ALIA -THE ROYAL JORDANIAN AIRLINES COMPANY (ROYAL JORDANIAN)

A PUBLIC SHAREHOLDING COMPANY

UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

31 March 2012

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Report on Review of Interim Condensed Consolidated Financial Statements
To the Board of Directors of
Alia -The Royal Jordanian Airlines Company (Royal Jordanian)
Amman - Jordan

Introduction

We have reviewed the accompanying interim condensed consolidated financial statements of Alia- The Royal Jordanian Airlines Company and its subsidiaries (the Group) as at 31 March 2012, comprising of the interim consolidated statement of financial position as at 31 March 2012 and the related interim consolidated statements of income, comprehensive income, changes in equity and cash flows for the three month period then ended and explanatory notes. Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Financial Reporting Standard IAS 34 Interim Financial Reporting ("IAS 34"). Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity". A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34.

Amman – Jordan
30 April 2012

Ernst & Young

Alia - The Royal Jordanian Airlines Company (Royal Jordanian)
Interim Consolidated Statement of Financial Position
At 31 March 2012 (Unaudited)
(In Thousands of Jordanian Dinars)

	Notes	***31 March 2012***	*31 December 2011*
ASSETS			(Audited)
Non- current assets			
Property and equipment	4	**182,435**	159,541
Projects under construction	5	**-**	24,152
Advances on purchase and modification of aircraft		**9,791**	9,791
Financial assets at fair value through other comprehensive income		**2,294**	2,227
Investments in associates		**17,077**	17,492
Restricted cash against lease contracts		**18,887**	19,102
		230,484	232,305
Current assets			
Derivative financial assets – Fuel options contacts	6	**1,803**	352
Other current assets		**27,127**	29,141
Spare parts and other supplies, net		**6,576**	7,073
Accounts receivable, net		**45,902**	42,736
Cash and bank balances	7	**78,602**	34,628
		160,010	113,930
Property and equipment held for sale		**6,489**	7,180
TOTAL ASSETS		**396,983**	353,415
EQUITY AND LIABILITIES			
Shareholders' equity			
Paid in capital		**84,373**	84,373
Statutory reserve		**11,270**	11,270
Cash flow hedges	**6**	**(200)**	(186)
Accumulated losses		**(53,902)**	(37,398)
		41,541	58,059
Non-controlling interests		**70**	65
Total shareholders' equity		**41,611**	58,124
Non- current liabilities			
Long term loans		**81,432**	35,334
Long term obligations under finance leases		**35,198**	36,711
Other long term liabilities		**1,856**	2,069
		118,486	74,114
Current liabilities			
Bank overdraft	8	**13,378**	13,145
Current portion of long term loans		**11,392**	6,353
Accrued expenses		**53,591**	60,275
Accounts payable and other current liabilities		**92,001**	87,529
Income tax provision		**-**	74
Deferred revenues		**60,613**	47,982
Obligations under finance leases		**5,911**	5,819
		236,886	221,177
Total liabilities		**355,372**	295,291
TOTAL EQUITY AND LIABILITIES		**396,983**	353,415

The attached notes from 1 to 13 form part of these interim condensed consolidated financial statements

Alia - The Royal Jordanian Airlines Company (Royal Jordanian)
Interim Consolidated Income Statement
For The Three Months Ended 31 March 2012 (Unaudited)
(In Thousands of Jordanian Dinars)

	Notes	For the three months ended 31 March	
		2012	2011
Revenues	9	**172,831**	142,930
Cost of revenues		**(172,779)**	(153,911)
		52	(10,981)
Share of profit of associates		**268**	474
Other income (expenses), net		**511**	(1,270)
Ineffective portion of fuel option contacts	6	**397**	-
General and administrative expenses		**(5,001)**	(5,026)
Selling and marketing expenses		**(11,051)**	(10,432)
(Loss) gain on sale of property and equipment		**(6)**	6
Loss on foreign exchange		**(85)**	(433)
Finance costs		**(981)**	(767)
		(15,896)	(28,429)
Loss from property and equipment held for sale		**(603)**	-
Loss for the period		**(16,499)**	(28,429)
Attributable to:			
Equity holders of the parent		**(16,504)**	(28,426)
Non-controlling interests		**5**	(3)
		(16,499)	(28,429)
Basic and diluted earning per share attributable to equity holders of the parent		**JD(0.20)**	JD(0.34)

The attached notes from 1 to 13 form part of these interim condensed consolidated financial statements

Alia - The Royal Jordanian Airlines Company (Royal Jordanian)
Interim Consolidated Statement of Comprehensive Income
For The Three Months Ended 31 March 2012 (Unaudited)
(In Thousands of Jordanian Dinars)

	For the three months ended 31 March	
	2012	2011
Loss for the period	**(16,499)**	(28,429)
Other comprehensive income		
Loss on cash flow hedges	**(14)**	-
Total loss and comprehensive income for the period	**(16,513)**	(28,429)
Attributable to:		
Equity holders of the parent	**(16,518)**	(28,426)
Non – controlling interests	**5**	(3)
	(16,513)	(28,429)

The attached notes from 1 to 13 form part of these interim condensed consolidated financial statements

Alia - The Royal Jordanian Airlines Company (Royal Jordanian)
Interim Consolidated Statement of Changes in Equity
For The Three Months Ended 31 March 2012 (Unaudited)
(In Thousands of Jordanian Dinars)

	Attributable to equity holders of the parent						
	Paid in Capital	*Statutory reserve*	*Cash flow hedges*	*Accumulated losses*	*Total*	*Non – controlling interests*	*Total Equity*
Balance as of 1 January 2012	84,373	11,270	(186)	(37,398)	58,059	65	58,124
Loss for the period	-	-	-	(16,504)	(16,504)	5	(16,499)
Other Comprehensive income items	-	-	(14)	-	(14)	-	(14)
Total loss and comprehensive income for the period	-	-	(14)	(16,504)	(16,518)	5	(16,513)
Balance as of 31 March 2012	84,373	11,270	(200)	(53,902)	41,541	70	41,611
Balance as of 1 January 2011	84,373	11,270	-	20,529	116,172	74	116,246
Total loss and comprehensive income for the period	-	-	-	(28,426)	(28,426)	(3)	(28,429)
Balance as of 31 March 2011	84,373	11,270	-	(7,897)	87,746	71	87,817

The attached notes from 1 to 13 form part of these interim condensed consolidated financial statements

Alia - The Royal Jordanian Airlines Company (Royal Jordanian)
Interim Consolidated Statement of Cash Flows
For The Three Months Ended 31 March 2012 (Unaudited)
(In Thousands of Jordanian Dinars)

	Notes	For the three months ended 31 March	
		2012	2011
OPERATING ACTIVITIES			
Loss for the period		**(16,499)**	(28,429)
Adjustments for:			
Depreciation of property and equipment		**6,117**	7,023
Share of profit of associates		**(268)**	(474)
Finance costs		**981**	767
Loss (gain) on sale of property and equipment		**6**	(6)
Loss from property and equipment held for sale		**603**	-
Provision for end of service indemnity		**298**	167
Amortization of deferred revenue - ALPHA		**(75)**	(77)
Ineffective portion of fuel options contracts	6	**(397)**	-
Working capital changes:			
Accounts receivable		**(3,166)**	6,990
Spare parts and other supplies		**497**	(361)
Other current assets		**2,102**	(11,671)
Purchase of derivative financial assets		**(1,068)**	-
Deferred revenues		**12,706**	5,951
Accounts payable and other current liabilities		**4,472**	2,501
Accrued expenses		**(6,684)**	14,533
End of service indemnity paid		**(511)**	(131)
Income tax paid		**(74)**	(3)
Net cash flows used in operating activities		**(960)**	(3,220)
INVESTING ACTIVITIES			
Purchase of financial assets at fair value through other Comprehensive income		**(67)**	-
Dividends received from associates		**683**	303
Purchase of property and equipment	4	**(3,921)**	(2,278)
Sale of property and equipment		**-**	9
Projects under construction		**(944)**	(2,104)
Change in restricted cash against lease contracts		**215**	(198)
Net cash flows used in investing activities		**(4,034)**	(4,268)
FINANCING ACTIVITIES			
Bank Overdraft		**233**	12,245
Proceeds from term loans		**53,045**	3,547
Repayment of term loans		**(1,908)**	(2,552)
Finance lease obligations		**(1,421)**	(1,333)
Interest paid		**(981)**	(767)
Net cash flows from financing activities		**48,968**	11,140
Net increase in cash and cash equivalents		**43,974**	3,652
Cash and cash equivalents, beginning of the period		**34,628**	44,789
Cash and cash equivalents, end of the period	7	**78,602**	48,441

The attached notes from 1 to 13 form part of these interim condensed consolidated financial statements

1. GENERAL

Alia - The Royal Jordanian Airlines Company (Royal Jordanian), the "Company", was registered as a Jordanian public shareholding company on 5 February 2001. The Company is the legal successor of Alia-Royal Jordanian Corporation. The company's head office is located in Amman – Jordan.

The Company's objectives are to undertake scheduled air-transport activities from and to the Kingdom and to carry out the handling of civil aircraft that land in and take off from the airports of the Kingdom.

The Jordanian Civil Aviation Authority granted the Company the exclusive right to utilise the Jordanian Traffic Rights for international Routes, from Amman, for the operation of scheduled flights. The initial right started on 5 February 2002 for the term of four years, which was renewed for another 4 years of 5 February 2006 which ended on 2 February 2010.

The interim condensed consolidated financial statements were authorized for issue by the Board of Directors in their meeting held on 30 April 2012.

2. BASIS OF PREPARATION

The interim condensed consolidated financial statements are prepared in accordance with International Accounting Standard 34, Interim Financial Reporting.

The interim condensed consolidated financial statements do not contain all information and disclosures required for full financial statements prepared in accordance with International Financial Reporting Standards, and should be read in conjunction with the Group annual financial statements as of 31 December 2011. In addition, results of the three month period ended 31 March 2012 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2012.

Changes in accounting polices

The accounting policies adopted are consistent with those used in the previous year except for the following new and amended IFRS adopted by the Group:

IFRS (7) Financial Instruments: Disclosures – Enhanced Derecognition Disclosure Requirements
This amendment has no effect on the financial position or performance of the Group.

3. BASIS OF CONSOLIDATION

The interim condensed consolidated financial statements comprise the financial statements of Alia- The Royal Jordanian Airlines Company (the Company) and the following subsidiaries (collectively referred to as the "Group") as at 31 March 2012:

	Country	Ownership Interest
Royal Wings	Jordan	100%
Royal Tours for Travel and Tourism	Jordan	80%

All intra-Group balances, transactions, income and expenses and profit and losses resulting from intra-Group transactions that are recognized in assets are eliminated in full.

4. PROPERTY AND EQUIPMENT

During the three months ended 31 March 2012, The Group acquired property and equipment with a cost of JD 3,921 (2011: JD 2,278).

5. PROJECTS UNDER CONSTRUCTION

This item represents the cost of work completed relating to the Company's head quarter project with a total cost of JD 26,000. The project was completed during the first quarter of 2012. The project has been capitalized during March 2012.

6. DERIVATIVE FINANCIAL INSTRUMENTS – FUEL OPTIONS CONTRACTS

During 2011 and the period ended 31 March 2012, the Company entered into Jet fuel options contracts to mitigate its exposure to fuel price fluctuations.

For the purpose of hedge accounting, the Company's fuel options contracts are classified as cash flow hedges, as the Company is hedging exposure to variability in cash flows that is attributable to the fuel price fluctuations risk associated with a highly probable forecast transaction.

The fair value of the fuel options contracts amounted to JD 1,803 as of 31 March 2012 (31 December 2011: JD 352) and was recorded as a current asset in the interim consolidated statement of financial position. These options mature during December 2012.

The Cash flow hedges for some contracts were assessed to be effective and a cumulative unrealized loss of JD 200 has been included in equity.

The ineffective portion relating to these contracts of JD 397 (31 March 2011: nil) was recorded as an unrealized gain in the interim consolidated income statement.

7. CASH AND CASH EQUIVALENTS

	31 March 2012	31 December 2011
Cash and bank balances*	**47,803**	9,374
Cash in transit **	**30,799**	25,254
	78,602	34,628

* Included in cash at banks are deposits amounting to JD 18,500 JD (31 December 2011: nil) that earn interest at rates ranging between 4.25% - 4.5% per annum.

** This item represents cash received on tickets sales and other sales during March that were deposited in the Company's bank accounts during April.

8. BANK OVERDRAFT

This item represents the utilized amount of the credit facilities granted to the Company as follows:

- Overdraft facility with a ceiling of USD 10,000,000 (JD: 7,092) from Union Bank.
- Overdraft facility with a ceiling of USD 20,000,000 (JD: 14,184) from Arab Jordan Investment Bank.

9. REVENUES

	For the three months ended 31 March	
	2012	2011
Scheduled Services		
Passengers	**101,745**	88,370
Cargo	**9,699**	9,413
Excess baggage	**1,633**	1,434
Airmail	**1,186**	901
Total scheduled services (note 12)	**114,263**	100,118
Chartered flights (note 12)	**5,085**	2,496
Commercial revenues from arriving and departing aircrafts of other companies	**2,403**	2,189
Revenues from technical and maintenance services provided to other companies	**1,150**	1,213
Cargo warehouse revenues	**2,967**	2,366
Revenues from fuel surcharge and tickets air way bills	**39,441**	29,664
Revenues from services provided to other aviation companies	**569**	536
First class services revenues	**385**	352
Change reservation revenues	**1,691**	526
Revenues from NDC (Galileo)	**1,549**	1,069
Other revenues	**3,328**	2,401
	172,831	142,930

10. INCOME TAX

No provision for income tax was calculated by the Group for the periods ended 31 March 2012 and 2011 due to the excess of expenses over taxable income in accordance with the temporary income law No. (28) of 2009.

The Company reached a final settlement with the Income Tax Department up to the year 2010.

Royal Wings Company reached a final settlement with the Income Tax Department up to the year 2008. The Income Tax Department reviewed the records of Royal wings for the years 2010 and 2009 but tax assessment has not been finalized to date.

11. COMMITMENTS AND CONTINGENCIES

- Bank guarantees

At 31 March 2012, the Group had letters of guarantee amounting to JD 15,865 (31 December 2011: JD 15,836) in respect of performance bonds.

- Claims against the Group

The Group is a defendant in a number of lawsuits amounting to JD 4,087 (31 December 2011: JD 4,237) representing legal actions and claims related to its ordinary course of business. Related risks have been analyzed as to the likelihood of occurrence, although the outcome of these matters cannot always be ascertained with precision. The management and their legal advisors believe that no material liabilities are likely to result.

- Capital Commitments

As of 31 March 2012, the Group had capital commitments of USD 875,773,000 (31 December 2011: USD 875,773,000) equivalent to JD 621,116 (31 December 2011: JD 621,116) relating to finance lease agreements signed for new aircrafts.

- Operating lease commitments

Alia – The Royal Jordanian Airlines Company entered into operating lease commitments include agreements for received aircraft, which consist of four Airbus A-340, five Airbus A-320, four Airbus A–321, four Airbus A–319, three Airbus A–330, three embrear E-195 aircraft and one embrear E-175 aircraft. In addition operating lease commitments include lease agreements for two Airbus A-320 aircraft, two Airbus A-321 and four Boeing B-787; when received; these aircrafts will replace four Airbus A-320 and two Airbus A-321.

Future minimum lease payments under the operating leases are detailed as follows:

Period	JD
1 April 2012 – 31 March 2013	75,558
1 April 2013 – 31 March 2014	73,130
1 April 2014 – 31 March 2015	64,737
1 April 2015 – 31 March 2016	55,678
1 April 2016 and after	215,949

12. GEOGRAPHICAL DISTRIBUTION OF REVENUES

All operations are integrated under the airline business. The Group does not have any segment information other than the geographical distribution of revenues.

	31 March 2012				31 March 2011			
	Scheduled services	Chartered Flights		Total	Scheduled services	Chartered Flights		Total
		Passengers	Cargo			Passengers	Cargo	
Levant	19,597	8	463	20,068	17,413	168	89	17,670
Europe	23,883	128	132	24,143	26,201	1,270	243	27,714
Arab Gulf	25,363	3,307	90	28,760	19,866	177	-	20,043
America	18,542	-	240	18,782	16,735	-	75	16,810
Asia	17,360	-	96	17,456	15,967	107	160	16,234
Africa	9,518	621	-	10,139	3,936	119	88	4,143
Total	114,263	4,064	1,021	119,348	100,118	1,841	655	102,614

13. RELATED PARTY TRANSACTIONS

The following is a summary of the transactions with associated companies included in the interim consolidated income statement:

	For the three months ended 31 March	
	2012	2011
Jordan Aircraft Maintenance Company (JORAMCO):		
Scheduled services revenues	**122**	119
Revenues from computer services	**-**	7
	122	126
Other income	**71**	252
Repair and maintenance expenses	**1,791**	1,522
Jordan Flight Catering Company:		
Passenger services expenses	**4,165**	3,290
Jordan Aircraft Training and Simulation Company (JATS):		
Other income	**16**	1
Pilots training expenses	**214**	314

The following is a summary of the transactions with the Government of the Hashemite Kingdom of Jordan included in the interim consolidated income statement:

	For the three months ended 31 March	
	2012	2011
Scheduled services revenues – passengers	**1,716**	1,972
Scheduled services revenues – cargo	**622**	416
	2,338	2,388

Compensation of key management personnel:

The remuneration of members of key management during the period was as follows:

	For the three months ended 31 March	
	2012	2011
Salaries and other benefits	**137**	116