Jazeera Airways are based in the Middle East. The political uncertainty of some destinations and indeed the whole region may cause disruptions in the business of Jazeera Airways that are beyond its control. These may affect a single route or a significant portion of the network.
- Jazeera Airways only began operating in late 2005 and is still considered a relatively new airline. The nature of the airline business means that any traffic accident would seriously undermine an airline's credibility. Such an event could have a profound effect on the revenue of a newly established airline.
- The airline industry is known to have very high operating leverage due to its high fixed-cost structure. Therefore minor changes in passenger traffic or fare structure could lead to fluctuations in operating results.
- Because many regional airlines are owned by governments, it is possible that some would respond to competition by acting in ways that do not make economic sense. Such action may be in the form of pricing below unit costs to prevent the loss of market share to competition.
- A second commercial license has been granted by the Kuwaiti government to Wataniya Airways, who managed to raise KD 50 million in 2006. The exact date for the start of operations is not yet certain, although the airline expects to receive three new aircraft in 2009. Thus Jazeera Airways will be facing new competition in its main market. Furthermore, several new startups in GCC are opting to follow the low-cost carrier operating model. These new, well capitalized startups are also planning to pursue an aggressive growth strategy, possibly leading to a change in industry dynamics which could either benefit or be a disadvantage to Jazeera Airways.

BULLS VS. BEARS

BULL STORY

- Kuwait Airways, the main competitor for Jazeera Airways, is in a troubled state. Kuwait Airways suffers from managerial problems, a bad record for punctuality, an old fleet, and a poor brand image. Jazeera Airways, on the other hand, has a lean management structure, a new fleet, and an outstanding punctuality record which gives it an advantage over its main rival. Thus, Jazeera Airways has the potential to win a significant portion of Kuwait Airways' short-haul network.
- Most airlines in the region are government-controlled entities with a complex organizational structure that hinders swift decision making. The lean management structure of Jazeera Airways allows it to react quickly to any new opportunity and respond to any new move made by the competition.
- By offering a premium cabin class, Jazeera Airways has made an important adjustment to the operating model of a low-cost carrier, which allows it to cater to business travelers and image oriented individuals. The Kuwaiti population has a significant percentage of high net worth individuals, who demand premium travel services. The premium cabin class allows Jazeera Airways to attract a portion of this high yielding segment of the market.
- Jazeera Airways uses an automated revenue management system, which enhances its dynamic pricing policy. This system allows for automatic price adjustments, to achieve an optimal mix of high and low yielding customers which leads to revenue maximization.
- The operating model of a low-cost carrier allows for significant cost reductions, which can be passed on to clients in the form of lower fares. In this way Jazeera Airways can stimulate demand on its operating routes, and need not simply rely on winning market share from the competition.
- Jazeera Airways has a very young fleet. Given the airline's growth plan, the average age of its aircraft will remain low in coming years, which will help keep maintenance costs under control.
- Jazeera Airways has established strong brand identity in a short period of time.
- The management of Jazeera Airways has shown that it has the discipline needed to pursue the company's ambitious plan to operate a successful low-cost carrier. Management has not been afraid to take bold steps, such as working hard on changing paradigms and persuading travelers to buy tickets online, considering that the general public had not been accustomed to this type of ticket purchase.

BEAR STORY

- As the fleet of Jazeera Airways grows, the airline may begin to face some challenges in attracting pilots. We fear that this may have some effect on operating costs.
- Tourism activity is almost non-existent in Kuwait.
- Jazeera Airways receives support from the Kuwaiti government when negotiating new routes out of that country. Such support is not available for Dubai International Airport, so the airline must rely solely on its negotiating skills. This may slow down Jazeera Airways' plan to grow its network out of Dubai.
- The tough regulations imposed on the issue of visitor's visas (for friends and relatives of expats living in Kuwait) means that Jazeera Airways is missing out on an opportunity for a substantial amount of inbound traffic.
- Airport authorities may indirectly interfere to protect their national carriers. Since national carriers cannot compete with Jazeera Airways on price, airport authorities might give the advantage to their national carriers through other means, such as scheduling unfavorable time slots, limiting the frequency of departures or simply not authorizing the use of the airport.
- Any air traffic accident could impact the reputation of any airline.

A LOOK AT MAJOR AIRLINES IN THE MIDDLE EAST

Most airlines in the Middle East are government controlled entities, and many are a source of national pride. Three airlines (Emirates Airlines, Qatar Airways, and Etihad) have developed a sophisticated hub-and-spoke network allowing them to transport passengers across continents and compete with the top airlines from Europe and Asia. The rest operate a point-to-point network that might include long-haul flights, making them dependent on traffic from or to their base. Because national governments have such a large stake in the airline industry, many airlines receive state support directly (subsidies for example) or indirectly (limiting competition on specific routes).

The low-cost carrier model seems to be gaining momentum in the Middle East. After its successful introduction by Air Arabia in 2004, and by Jazeera Airways in 2005, two new low-cost carriers were introduced in Saudi Arabia to operate on domestic routes.

Below is a brief overview of some of the major airlines in the Middle East.

KUWAIT

Kuwait Airways

Kuwait Airways is fully owned by the State of Kuwait and operates out of Kuwait International Airport. Kuwait Airways has a fleet of 17 aircraft and flies to 46 destinations. The airline operates a point-to-point network with both long-haul and short-haul flights. The company has faced many problems recently, and its woes seem to worsen each day. Kuwait Airways posted a loss of USD 80 million in 2006, and has increased its number of yearly losses to 15 in the past 16 years. Moreover, the airline's image has been damaged by a bad record for punctuality and an aging fleet with a poor interior setup.

One significant recovery effort failed when the government did not approve an order to lease 19 new aircraft, an action that led to the resignation of the Board of Directors. However, the move by the newly appointed Board of Directors to privatize the airline is gaining momentum after a privatization bill was passed by Parliament. Privatization is a step in the right direction for Kuwait Airways, although it will require a vast amount of time and effort to implement restructuring. Time pressure will be a serious disadvantage, since Kuwait Airways already lags behind its counterparts in the GCC, as well as its local rival.

Kuwait National Airlines Company (Wataniya Airways)

Kuwait National Airlines Company was awarded the second of the two commercial airline licenses offered by the government of Kuwait. The airline has not yet set a date to commence its operations, but has leased three Airbus A320 aircraft with a delivery date set in 2009. According to the latest news the airline plans to be a full-service carrier. In 2006 the company completed its public offering of 70% of its shares, increasing its capital to KD 50 million.

UAE

Each of the seven emirates of the UAE has its own aviation authority and can establish its own airline. Therefore the inception of an airline in the UAE needs to be backed by one of the emirates. Three major airlines operate out of the UAE.

Emirates Airlines

Emirates Airlines (Emirates) is the largest airline in the Middle East and one of the fastest growing airlines in the world. Emirates, which is entirely owned by the government of Dubai, is based at Dubai International Airport and provides both passenger and cargo services. Emirates flies to more than 90 destinations. Its fleet consists of more than 100 aircraft, with an average age of 5.5 years. All aircraft operated by Emirates are wide-bodied, which allows them to carry a larger mix of passengers and cargo. Some planes are used for freight only. Emirates receives, on average, one or two new planes per month and recently ordered 131 aircraft from Airbus during the latest Dubai Air Show. The order included 70 of the wide-bodied A350s and 11 of the Super Jumbo A380s.

Emirates operates an extensive hub-and-spoke network using sixth freedom rights (i.e., rights given to an airline to transport passengers from a foreign state to another foreign state by passing through its home country). In this way the airline can offer long haul services, such as flying passengers from London to Sydney by passing through Dubai. The strategic location of Dubai as midway between Europe and Asia has made Emirates a serious competitor to both European and Asian airlines, including Air France, KLM, British Airways, Lufthansa, and Singapore Airlines.

Figure 5 shows a summary of the latest available operating statistics for Emirates.

Figure 5 Summary Statistics of Emirates Airlines*

	2006-07	2005-06	2004-05
Total Revenue (AED billions)	29.8	23.0	18.1
Net Profit (AED billions)	3.1	2.5	2.4
ASK (billions)	102.3	82.0	68.9
RPK (billions)	77.9	62.3	51.4
Seat load factor	76.2%	75.9%	74.6%
Passengers carried (millions)	17.5	14.5	12.5
Average distance flown (km)	4,443	4,295	4,102

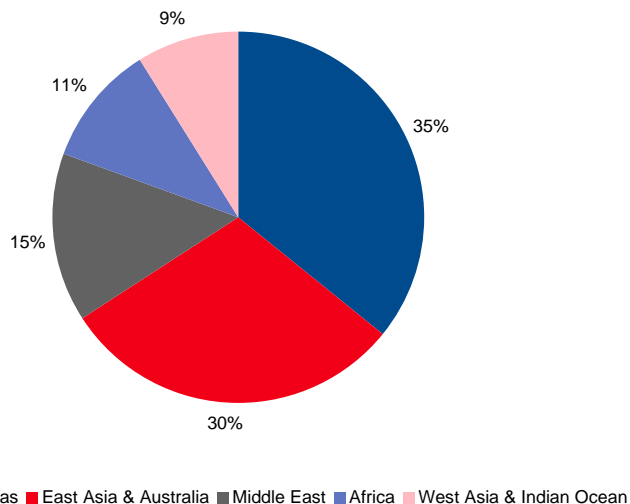
*Fiscal year-end on March 31
Source: Emirates Annual Report

*17.5 million travelers
flew Emirates in its
last fiscal year 2006-07*

Figure 6 shows the distribution of revenue by region. The fact that 65% of revenue is from Europe, the Americas, East Asia and Australia demonstrates the airline's focus on serving international long-haul destinations.

Figure 6 Emirates' Revenue by Geographic Segments (2006-07)

65% of Emirates' revenue is generated from flights from and to Europe, the Americas, East Asia, and Australia



Sources: Emirates Annual Report

Etihad Airways

Etihad Airways, based in Abu Dhabi, was formed in 2003, and is fully owned by the government of Abu Dhabi. Etihad has been growing at an impressive pace since its inception and is following in the footsteps of Emirates in establishing itself as an international carrier. Etihad has a young and modern fleet of more than 30 aircraft and has orders for another 28 wide-bodied aircraft, the largest wide-bodied aircraft order by a startup airline. Etihad Airways currently serves more than 45 destinations.

Air Arabia

Air Arabia is a regional low-cost carrier based at Sharjah International Airport in the UAE. The company was established in 2003, and is credited with being the first airline in the Middle East to implement the low-cost carrier operating model. As a low-cost carrier, Air Arabia offers air transport at generally low fares without compromising safety. The company currently operates a fleet of 11 Airbus A320 aircraft and flies to 37 destinations in the Middle East, North Africa, and the Indian sub-continent. Air Arabia has recently placed an order for 34 Airbus A320s, with an option for a further 15.

Figure 7 presents a quick summary of Air Arabia's operating statistics for 9M2007 and our FY2007 forecasts.

Figure 7 Summary of Air Arabia's Latest Performance

The operating statistics of Air Arabia show that the airline has been successful in implementing the low-cost carrier operating model

	2006	3Q2007	9M2007	2007f
Passengers (Millions)	1.7	0.7	2.0	2.7
RPK (Billions)	3.7	1.3	3.6	5.0
ASK (Billions)	4.7	1.5	4.1	5.7
Load factor	80%	92%	86%	88%
Revenue (AED Millions)	749	376	889	1,232
EBITDAR	182	214	321	403
EBITDAR margin	24%	57%	36%	33%
Net income	101	165	272	390
Net income margin	13%	44%	31%	32%

Source: Air Arabia and NBK Capital

SAUDI ARABIA

Saudi Arabian Airlines

Saudi Arabian Airlines is based at King Abdulaziz International Airport in Jeddah and is wholly owned by the Saudi government. The airline also operates out of King Khalid International Airport in Riyadh and King Fahd International Airport in Dammam. The airline services local and international destinations, and its fleet exceeds 100 aircraft. Much of the airline's business results from the kingdom's significance as a religious destination. Recently the airline placed an order for 22 new Airbus A320s during the Dubai Air Show.

NAS AIR

NAS Air is the first low-cost carrier to operate domestic flights in Saudi Arabia. NAS Air started operations on 25 February 2007. NAS recently signed an agreement with Airbus to purchase 38 A320 aircraft. This order reflects the airline's ambition to grow its domestic business and to begin serving international destinations.

Sama

Sama is the second domestic carrier in Saudi Arabia operating according to the low-cost model. Sama started operations in May 2007, and currently has a fleet of six Boeing 737 aircraft. The airline announced its intention to increase its fleet to 35 aircraft by 2010 in order to expand its network to other destinations in the Middle East. On 15 November 2007 the airline began serving destinations out of Saudi Arabia and currently has seven destinations.

QATAR

Qatar Airways

Qatar Airways is the national airline of the state of Qatar and is based at Doha International Airport. Qatar Airways is another airline following the example of Emirates by building an international hub-and-spoke network out of Doha International Airport. The airline currently has a fleet of 58 aircraft but has orders exceeding 100 new aircraft. The government of Qatar owns 50% of the airline and the remaining 50% belongs to private shareholders.

EGYPT

EgyptAir

EgyptAir is the national airline of Egypt and is fully owned by the Egyptian government. Its main hub is Cairo International Airport. Currently the airline has 45 aircraft in its fleet and flies to over 64 international destinations. In 2007 it launched a new subsidiary, EgyptAir Express, which will be flying domestic routes.

JORDAN

Royal Jordanian

Royal Jordanian (RJ) is the national airline of Jordan and operates out of Queen Alia International Airport in Amman. RJ has a fleet of 30 aircraft flying to 52 destinations. As part of its privatization process, the Jordanian government recently sold 71% of RJ's shares to the public.

LEBANON

Middle East Airlines

Middle East Airlines (MEA) is the national airline of Lebanon, based at Beirut Rafic Hariri International Airport. The airline has a fleet of nine aircraft and currently flies to 26 destinations in Europe, Africa, and the Middle East. It is owned by the Central Bank of Lebanon (Banque du Liban).

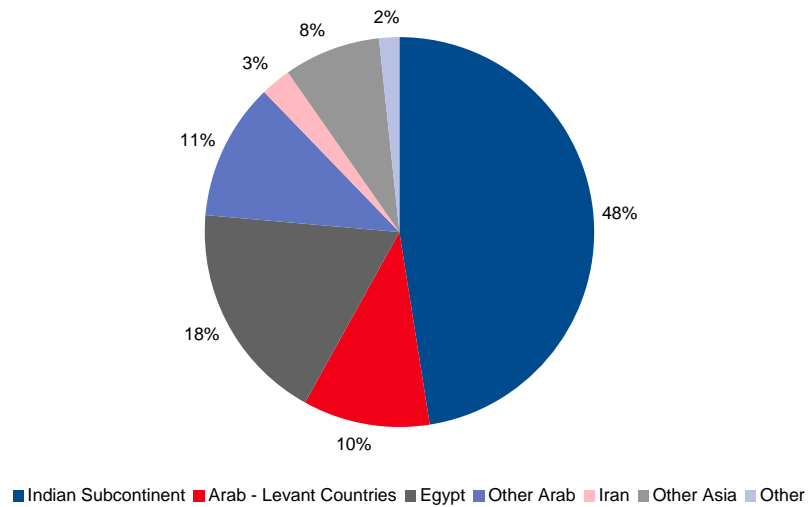
KUWAIT'S EXPATRIATE POPULATION

According to the latest official figures, the population of Kuwait stands at 3.3 million, of which 1 million are Kuwaiti nationals. The remainder are mostly expatriate workers living in Kuwait with their families. Figure 8 shows the distribution of the expatriate population in Kuwait by region of origin. These figures show that more than three quarters of Kuwait's expatriate population comes from regions within the range of coverage of Jazeera Airways and thus represents a significant potential market.

Jazeera Airways has established an extensive network out of Kuwait, reaching 23 destinations. But the origins of the country's significant expatriate population grants the airline the potential to serve new markets and increase frequencies on already existing destinations. For example, Jazeera Airways serves four destinations to Egypt, whose nationals constitute 18% of the expatriate population in Kuwait. However, the network of Jazeera Airways is missing Cairo, the most populated city in Egypt. Also, Jazeera Airways has much potential for growth in the Indian Subcontinent, as it only serves three destinations to India. This means that the airline can add new routes to countries like Pakistan, as there are about 125,000 Pakistanis living in Kuwait.

Figure 8 Distribution of Expatriate Population by Region of Origin

More than three quarters of the expatriate population living in Kuwait comes from regions that are within the range of coverage of Jazeera Airways



Source: Public Authority for Civil Information

Many of the expatriates living in Kuwait are blue collar workers and do not travel frequently because of the costs it entails. The low fares of Jazeera Airways appeal to this price-sensitive market. At the same time, Jazeera Airways also appeals to white collar expatriates who take advantage of the low fares to increase their frequency of travel.

OPERATING MODEL OF A LOW-COST CARRIER

The term “low-cost carrier” is generally associated with airlines that aim to control operating costs by eliminating traditional passenger services in order to offer low fares. This term is often used, however, to refer to any airline which offers low fares and which has eliminated some traditional services, regardless of whether it succeeded in achieving a low-cost structure. The success of low-cost carriers depends on tight control over operating expenses because their strongest competitive advantage over full-service carriers is their low-fare structure, leaving minimal leeway for raising prices.

Southwest Airlines is credited with pioneering the low-cost carrier concept in the United States in 1971. Southwest Airlines started as an intra-Texas carrier and has grown to become the fourth largest airline in the U.S. The airline has shown that its operating model works, by demonstrating continuous profitability since 1973, a record that no other U.S. carrier can match. Today, Southwest and jetBlue are the two most successful low-cost carriers in the U.S. In the 1990s, the low-cost carrier concept was brought to Europe and was implemented most successfully by both Ryanair and easyJet. At the start of the new millennium, low-cost carriers began to emerge in Asia and Oceania with successful operators such as AirAsia and Virgin Blue. In the Middle East, Air Arabia was the first to introduce the concept and was followed by Jazeera Airways, and several other announcements of intent to set up low-cost carriers.

OPERATING MODEL OF A LOW-COST CARRIER

The following is a summary of the operating model of a low-cost carrier as shown in Stephen Holloway’s book *Straight and Level: Practical Airline Economics*.

Service Design

- High-frequency service on a predominantly short-haul point-to-point network
- Use of secondary airports in preference to major hubs
- High density, single class cabin configuration
- No assigned seating
- No catering or a limited pay-as-you-go service
- Few onboard amenities and limited airport customer service
- Simple tariff structure, including one-way fares
- No frequent flyer program

Process Design

- Emphasis on direct sales, particularly online
- E-ticketing

- No hub service (i.e., passengers are not sold guaranteed connection flights; no transfer of baggage between flights)
- Lean administrative process that allows for quick decision making
- Outsourcing of non-core operations

Productivity

- High resource utilization, reflected in a low staff-to-passenger ratio and a high block hour for aircrafts
- Use of an automated revenue management system in order to maximize yield

Fleet Structure

- Standardized fleet of a single type of aircraft (usually an Airbus A320 or Boeing 737)

DEVIATIONS FROM THE BASIC OPERATING MODEL

It is important to note that not all low-cost carriers apply every attribute of this low-cost carrier operating model. Many airlines tend to customize the low-cost model to suit the needs of the markets they serve. Such adaptations may provide the airline with a competitive advantage over its rivals or enable them to carve out a niche market. For example:

- Southwest Airlines and jetBlue offer loyalty programs
- AirTran offers two cabin classes (business and economy)
- easyJet and jetBlue serve primary airports
- Many low-cost carriers offer assigned seating

Such deviations from the model do not come without expense, but their effects on revenues may be well worth the cost.

COMPANY OVERVIEW

COMPANY BACKGROUND

Jazeera Airways, the first entirely private airline in the Middle East, was established on 12 June 2004 after completing its initial public offering (IPO) which raised KD 10 million. The airline chose to follow the low-cost carrier operating model. Once it had received its Air Operator's Certificate, the company placed an order for 10 Airbus A320 aircraft, the first of which was delivered on 24 October 2005. The inaugural flight to Dubai took place six days later.

Jazeera Airways was established as a result of a plan by the Kuwaiti government to deregulate the aviation sector. The troubled state of Kuwait Airways meant that the Kuwaiti aviation sector lagged behind its neighbors. The Kuwaiti government realized that turning around Kuwait Airways would be a difficult and lengthy process, and opted to give the private sector a shot at improving the Kuwaiti aviation sector. In 2003 the government announced a plan to offer three new licenses to the public, two passenger airlines and one freight airline. Jazeera Airways was the first company to win one of these licenses.

Today Jazeera Airways has a fleet of six Airbus A320 aircraft, and orders with Airbus for 34 new aircraft, the first of which is scheduled to be delivered in 2009. The company has started using Dubai as a second base of operation and has plans to grow its network from there. Jazeera Airways was able to become profitable in 2006, its first full year of operations. Profits in 2006 were impressive because the company posted an earnings before interest, taxes, depreciation, amortization, and rent (EBITDAR) margin of 34%, a figure not easily achieved in the airline industry.

Figure 9 Performance Summary of Jazeera Airways

More than one million passengers traveled with Jazeera Airways in 2007

	2006	2007e
Number of aircraft	4	6
Destinations	12.0	19.0
Number of passengers (thousands)	601	1,168
RPK (billions)	0.9	1.7
ASK (billions)	1.3	2.2
Load factor	67%	76%

Source: Jazeera Airways

STRATEGY

The strategy adopted by Jazeera Airways is based on:

- Cost control through the low-cost carrier operating model by:
 - Utilizing a single type fleet of Airbus A320 aircraft, thereby minimizing crew and maintenance costs.
 - Direct distribution to customers through the company's website.

- Achieving high aircraft utilization by operating a point-to-point network consisting of short-haul routes.
- Achieving high resource utilization by training staff to multi-task, which allows Jazeera Airways to fly with the minimum required number for cabin crew.
- An increase in general traffic on the routes operated, rather than simply stripping market share from competition. The generally low fares offered stimulate demand for travel, thus significantly increasing traffic.
- Creation of a strong brand image by focusing on:
 - Establishing an admirable track record for punctuality.
 - Ensuring that the market is aware that Jazeera Airways flies new planes which feature leather seating.
 - Building trust in the market, so that travelers recognize that the airline's low fares do not translate to low-quality, and that safety is the number one priority.
- Provision of a premium cabin class on selected destinations, to appeal to business travelers and image oriented individuals. Jazeera Airways views this deviation from the classic model of a low-cost carrier as a necessary adaptation to local markets, which are accustomed to premium services.
- The plan to expand the existing network by adding new routes and increasing frequency on existing routes.
 - The primary focus will be on rapid network expansion, but the company will always ensure that the number of weekly flights is sufficient to serve each destination adequately.
 - As its fleet grows, Jazeera Airways will work on establishing network density by increasing frequencies on competitive routes. Offering more than one flight per day to a specific destination will make Jazeera Airways more appealing to business travelers, a client segment that clearly appreciates choices in departure times.
 - The company will consider establishing other hubs only when it feels that its operations out of Kuwait and Dubai have been well developed.
- A dynamic pricing policy through the use of an automated revenue management system.
 - Revenue management is the application of disciplined tactics that predict customer behavior at the micro level and optimize seat availability and price to maximize revenue growth. The process aims to fill each aircraft with a mix of high and low yielding seats, so that maximum revenue is gained.

- The automated revenue management system supplied by Navitaire enables seat inventory to be controlled at different prices. Accordingly, different prices can be charged at different times of the day, different days of the week, and different times of the year.
- A drive for profitability by growing ancillary revenue.
- Implementing a disciplined fuel hedging strategy aimed at reducing yearly fluctuations in profitability.
- Improving return for shareholders by using an optimal mix of debt and equity.

FLEET EXPANSION

Currently, Jazeera Airways has six planes under its ownership. The company plans to significantly increase the number of planes it operates, and has placed a firm order for 34 new A320s with Airbus during the Paris Air Show in 2007. Delivery of the new aircraft will be unevenly distributed over six years beginning in 2009. To offset the effect of the uneven distribution of delivery and its time span, the airline will opt to lease other aircraft between 2009 and 2012.

CABIN CLASS

On most of its destinations, Jazeera Airways offers two cabin classes:

Regular Economy

Although Jazeera Airways follows a low-cost carrier operating model, it has ensured that passengers flying economy enjoy their flight. With a 32-inch seat pitch, Jazeera Airways provides its economy class passengers with more leg space than that offered by most full-service carriers in this designation. This extra space helps to ensure comfort during the flight. The leather seats provide a slightly luxurious feel. A basic entertainment system and some on board catering are provided. However, travelers have the choice to purchase ear sets as well as food and beverages served on board.

Jazeera Plus

In general, low-cost carriers offer only a single cabin class. However, Jazeera Airways has configured its planes to allow for a business class product branded as "Jazeera Plus". The seats used for Jazeera Plus are exactly the same as those used in economy class; the only difference is that middle seats are left empty to provide more comfort. Jazeera Plus travelers enjoy additional benefits, such as access to lounges in airports, complimentary catering and fast track check-in. In this way Jazeera Airways has made sure that its premium cabin class meets the requirements of many business travelers.

DISTRIBUTION CHANNELS

The airline's tickets are sold through the following distribution methods:

- **Website:** Online booking is a very efficient distribution method for airlines. It reduces the required number of back office staff, in addition to reducing the payment cycle. Website sales provide the added benefit of allowing the company to compile a

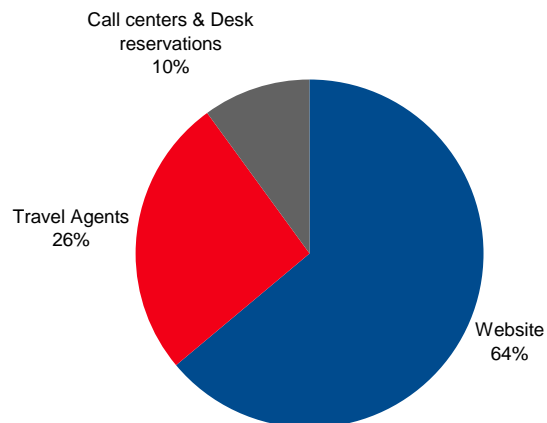
database of its clients. Jazeera Airways has worked hard to entice travelers to book through its website by making it the cheapest method to purchase tickets: other methods incur additional fees. Many promotional offers made by the company are available only to travelers who book online. Basically speaking, Jazeera Airways is rewarding travelers who book online.

- **Call centers & desk reservations:** Jazeera Airways has set up dedicated call centers to handle client requests and sell tickets, although travelers are responsible for additional fees if they use this service. The airline has also set up a reservation booth at Kuwait International Airport for walk-in clients. Like the call center service, travelers incur additional cost for the use of this service.
- **Travel agents:** Jazeera Airways knows that many travelers are used to buying tickets through travel agents. To avoid incurring Global Distribution System (GDS) fees, Jazeera Airways has granted travel agents access to its reservation systems through a special section of its website. The airline does not pay commissions to travel agents, but allows them to charge a small markup over its price.

Figure 10 shows the current percentage of revenue generated by each distribution channel.

Figure 10 Distribution Channels' Share of Revenues

Jazeera Airways has been successful in changing attitudes and encouraging travelers to book online



Source: Jazeera Airways

ANCILLARY REVENUE

Jazeera Airways generates ancillary revenue from the following sources:

- Payments for excess baggage

- In-flight sales of foods and beverages
- Call center and desk reservation booking fees
- Commissions on hotel reservations and car rentals made through the airline

COMPETITION

In general, competition in the airline industry occurs on a route basis. Thus, an airline will compete with several other airlines operating on at least one of its routes. This is true for Jazeera Airways, but Kuwait Airways stands out as its number one competitor because there is a significant overlap in the networks of these airlines. As of the date of publication of this report these airlines have 15 routes in common. Although Jazeera Airways is the new entrant, we believe that it has the upper hand in this battle since it has been able to exploit most of the weaknesses of its main rival. Kuwait Airways is known for having a poor punctuality record, while Jazeera Airways has made sure to flaunt its above 90% punctuality in its marketing campaigns. Another advantage Jazeera Airways has over Kuwait Airways is that its young fleet provides an in-flight experience that is superior to its full-service rival. The aircraft of Jazeera Airways have very basic entertainment facilities, but they are more appealing than those provided on the aircraft of Kuwait Airways, which suffers from the poor quality of its interiors. However, the most important advantage Jazeera Airways has over Kuwait Airways is its flexible management structure, which allows for quick decision making—an attribute that is almost completely absent from its government-controlled competitor—which is fraught with the problems of an extensive hierarchy. Competition is expected to intensify when Wataniya Airways commences its operations sometime in 2009 or 2010. It will be interesting to see what effect the new entrant has on the market, and how Jazeera Airways fares against another privately owned competitor.

The network that Jazeera Airways is building out of Dubai is placing it in direct competition with two major UAE carriers, Emirates Airlines and Air Arabia. This is a completely different playing field, and the way Jazeera Airways positions itself in this market will be critical for the success of its operations in its second hub. Emirates, the world's fastest growing airline, is known for its world class service, while Air Arabia, the first low-cost carrier in the Middle East, has successfully implemented the low-cost carrier operating model out of Sharjah. In the competition with Emirates, the pricing structure of Jazeera Airways will be its most important attribute, since the airline will need to undercut Emirates prices significantly. Sharjah International Airport (which is considered a secondary airport) allows Air Arabia to have a lower cost structure than Jazeera's operation out of Dubai. Air Arabia will therefore be able to offer lower fares than Jazeera. Serious competition with Air Arabia will include convincing price-sensitive travelers of the benefits of traveling out of Dubai—such as the time saved by not commuting to Sharjah. In our opinion, Jazeera Airways will be successful in attracting price-sensitive business travelers and tourists, while Air Arabia will have the upper hand among the ultra price sensitive travelers.

FINANCIAL OVERVIEW

MAJOR FORECAST ASSUMPTIONS

Fleet

- Input from management on the fleet expansion strategy leads us to assume that the airline will purchase 34 new aircraft, which will be delivered between 2009 and 2014. To offset the effect of the uneven distribution of delivery and its time span, the airline will opt to lease some aircraft between 2009 and 2012.
- Another major assumption we made is that all aircraft will be used for seven years only, regardless of whether they are owned or leased. We understand that the lifespan of an aircraft is greater than seven years, but in order to keep maintenance costs low and achieve high turnaround times, we expect that Jazeera Airways will not use an aircraft that is more than seven years old.
- We assume that all new planes, both leased and purchased, will be Airbus A320s with a similar configuration to those currently operated by the airline.

Output and Revenue

- We assume that the airline's revenue will grow in proportion to the average number of aircraft present during the year.
- After 2007, we assume that yield will settle close to KD 0.019, while the load factor will settle close to the level of 78% by 2013.

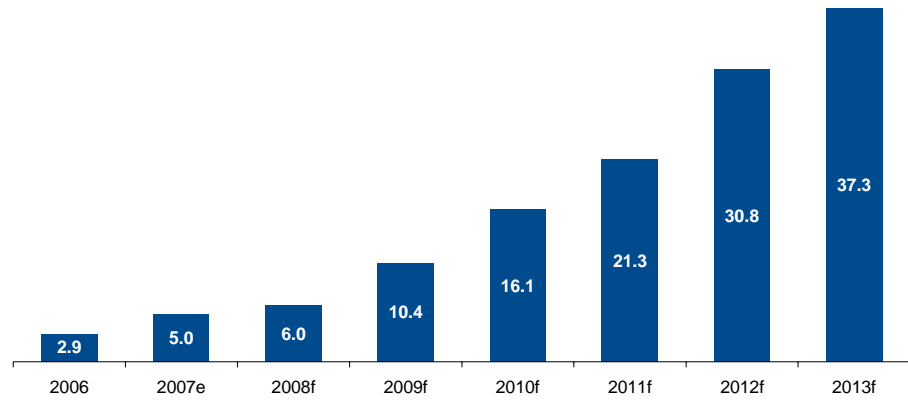
OUTPUT

Average Number of Aircraft

The output produced by an airline is directly related to the number of aircraft it operates and the distance traveled by the aircraft on each route. To estimate the output that Jazeera Airways will generate for a given year, we study the average number of aircraft for that year. This number allows the inclusion of the last months of operation for aircraft exiting the fleet, and prevents overestimating output by including the months *before* new planes join. Figure 11 shows the average number of aircraft for the year. In our forecasts we assume that Jazeera Airways will have an average of 37.3 aircraft equivalent in its fleet in 2013.

Figure 11 Average Number of Aircraft

We forecast that the average number of aircraft will reach 37.3 aircraft equivalent by 2013



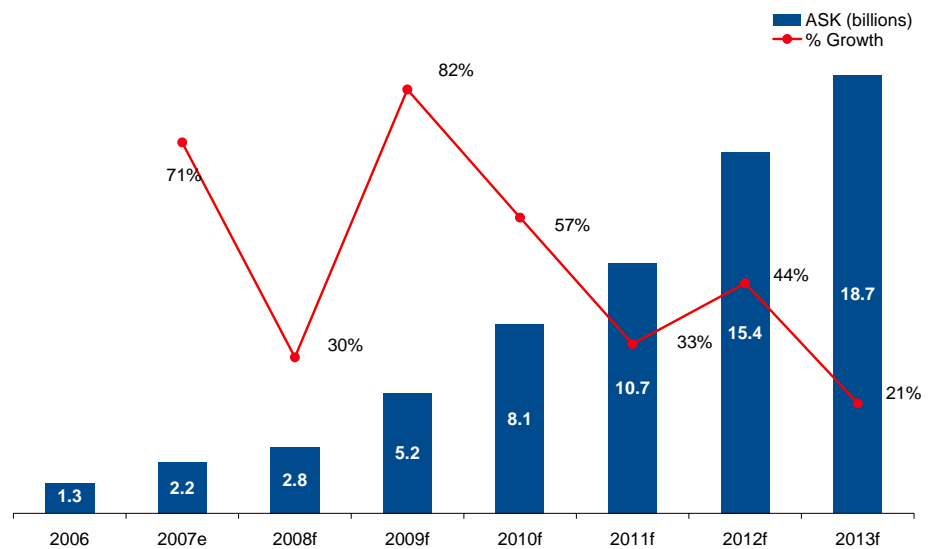
Sources: Jazeera Airways and NBK Capital

ASK

In the airline industry, output is measured by multiplying a seating unit by the distance flown, and the most common measure for output is available seat-kilometers (ASK). ASK represents one seat, irrespective of whether it is filled or not, flown one kilometer. In 2006 Jazeera Airways had an output of 1.3 billion ASKs.

Figure 12 ASK Forecast

Output for 2007 is estimated to be 2.2 billion ASKs. We forecast it to grow at a CAGR of 43% over the coming six years



Sources: Jazeera Airways and NBK Capital

According to an estimate provided by Jazeera Airways, the airline's output in 2007 was 2.2 billion ASKs, which represents an increase of 71% compared with the level in 2006. Figure 12 shows our forecast for Jazeera Airways output, in terms of ASK, for the next six years. We are forecasting output to increase to 18.7 billion ASKs by 2013.

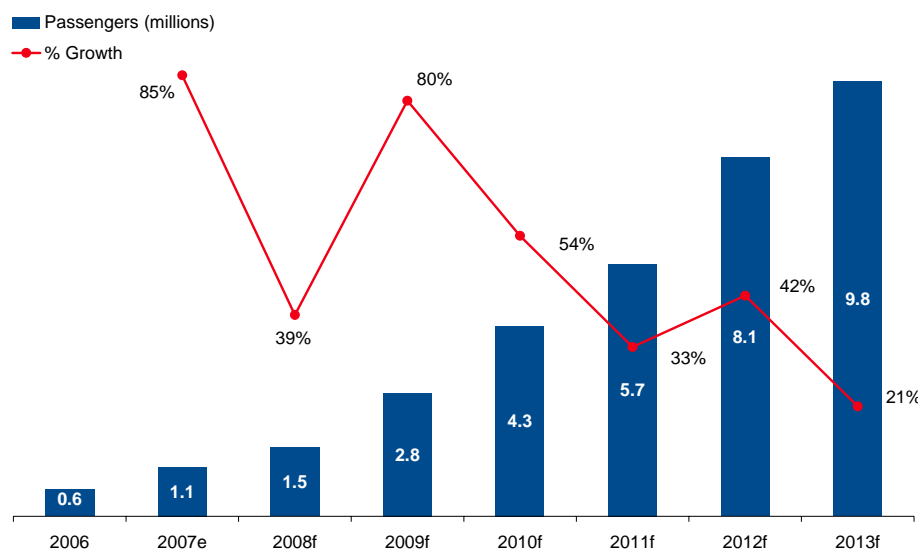
TRAFFIC AND YIELD

Passengers Enplaned

Given that Jazeera Airways is a newly established airline, we expect to see a substantial increase in the number of passengers traveling with the airline over the coming years. From Figure 13 we see that the number of passengers enplaned in 2007 is estimated to be 1.1 million, which represents an increase of 85% over 2006, the first full year of operations for Jazeera Airways. Based on the growth plan of Jazeera Airways and the strong demand for air travel, we expect to see that the number of passengers flying Jazeera Airways will increase proportionally to the increase in output. We forecast that the number of passengers flying Jazeera Airways will reach 9.8 million by 2013.

Figure 13 Passengers Enplaned

More than a million passengers flew with Jazeera Airways in 2007, and we forecast that the number of passengers will grow at a CAGR of 44%



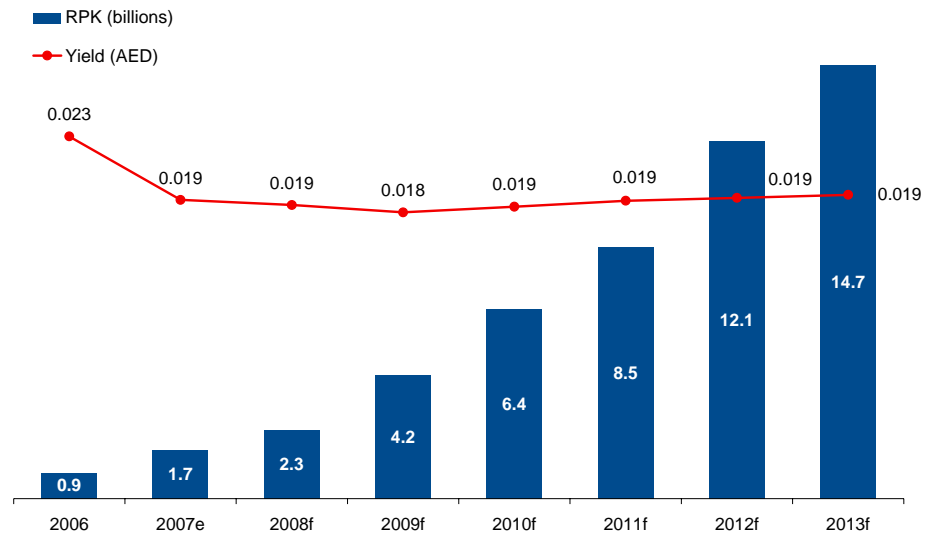
Sources: Jazeera Airways and NBK Capital

RPK and Yield

Revenue passenger-kilometers (RPK) is an industry measure used to determine traffic and is equal to the total number of passengers enplaned multiplied by the average distance flown. Yield is the revenue generated per RPK. RPK and yield should be examined simultaneously, which will help determine if the airline is gaining market share at the expense of profits. Figure 14 indicates that Jazeera Airways' RPK is estimated to be 1.7 billion in 2007, marking a 94% increase over 2006 figures. Looking ahead, we forecast that RPK will increase at rates that are proportionate to the increase in output, and reach 14.7 billion by 2013. However, we do not expect to see major changes in the yield over the same period.

Figure 14 RPK and Yield

RPK reached 1.7 billion in 2007. We forecast it to grow at a CAGR of 44% over next six years



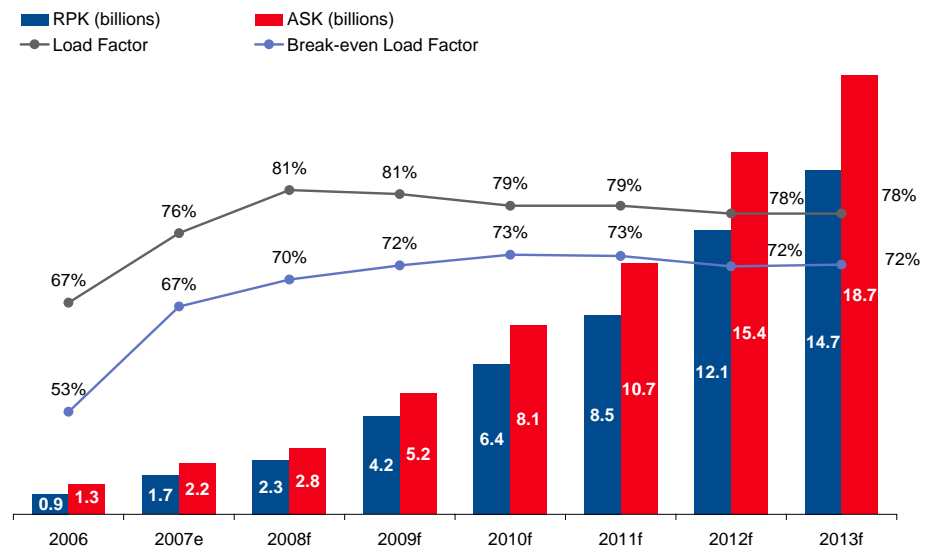
Sources: Jazeera Airways and NBK Capital

Load Factor

Load factor is a measure of output utilization and is calculated by dividing total RPK by total ASK. Figure 15 shows Jazeera Airways' estimated load factor in 2007 is 76%, which is higher than the 67% level achieved in 2006. We expect that load factor to rise to 81% in 2008, mainly due to the lack of new planes joining the fleet that year, then settle at 78% by 2013.

Figure 15 ASK and Load Factor

We forecast that load factor will settle close to 78%



Sources: Jazeera Airways and NBK Capital

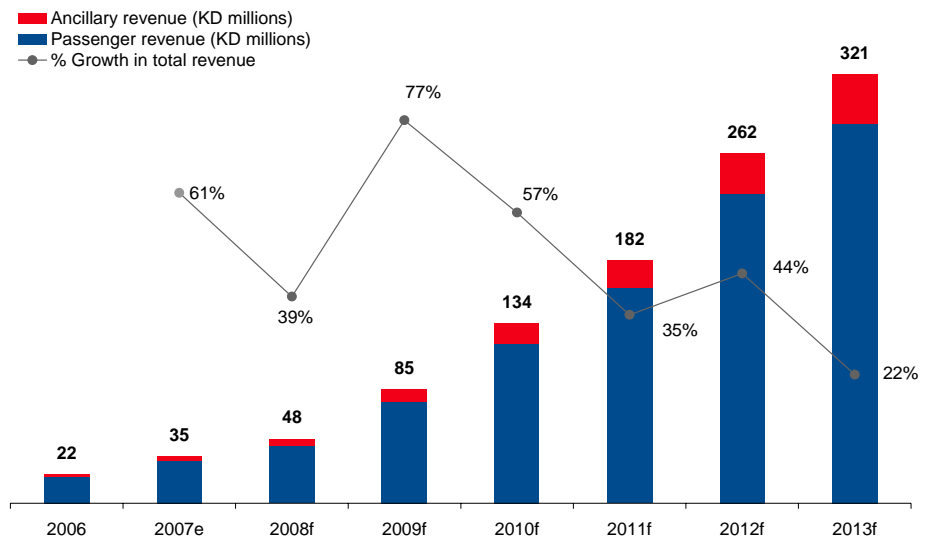
The break-even load factor shows the percentage of output that needs to be utilized, given the current yield, to cover all operating costs. The break-even load factor for 2007 is estimated to be 67%. Due to a decline in yield, accompanied by an increase in costs, we forecast that the break-even load factor will increase to 72% by 2013.

Revenue

In 2007, the revenue of Jazeera Airways is estimated to have increased by 61% to reach KD 35 million. For 2008 we forecast output to grow by 30% and the load factor to increase from 76% to 81%, this coupled with our estimate of having the yield constant at KD 0.019 results in revenue increasing 39%. Figure 16 shows our forecast for total revenue for Jazeera Airways until 2013. We forecast revenue to increase at a CAGR of 45% over the next six years, to reach KD 321 million by 2013.

Figure 16 Total Revenue

Total revenue for 2007 is estimated at KD 35 million; we forecast it will grow at a CAGR of 45% over the next six years



Sources: Jazeera Airways and NBK Capital

Figure 16 graphically separates passenger revenue from ancillary revenue. Although ancillary revenue represents just a small portion of total revenue, we must not underestimate its importance in the airline industry, because it can make the difference between a profit and a loss. In 2007 ancillary revenue is estimated at KD 3.2 million, which is more than the estimated net profit of KD 1.6 million for the same year. This shows that without ancillary revenue Jazeera Airways would have recorded a loss in 2007.

UNIT COSTS AND PROFITABILITY

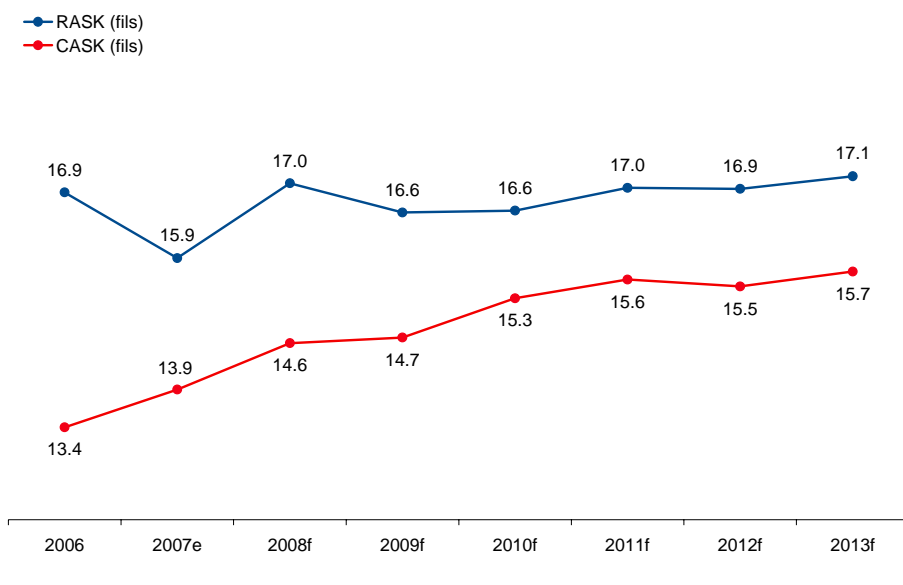
RASK and CASK

One of the most common ways of assessing an airline's profitability is by comparing the revenues per ASK (RASK) with the costs per ASK (CASK). As we can see from Figure 17, the estimated CASK and RASK for 2007 are 13.9 fils and 15.9 fils, respectively. Thus the profitability of Jazeera Airways stands at 2 fils per ASK in 2007. For 2008, we

forecast both RASK and CASK to increase to 17 fils and 14.6 fils, respectively, which implies a profitability per ASK of 2.4 fils. For the following years, we forecast that the profitability per ASK will gradually decline to reach 1.4 fils in 2013.

Figure 17 RASK and CASK

Comparing RASK and CASK is one of the best ways to measure an airline's profitability



Sources: Jazeera Airways and NBK Capital

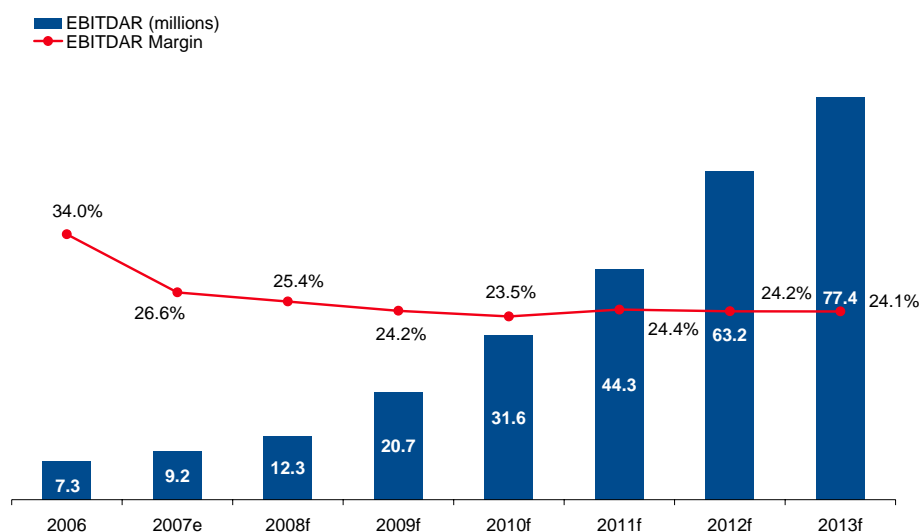
EBITDAR

EBITDAR is another figure regularly examined in the airline industry. Basically, it is very similar to EBITDA, except that it excludes any lease payments made by the company. In the airline industry, EBITDAR assists in comparing the operating performance of an airline against its rivals, and against its own performance in previous years regardless of the financing methods used to obtain its aircraft. Through EBITDAR, we can compare the operating performance of an airline that leases its aircraft with one that buys them.

Figure 18 shows the EBITDAR of Jazeera Airways for 2006 and 2007 and our forecast until 2013. The EBITDAR of Jazeera Airways in 2007 is expected to be KD 9.2 million, which represents a 26% growth over the level of 2006. The EBITDAR margin declined from 34% in 2006 to 26.6% in 2007. We do not regard this drop to be a worrying sign, as EBITDAR margins higher than 30% are almost unheard of in the airline industry. Thus, the EBITDAR margin achieved in 2007 is more sustainable than the level achieved in 2006. In 2008 we forecast that EBITDAR will increase by 34% and reach KD 12.3 million, implying an EBITDAR margin of 25.4%. Our forecast shows that EBITDAR will continue to grow to reach KD 77.4 million by 2013, and that the EBITDAR margin will settle at a level close to 24%.

Figure 18 EBITDAR

We forecast an EBITDAR of KD 12.3 million for 2008, which represents a growth of 34%



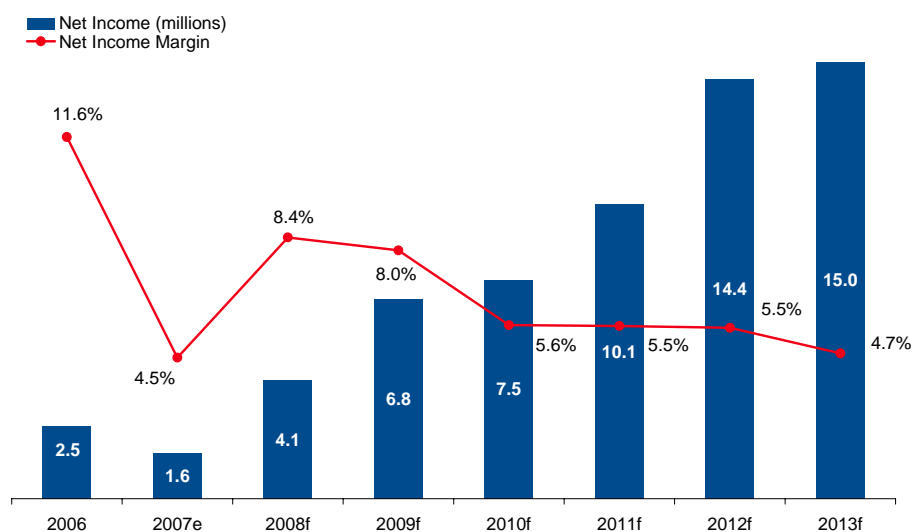
Sources: Jazeera Airways and NBK Capital

NET INCOME

The estimated net income for Jazeera Airways in 2007 is KD 1.6 million, which is 36% lower than 2006. This decline is significantly influenced by an increase in interest payments as a result of additional loans and higher fuel prices. In 2008, we expect net income to increase to KD 4.1 million, representing a margin of 8.4%. During the following years, we expect net income to grow to KD 15 million by 2013 with a margin of 4.7%.

Figure 19 Net Income

We forecast net income to reach 4.3 million in 2008. Also, we expect net income to grow at a CAGR of 42% over the next six years



Sources: Jazeera Airways and NBK Capital

FUEL COSTS

Fuel costs represent the largest expense for Jazeera Airways; this will continue over our forecast period. For our forecast we applied a gradual increase in fuel prices and maintained the fuel consumption level of Jazeera Airways. Even though we expect that fuel prices will be much more volatile than what we incorporated into our forecasting model, we believe that any significant increase or decline in fuel prices will be passed on to the consumers in the form of adding or removing fuel surcharges. Also, Jazeera Airways plans to hedge a portion of its fuel consumption in order to reduce fluctuations in its operating performance. We did not incorporate the effect of such a strategy.

FINANCIAL HEALTH

Jazeera Airways appears to be well capitalized for a startup airline, employing both debt and equity. The company aims to add more debt to finance its fleet acquisition. Jazeera Airways will be making significant interest payments in the coming years, but given our earnings forecast the times interest earned (TIE) ratio for the company will be higher than two over our forecast horizon.

FINANCIAL STATEMENTS

Balance Sheet (KD Thousands)			Forecast				
Fiscal Year Ends December	2006	2007e	2008	2009	2010	2011	2012
ASSETS							
Cash and Short-Term Investments	1,538	4,199	11,567	13,311	16,997	34,610	39,979
Total Receivables, Net	980	3,938	5,394	9,488	14,899	20,141	28,976
Total Inventory	113	124	137	164	197	236	284
Total Current Assets	2,631	8,262	17,099	22,962	32,092	54,988	69,239
Property/Plant/Equipment, Total - Net	52,670	68,553	67,423	85,067	104,216	148,093	224,501
TOTAL ASSETS	55,301	76,814	84,522	108,030	136,308	203,081	293,739

LIABILITIES & EQUITY

Accounts Payable	4,072	5,158	7,311	14,852	25,158	34,527	49,870
Short Term Debt (Balancing Debt)	925	-	-	-	-	-	-
Current Port. of LT Debt/Capital Leases	4,813	6,000	1,000	1,000	3,000	3,000	5,000
Other Current Liabilities, Total	2,379	3,938	5,394	9,488	14,899	20,141	28,976
Total Current Liabilities	12,190	15,096	13,705	25,339	43,056	57,669	83,846
Long-Term Debt	31,947	38,947	43,947	48,947	51,947	93,947	143,947
Other Liabilities, Total	128	159	199	249	311	389	486
Total Liabilities	44,265	54,203	57,851	74,535	95,315	152,005	228,279
Total Equity	11,035	22,611	26,670	33,494	40,994	51,076	65,460
TOTAL LIABILITIES AND EQUITY	55,301	76,814	84,522	108,030	136,308	203,081	293,739

Income Statement (KD Thousands)			Forecast				
Fiscal Year Ends December	2006	2007e	2008	2009	2010	2011	2012
Total Revenue	21,532	34,741	48,344	85,496	134,330	181,701	261,839
Cost of Revenue	13,076	22,926	32,492	66,007	111,812	153,455	221,645
Gross Profit	8,456	11,815	15,853	19,490	22,518	28,245	40,195
Selling/General/Admin. Expenses	2,153	5,067	6,782	8,695	10,476	12,043	14,330
Depreciation/Amortization	2,850	4,941	5,485	6,646	9,476	11,882	17,753
Other Operating Expenses (Income)	(1,025)	(2,486)	(3,206)	(5,495)	(8,037)	(10,385)	(14,423)
Operating Income	4,479	4,293	6,793	9,644	10,603	14,706	22,535
Interest Income (Exp), Net Non-Operating	(1,966)	(2,711)	(2,718)	(2,794)	(3,075)	(4,585)	(8,097)
Net Income Before Taxes	2,512	1,582	4,074	6,850	7,527	10,121	14,438
Provision for Income Taxes	9	6	15	26	28	38	54
Net Income	2,503	1,576	4,059	6,824	7,499	10,083	14,384

Cash Flow Statement (KD Thousands)			Forecast				
Fiscal Year Ends December	2006	2007e	2008	2008	2008	2008	2008
Cash from Operating Activities	11,329	8,903	14,402	23,778	30,324	35,881	55,529
Cash from Investing Activities	(22,653)	(20,792)	(4,224)	(24,069)	(28,360)	(55,331)	(93,553)
Cash from Financing Activities	12,138	14,550	(2,809)	2,035	1,722	37,063	43,394
Net Change in Cash	814	2,662	7,368	1,743	3,686	17,613	5,369



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