

**ALIA -THE ROYAL JORDANIAN AIRLINES COMPANY  
(ROYAL JORDANIAN)**

**A PUBLIC SHAREHOLDING COMPANY**

**UNAUDITED INTERIM CONDENSED CONSOLIDATED  
FINANCIAL STATEMENTS**

**31 March 2009**

**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 subsidiary (the Group) as at 31 March 2009, comprising of the interim consolidated statement of financial position as at 31 March 2009 and the related interim consolidated statements of 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 2009

**Alia - The Royal Jordanian Airlines Company (Royal Jordanian)**  
**Interim Consolidated Statement of Financial Position**  
**At 31 March 2009 (Unaudited)**  
**(In Thousands Dinars)**

	<i>Notes</i>	<b>31 March 2009</b>	31 December 2008 (Audited) (Restated)
<b><u>ASSETS</u></b>			
<b>Non- current assets</b>			
Property and equipment	4	227,720	227,558
Projects under construction		6,351	4,864
Advances on purchase and modification of aircraft		5,466	5,466
Available- for- sale investments		2,151	2,151
Deferred tax assets	8	4,831	7,000
Investments in associates		13,768	13,323
Restricted cash against lease contracts		16,577	17,009
		<b>276,864</b>	<b>277,371</b>
<b>Current assets</b>			
Other current assets		25,755	24,092
Spare parts and other supplies, net		4,545	5,050
Accounts receivable, net		42,312	43,011
Cash and bank balances	7	35,059	24,837
		<b>107,671</b>	<b>96,990</b>
<b>TOTAL ASSETS</b>		<b>384,535</b>	<b>374,361</b>
<b><u>EQUITY AND LIABILITIES</u></b>			
<b>Shareholders' equity</b>			
Paid in capital		84,373	84,373
Statutory reserve		6,574	6,574
Accumulated losses		(21,600)	(13,030)
<b>Total shareholders' equity</b>		<b>69,347</b>	<b>77,917</b>
<b><u>LIABILITIES</u></b>			
<b>Non- current liabilities</b>			
Long term loans		13,734	10,934
Long term obligations under finance leases		51,871	53,123
Other long term liabilities		2,446	2,668
		<b>68,051</b>	<b>66,725</b>
<b>Current liabilities</b>			
Bank overdrafts	7	459	-
Current portion of long term loans		8,575	6,560
Accrued expenses		43,621	37,949
Accounts payable and other current liabilities		97,670	81,261
Income tax provision		3,048	3,048
Derivative financial liabilities	5	32,160	46,674
Deferred revenues		56,710	49,409
Obligations under finance leases		4,894	4,818
		<b>247,137</b>	<b>229,719</b>
<b>Total liabilities</b>		<b>315,188</b>	<b>296,444</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>384,535</b>	<b>374,361</b>

The attached notes from 1 to 11 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- Month Period Ended 31 March 2009 (Unaudited)**  
**(In Thousands Dinars)**

	Notes	For the Three Months Ended 31 March	
		2009	2008 (Restated)
<b>Revenues</b>	6	<b>123,722</b>	138,319
<b>Cost of revenues</b>		<b>( 138,114)</b>	( 143,056)
<b>Loss from operations</b>		<b>( 14,392)</b>	(4,737)
Share of profit of associates		<b>768</b>	830
Other (expenses) income, net		<b>(1,221)</b>	1,378
Change in fair value of derivative financial assets	5	-	1,111
Change in fair value of derivative financial liabilities	5	<b>14,514</b>	-
General and administrative expenses		<b>(5,030)</b>	( 3,944)
(Loss) gain on disposal of aircraft, engines and components		<b>(40)</b>	1,986
Foreign exchange loss		<b>(237)</b>	( 105)
Finance costs		<b>(763)</b>	( 923)
<b>Loss for the period before tax</b>		<b>(6,401)</b>	(4,404)
Amortization of deferred tax assets	8	<b>(2,169)</b>	-
Loss for the period		<b>(8,570)</b>	(4,404)
Other comprehensive income, net of tax		-	-
Total loss and comprehensive income for the period		<b>(8,570)</b>	(4,404)
Basic and diluted earning per share		<b>JD(0.10)</b>	JD(0.05)

The attached notes from 1 to 11 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- Month Period Ended 31 March 2009 (Unaudited)**  
**(In Thousands Dinars)**

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	Paid in capital	Statutory reserve	(Accumulated losses) retained earnings	Total
Balance at 1 January 2009	84,373	6,574	(5,211)	85,736
Changes in accounting policies (Note 2)	-	-	(7,819)	(7,819)
Restated balance at 1 January 2009	84,373	6,574	(13,030)	77,917
Total loss and comprehensive income for the period	-	-	(8,570)	(8,570)
Balance at 31 March 2009	<u>84,373</u>	<u>6,574</u>	<u>(21,600)</u>	<u>69,374</u>
Balance at 1 January 2008	84,373	6,574	18,151	109,098
Changes in accounting policies (Note 2)	-	-	(6,534)	(6,534)
Restated balance at 1 January 2008	84,373	6,574	11,617	102,564
Total loss and comprehensive Income for the period	-	-	(4,404)	(4,404)
Balance at 31 March 2008	<u>84,373</u>	<u>6,574</u>	<u>7,213</u>	<u>98,160</u>

The attached notes from 1 to 11 form part of these interim condensed consolidated financial statements

**Alia - The Royal Jordanian Airlines Company (Royal Jordanian)**  
**Interim Consolidated Cash Flow Statement**  
**For The Three- Month Period Ended 31 March 2009 (Unaudited)**  
**(In Thousands Dinars)**

	Notes	For The Three Months Ended 31 March	
		2009	2008 (Restated)
<b>OPERATING ACTIVITIES</b>			
<b>Loss for the period before income tax</b>		<b>(6,401)</b>	(4,404)
<b>Adjustments for:</b>			
Depreciation of property and equipment		5,534	5,316
Change in fair value of derivative financial assets		-	(1,111)
Change in fair value of derivative financial liabilities		(14,514)	-
Share of profit of associates		(768)	(830)
Finance costs		763	923
Loss (gain) on disposal of property and equipment		40	(1,986)
Provision for end of service indemnity		12	315
Amortization of deferred revenue - JATS		(164)	(164)
Amortization of deferred revenue – JORAMCO		-	(458)
<b>Working capital changes:</b>			
Decrease (increase) in accounts receivable		699	( 9,824)
Decrease (increase) in spare parts and other supplies		505	(633)
Increase in other current assets		(1,663)	(8,082)
Increase in deferred revenues		7,465	16,010
Increase (decrease) in accounts payable and other current liabilities		16,409	( 7,654)
Increase in accrued expenses		5,672	21,604
End of service indemnity paid		(234)	( 711)
Income tax paid		-	( 1,500)
<b>Net cash flows from operating activities</b>		<b>13,355</b>	6,811
<b>INVESTING ACTIVITIES</b>			
Dividends received from associates		323	-
Purchase of property and equipment		(5,753)	( 9,199)
Sale of property and equipment		17	3,667
Projects under construction		(1,487)	-
Increase in restricted cash against lease contracts		432	( 1,746)
<b>Net cash flows used in investing activities</b>		<b>(6,468)</b>	( 7,278)
<b>FINANCING ACTIVITIES</b>			
Proceeds from loans		6,455	-
Repayment of loans		(1,640)	(1,640)
Finance lease obligations		(1,176)	(582)
Interest paid		(763)	(923)
<b>Net cash flows from (used in) financing activities</b>		<b>2,876</b>	(3,145)
Net increase (decrease) in cash and cash equivalents		9,763	( 3,612)
Cash and cash equivalents, beginning of the period		24,837	46,570
<b>Cash and cash equivalents, end of the period</b>	7	<b>34,600</b>	42,958

The attached notes from 1 to 11 form part of these interim condensed consolidated financial statements

**Alia - The Royal Jordanian Airlines Company (Royal Jordanian)**  
**Notes To The Interim Consolidated Financial Statements**  
**31 March 2009**  
**(In Thousands Dinars except for amounts in US Dollars)**

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## **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, and its 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 for 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 as of 5 February 2006 granting the Company the exclusive right for 49 scheduled passenger destinations and 4 Cargo destinations.

The interim condensed consolidated financial statements were authorized for issue by the Board of directors subsequent to their meeting held on 30 April 2009.

## **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 financial statements as of 31 December 2008. In addition, results of the three month period ended 31 March 2009 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2009.

The accounting policies are consistent with those used in the previous year except that the Group has adopted the following new and amended International Financial Reporting Standards and IFRIC interpretations:

### **IAS 1 Revised presentation of financial statements**

The revised standard requires only owner changes in equity to be presented in the statement of changes in equity. All non-owner changes in equity (i.e. comprehensive income ) are required to be presented separately from owner changes in equity in a performance statement (Consolidated statement of comprehensive income ). Components of comprehensive income are not permitted to be presented in the statement of changes in equity.

### **IFRS 8- Operating Segments**

IFRS 8 replaces IAS 14, Segments Reporting. This standard requires to define operating segments and segments performance in the financial statements based on information used by the chief operating decision maker. Operating segments are the same as the business segments under IAS 14.

### **IFRIC 13 – customer loyalty programmes**

This interpretation requires customer loyalty credits to be accounted for as a separate component of the sales transaction in which they are granted. A portion of the fair value of the consideration received is allocated to the award credits and deferred. This is then recognised as revenue over the period that the award credits are redeemed. The Company has adopted this interpretation effective 1 January 2009. Accordingly, the consolidated financial statements as of 31 December 2008 and the interim consolidated financial statements for the period ended 31 March 2008 were restated in accordance with International Accounting Standard (8) as follows:

	<u>As previously reported</u>	<u>As restated</u>	<u>Difference</u>
<b>31 December 2008</b>			
<b>Statement of Financial Position</b>			
Accumulated losses	5,211	13,030	7,819
Accrued expenses	38,449	37,949	(500)
Deferred revenues	41,090	49,409	8,319
<b>Statement of Changes in Equity</b>			
Retained earnings opening balance	18,151	11,617	(6,534)
<b>31 March 2008</b>			
<b>Income Statement</b>			
Loss for the period	2,975	4,404	1,429

### **3 BASIS OF CONSOLIDATION**

The interim condensed consolidated financial statements comprise the financial statements of Alia- The Royal Jordanian Airlines Company (the Company) and its subsidiary (the Group). The Company owns 100% of the paid in capital of Royal Wings, a limited liability Company Incorporated in the Hashemite Kingdom of Jordan. 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 2009, The Group acquired property and equipment with a cost of JD 5,753 (2008: JD 9,199).

During the three months ended 31 March 2009, the Group sold property and equipment with net book value of JD 57 (2008: JD 1,681).

#### 5 DERIVATIVE FINANCIAL LIABILITIES

The Company uses derivative financial instruments (cash settled-option aircraft fuel contracts) to manage its exposure to fuel price fluctuations. Such derivative financial instruments are initially recognized at fair value on the date on which a derivative contract is entered into and subsequently remeasured at fair value. Derivatives are carried as assets when the fair value is positive and as a liability when the fair value is negative.

The Company has not designated any of its derivative financial instruments as hedges and accordingly any gains or losses arising from changes in fair value on derivatives during the period are taken directly to the consolidated statement of comprehensive income.

As of 31 March 2009, the Company had cash settled-option aircraft fuel contracts outstanding for U.S. gallon 27,000,000 with fuel traders through December 2009.

Following is the movement on the fair value of derivative financial instruments:

	31 March 2009	31 December 2008
	<u>Derivative financial liabilities</u>	
Fair value at beginning of the period	<b>46,674</b>	-
Change in fair value	<b>(14,514)</b>	46,674
Fair value at the end of the period	<b><u>32,160</u></b>	<u>46,674</u>

## 6 REVENUES

	For The Three Months Ended 31 March	
	2009	2008
<b>Scheduled Services</b>		
Passengers	<b>80,042</b>	89,844
Cargo	<b>7,594</b>	10,114
Excess baggage	<b>1,249</b>	960
Airmail	<b>540</b>	568
<b>Total scheduled services (note 10)</b>	<b>89,425</b>	101,486
Chartered flights (note 10)	<b>2,805</b>	4,045
Commercial revenues from arriving and departing aircrafts of other companies	<b>2,763</b>	3,125
Revenues from technical and maintenance services provided to other companies	<b>1,216</b>	722
Cargo warehouse revenues	<b>2,604</b>	1,187
Revenues from fuel fees	<b>21,997</b>	25,088
Revenues from services provided to other aviation companies	<b>676</b>	622
First class services revenues	<b>340</b>	239
Change reservation fees	<b>353</b>	104
Revenues from NDC (Galileo)	<b>898</b>	719
Other revenues	<b>645</b>	982
	<b>123,722</b>	138,319

## 7 CASH AND CASH EQUIVALENTS

	31 March 2009	31 December 2008
Cash and bank balances	<b>35,059</b>	24,837
Less: Bank overdrafts	<b>(459)</b>	-
	<b>34,600</b>	24,837

## 8 INCOME TAX

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

	For The Three Months Ended 31 March	
	2009	2008
Current income tax charge	-	-
<b>Deferred income tax</b>		
Relating to reversal of temporary differences	<b>2,169</b>	-
Income tax benefit	<b>2,169</b>	-

No provision for income tax was calculated by Alia – the Royal Jordanian Airlines Company for the period ended 31 March 2009 due to the excess of expenses over taxable income in accordance with the income law No. (57) for the year 1985 and its subsequent amendments.

The Income Tax department has not completed its review for the years 2007 and 2008.

Alia- the Royal Jordanian Airlines Company and its subsidiary reached a final settlement with income tax department up to the year 2006.

Following is the movement on the deferred tax assets:

	31 March 2009	31 December 2008
Balance at beginning of the period / year	7,000	-
Deferred tax assets	-	7,000
Amortization of deferred tax assets	(2,169)	-
Balance at end of the period / year	<b>4,831</b>	7,000

## 9 COMMITMENTS AND CONTINGENCIES

### Bank guarantees and letters of credit -

At 31 March 2009, the Group had letters of guarantee outstanding amounting to JD 3,283 (31 December 2008: JD 3,238) in respect to performance bonds, and letters of credit outstanding amounting to JD 3,109 (31 December 2008: JD 3,205).

### Claims against the Group

The Group is a defendant in a number of lawsuits amounting to JD 6,965 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 31 March 2009, the Group had capital commitments of USD 508,300,000 equivalent to JD 360,385 relating to finance lease agreements signed for new aircraft.

### Operating lease commitments

The Company has entered into operating lease agreements for four Airbus A-340, four Airbus A-320, four Airbus A-321, one Airbus A-319 and three embrear E-195 aircraft.

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

<u>Period</u>	
1 April 2009 – 31 March 2010	56,756
1 April 2010 – 31 March 2011	56,756
1 April 2011 – 31 March 2012	43,470
1 April 2012 – 31 March 2013	37,080
1 April 2013 and after	26,900

## 10 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 2009			31 March 2008			Total
	Scheduled services	Chartered Flights		Scheduled services	Chartered Flights		
		Passengers	Cargo		Passengers	Cargo	
Levant	18,356	613	1,467	18,042	201	1,696	19,939
Europe	22,442	144	290	31,424	1,441	326	33,191
Arab Gulf	14,171	-	253	14,557	-	-	14,557
America	15,670	-	-	20,531	-	-	20,531
Asia	10,097	-	-	13,168	-	-	13,168
Africa	3,616	-	-	3,764	-	-	3,764
Others	5,073	-	38	-	381	-	381
Total Revenue	89,425	757	2,048	101,486	2,023	2,022	105,531

## 11 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 31 March	
	2009	2008
<b>Jordan Aircraft Maintenance Company (JORAMCO):</b>		
Scheduled services revenues	134	145
Revenues from computer services	24	11
Revenue from technical and maintenance services	15	75
	<u>173</u>	<u>231</u>
Other income	<u>41</u>	<u>629</u>
Repair and maintenance expenses	<u>1,990</u>	<u>1,226</u>
<b>Jordan Flight Catering Company:</b>		
Passenger services expenses	<u>2,171</u>	<u>3,341</u>
<b>Jordan Aircraft Training and Simulation Company (JATS):</b>		
Other income	<u>3</u>	<u>3</u>

- 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 31 March	
	2009	2008
Scheduled services revenues – passengers	2,088	1,558
Scheduled services revenues – cargo	390	379
	<u>2,478</u>	<u>1,937</u>

### 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	
	2009	2008
Salaries and other benefits	<u>151</u>	<u>121</u>