ALIA -THE ROYAL JORDANIAN AIRLINES COMPANY (ROYAL JORDANIAN)

A PUBLIC SHAREHOLDING COMPANY

UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

30 June 2011

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 30 June 2011, comprising of the interim consolidated statement of financial position as at 30 June 2011 and the related interim consolidated statements of comprehensive income, changes in equity and cash flows for the six 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
27 July 2011

Alia - The Royal Jordanian Airlines Company (Royal Jordanian)
Interim Consolidated Statement of Financial Position
At 30 June 2011 (Unaudited)
(In Thousands of Jordanian Dinars)

	Notes	30 June 2011	31 December 2010 (Audited)
ASSETS			
Non- current assets			
Property and equipment	4	**187,331**	202,422
Projects under construction		**19,844**	16,687
Advances on purchase and modification of aircraft		**9,791**	9,791
Available- for- sale investments		**-**	2,227
Financial assets at fair value through other comprehensive income		**2,227**	-
Investments in associates		**18,539**	17,610
Restricted cash against lease contracts		**19,064**	18,583
		256,796	267,320
Current assets			
Other current assets		**35,405**	25,978
Spare parts and other supplies, net		**4,137**	3,340
Accounts receivable, net		**47,767**	41,563
Cash and bank balances	5	**60,914**	44,789
		148,223	115,670
Property and equipment held for sale	6	**-**	2,057
TOTAL ASSETS		**405,019**	385,047
EQUITY AND LIABILITIES			
Shareholders' equity			
Paid in capital		**84,373**	84,373
Statutory reserve		**11,270**	11,270
(Accumulated losses) retained earnings		**(18,851)**	20,529
		76,792	116,172
Non-controlling interests		**68**	74
Total shareholders' equity		**76,860**	116,246
LIABILITIES			
Non- current liabilities			
Long term loans		**21,693**	15,198
Long term obligations under finance leases		**39,666**	42,529
Other long term liabilities		**2,119**	2,287
		63,478	60,014
Current liabilities			
Bank overdraft	7	**18,755**	-
Current portion of long term loans		**8,701**	9,670
Accrued expenses		**72,125**	63,896
Accounts payable and other current liabilities		**73,213**	74,518
Income tax provision		**62**	33
Deferred revenues		**86,186**	55,206
Obligations under finance leases		**5,639**	5,464
		264,681	208,787
Total liabilities		**328,159**	268,801
TOTAL EQUITY AND LIABILITIES		**405,019**	385,047

The attached notes from 1 to 12 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 and Six Months Ended 30 June 2011 (Unaudited)
(In Thousands of Jordanian Dinars)

	Notes	For the three months ended 30 June		For the six months ended 30 June	
		2011	2010	**2011**	2010
Revenues	8	**180,645**	178,216	**323,575**	313,201
Cost of revenues		**(187,758)**	(152,760)	**(341,669)**	(280,905)
		(7,113)	25,456	**(18,094)**	32,296
Share of profit of associates		**758**	730	**1,232**	1,494
Other income (expense), net		**4,545**	(1,419)	**3,275**	(1,301)
General and administrative expenses		**(4,664)**	(5,056)	**(9,690)**	(9,366)
Selling and marketing expenses		**(12,394)**	(12,105)	**(22,826)**	(21,777)
Gain on sale of property and equipment		**9,056**	-	**9,062**	-
Gain (loss) on foreign exchange		**16**	(853)	**(417)**	(1,391)
Finance costs		**(1,128)**	(545)	**(1,895)**	(1,051)
		(10,924)	6,208	**(39,353)**	(1,096)
Loss from property and equipment held for sale		**-**	(1,559)	**-**	(6,059)
(Loss) profit for the period before income tax		**(10,924)**	4,649	**(39,353)**	(7,155)
Income tax	9	**(33)**	(80)	**(33)**	(80)
(Loss) profit for the period		**(10,957)**	4,569	**(39,386)**	(7,235)
Other comprehensive income items, net of tax		-	-	**-**	-
Total loss and comprehensive income for the period		**(10,957)**	4,569	**(39,386)**	(7,235)
Attributable to:					
Equity holders of the parent		(10,954)	4,570	**(39,380)**	(7,236)
Non-controlling interests		(3)	(1)	**(6)**	1
		(10,957)	4,569	**(39,386)**	(7,235)
Basic and diluted earnings per share		**JD (0.130)**	JD 0.054	**JD (0.467)**	JD (0.086)

The attached notes from 1 to 12 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 Six Months Ended 30 June 2011 (Unaudited)
(In Thousands of Jordanian Dinars)

	Attributable to equity holders of the parent					
	Paid in capital	*Statutory reserve*	*(Accumulated losses) retained earnings*	*Total*	*Non – controlling interests*	*Total equity*
Balance at 1 January 2011	84,373	11,270	20,529	116,172	74	116,246
Total loss and comprehensive income for the period	-	-	(39,380)	(39,380)	(6)	(39,386)
Balance at 30 June 2011	84,373	11,270	(18,851)	76,792	68	76,860
Balance at 1 January 2010	84,373	10,236	11,909	106,518	73	106,591
Total loss and comprehensive income for the period	-	-	(7,236)	(7,236)	1	(7,235)
Balance at 30 June 2010	84,373	10,236	4,673	99,282	74	99,356

The attached notes from 1 to 12 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 Six Months Ended 30 June 2011 (Unaudited)
(In Thousands of Jordanian Dinars)

	Notes	For the six months ended 30 June	
		2011	2010
OPERATING ACTIVITIES			
Loss for the period before tax		**(39,353)**	(7,155)
Adjustments for:			
Depreciation of property and equipment		**15,367**	13,822
Share of profit of associates		**(1,232)**	(1,494)
Finance costs		**1,895**	1,051
Gain on sale of property and equipment		**(9,062)**	-
Loss from property and equipment held for sale		**-**	6,059
Provision for end of service indemnity		**430**	297
Amortization of deferred revenues		**(1,335)**	(480)
Working capital changes:			
Accounts receivable		**(4,147)**	(8,391)
Spare parts and other supplies		**(797)**	114
Other current assets		**(9,427)**	4,876
Deferred revenues		**32,315**	38,212
Accounts payable and other current liabilities		**(1,305)**	(19,332)
Accrued expenses		**8,229**	11,652
End of service indemnity paid		**(598)**	(353)
Income tax paid		**(4)**	(269)
Net cash flows (used in) from operating activities		**(9,024)**	38,609
INVESTING ACTIVITIES			
Purchase of available-for-sale investments		**-**	(49)
Dividends received from associates		**303**	702
Purchase of property and equipment		**(10,012)**	(6,511)
Sale of property and equipment		**18,798**	-
Projects under construction		**(3,157)**	(1,198)
Increase in restricted cash against lease contracts		**(481)**	(5,332)
Advances on purchase and modification of aircraft		**-**	(4,325)
Net cash flows from (used in) investing activities		**5,451**	(16,713)
FINANCING ACTIVITIES			
Bank overdraft		**18,755**	-
Proceeds from term loans		**7,092**	5,319
Repayment of term loans		**(1,566)**	(5,393)
Finance lease obligations		**(2,688)**	(2,525)
Interest paid		**(1,895)**	(1,051)
Net cash flows from (used in) financing activities		**19,698**	(3,650)
Net increase in cash and cash equivalents		**16,125**	18,246
Cash and cash equivalents, beginning of the period		**44,789**	41,767
Cash and cash equivalents, end of the period	5	**60,914**	60,013

The attached notes from 1 to 12 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 aerodromes 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 contract started on 5 February 2002 for the term of four years, which was renewed for another 4 years on 5 February 2006 and ended on 2 February 2010.

The interim condensed consolidated financial statements were authorized for issue by the Board of Directors during their meeting held on 27July 2011.

2 BASIS OF PREPERATION

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 report as of 31 December 2010. In addition, results of the six month period ended 30 June 2011 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2011.

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 as of 1 January 2011:

IFRS (9) Financial Instruments

Effective 1 January 2011, the Group has early adopted IFRS 9 "Financial instruments". The adoption of the standard has no impact on the Group's statement of financial position or statement of comprehensive income, except for the re-classification of the Group's available for sale investments as follows:

Financial assets at fair value through other comprehensive income: these represent equity instruments and are no longer subject to impairment testing.

IAS 24 Related Party Disclosures (Amended)

This amendment has no effect on, the financial position or performance of the Group.

IAS 32 Financial Instruments: Presentation – Classification of Rights Issues (Amended)

This amendment has no effect on, the financial position or performance of the Group.

IFRIC 14 Prepayments of a minimum funding requirement

IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments

The interpretations have 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 30 June 2011:

	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 are eliminated in full.

4 PROPERTY AND EQUIPMENT

During the six months ended 30 June 2011, The Group acquired property and equipment with a cost of JD 10,012 (2010: JD 6,511).

During the period, the Group sold three engines for a total amount of JD 18,794 and leased them back under an operating lease agreement for five years. The sale transaction resulted in a gain of JD 9,054 which was recorded in the consolidated statement of comprehensive income.

5 CASH AND CASH EQUIVALENTS

	30 June 2011	31 December 2010
Cash and bank balances	**22,083**	22,144
Cash in transit *	**38,831**	22,645
	60,914	44,789

* This item represents cash received on tickets sales and other sales during June that were deposited in the Company's bank accounts during the month of July.

6. PROPERTY AND EQUIPMENT HELD FOR SALE

The Board of Directors resolved in its meeting held on 24 January 2010 to sell one of the Company's Airbus A-310 aircraft. Accordingly, the aircraft was classified as property and equipment held for sale in the consolidated statement of financial position as of 31 December 2010 at JD 2,057, which represents the aircraft fair value less costs to sell. The aircraft was sold during January 2011.

7. 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.

8 REVENUES

	For the three months ended 30 June		For the six months ended 30 June	
	2011	2010	**2011**	2010
Scheduled Services				
Passengers	**111,280**	119,419	**199,651**	207,509
Cargo	**9,881**	9,959	**19,294**	18,411
Excess baggage	**1,488**	1,583	**2,922**	3,274
Airmail	**1,095**	762	**1,996**	1,413
Total scheduled services (note 11)	**123,744**	131,723	**223,863**	230,607
Chartered flights (note 11)	**4,832**	3,259	**7,329**	5,621
Commercial revenues from arriving and departing aircrafts of other companies	**2,375**	3,892	**4,564**	6,421
Revenues from technical and maintenance services provided to other companies	**1,471**	1,089	**2,684**	1,980
Cargo warehouse revenues	**2,317**	2,579	**4,683**	4,756
Services provided to other aviation companies	**729**	731	**1,265**	1,396
Revenues from fuel surcharge and tickets airway bills	**38,589**	29,060	**68,253**	53,107
First class services revenues	**382**	514	**734**	875
Change reservation fees	**1,503**	1,230	**2,029**	1,599
Revenues from NDC (Galileo)	**1,662**	1,595	**2,731**	2,717
Other revenues	**3,041**	2,544	**5,440**	4,122
	180,645	178,216	**323,575**	313,201

9 INCOME TAX

The income tax appearing in the consolidated statement of comprehensive income represents the following:

	For the three months ended 30 June		For the six months ended 30 June	
	2011	2010	**2011**	2010
Prior years' income tax charge	**33**	80	**33**	80
Income tax	**33**	80	**33**	80

Prior years' income tax charge of JD 33 represents the income tax recorded by Royal Wings limited liability Company (subsidiary company).

No provision for income tax was calculated by Alia – the Royal Jordanian Airlines Company for the period ended 30 June 2011 due to the excess of expenses over taxable income in accordance with the temporary Income Tax Law No. (28) of 2009.

The Income Tax Department reviewed the Group's income tax returns for the year 2009.

Alia- the Royal Jordanian Airlines Company and its subsidiaries reached a final settlement with the Income Tax Department up to the year 2008.

10 COMMITMENTS AND CONTINGENCIES

Bank guarantees
At 30 June 2011, the Group had outstanding letters of guarantee amounted to JD 14,299 (31 December 2010: JD 8,980) in respect of performance bonds.

Claims against the Group
The Group is a defendant in a number of lawsuits amounting to JD 18,341 (31 December 2010: JD 17,796) representing legal actions and claims related to its ordinary course of business. Related risks have been analyzed as to 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 30 June 2011, the Group had capital commitments of USD 875,773,000 (31 December 2010: USD 875,773,000) equivalent to JD 621,116 (31 December 2010: JD 621,116) relating to finance lease agreements signed for new aircrafts.

Operating lease commitments
The Company has entered into operating lease agreements for four Airbus A-340, four Airbus A-320, four Airbus A–321, four Airbus A–319, two Airbus A–330, three embrear E-195 aircrafts and one embrear E-175 aircraft. This item also includes five year operating lease contracts for five Airbus A-320, two Airbus A-321 and four Boeing B-787 aircrafts. These aircrafts will replace upon their arrival, four Airbus A-320 and two Airbus A-321 aircrafts.

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

Period	JD
1 July 2011 – 30 June 2012	74,465
1 July 2012 – 30 June 2013	73,579
1 July 2013 – 30 June 2014	77,206
1 July 2014 – 30 June 2015	65,741
1 July 2015 and after	65,817

11 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.

For the three months ended 30 June:

	2011				2010			
	Scheduled services	**Chartered Flights**		**Total**	Scheduled services	Chartered Flights		Total
		Passengers	**Cargo**			Passengers	Cargo	
Levant	**20,150**	**44**	**30**	**20,224**	20,938	272	99	21,309
Europe	**30,772**	**907**	**-**	**31,679**	37,646	1,888	98	39,632
Arab Gulf	**25,033**	**580**	**495**	**26,108**	23,503	237	94	23,834
America	**27,902**	**2,079**	**319**	**30,300**	31,310	-	156	31,466
Asia	**17,069**	**2**	**-**	**17,071**	13,067	-	-	13,067
Africa	**2,818**	**332**	**44**	**3,194**	5,259	317	98	5,674
Total revenues	**123,744**	**3,944**	**888**	**128,576**	131,723	2,714	545	134,982

For the six months ended 30 June:

	2011				2010			
	Scheduled services	**Chartered Flights**		**Total**	Scheduled services	Chartered Flights		Total
		Passengers	**Cargo**			Passengers	Cargo	
Levant	**37,564**	**212**	**119**	**37,895**	39,482	297	475	40,254
Europe	**56,973**	**2,177**	**240**	**59,390**	65,653	2,603	415	68,671
Arab Gulf	**44,899**	**757**	**495**	**46,151**	40,905	392	222	41,519
America	**44,638**	**2,079**	**395**	**47,112**	48,519	-	312	48,831
Asia	**33,036**	**108**	**160**	**33,304**	26,135	421	-	26,556
Africa	**6,753**	**452**	**135**	**7,340**	9,913	386	98	10,397
			1,54				1,52	
Total revenues	**223,863**	**5,785**	**4**	**231,192**	230,607	4,099	2	236,228

12 RELATED PARTY TRANSACTIONS

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

	For the three months ended 30 June		For the six months ended 30 June	
Jordan Aircraft Maintenance Company (JORAMCO):	**2011**	2010	**2011**	2010
Scheduled services revenues	**31**	159	**150**	250
Revenues from computer services	**-**	-	**7**	-
Revenue from technical and maintenance services	**7**	129	**7**	147
	38	288	**164**	397
Other income	**401**	5	**653**	79
Repair and maintenance expenses	**2,576**	3,620	**4,098**	5,716
Jordan Flight Catering Company:				
Passenger services expenses	**3,830**	3,826	**7,120**	6,884
Jordan Aircraft Training and Simulation Company (JATS):				
Other income	**1**	4	**2**	5
Pilot training expenses	**511**	300	**825**	472

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

	For the three months ended 30 June		For the six months ended 30 June	
	2011	2010	**2011**	2010
Scheduled services revenues – passengers	**1,944**	1,978	**3,916**	3,506
Scheduled services revenues – cargo	**413**	381	**829**	659
	2,357	2,359	**4,745**	4,165

Compensation of key management personnel

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

	For the three months ended 30 June		For the six months ended 30 June	
	2011	2010	**2011**	2010
Salaries and other benefits	**157**	149	**273**	268