

ALIA -THE ROYAL JORDANIAN AIRLINES COMPANY
(ROYAL JORDANIAN)

A PUBLIC SHAREHOLDING COMPANY

UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL
STATEMENTS

30 JUNE 2009

**REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
TO THE BOARD OF DIRECTORS
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 30 June 2009, comprising of the interim consolidated statement of financial position as at 30 June 2009 and the related interim consolidated statements of comprehensive income, changes in equity and cash flows the 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
29 July 2009

Alia -The Royal Jordanian Airlines Company (Royal Jordanian)
Interim Consolidated Statement of Financial Position
At 30 June 2009 (Unaudited)
(In Thousands Dinars)

	<i>Notes</i>	30 June 2009	31 December 2008 (Audited) (Restated)
<u>ASSETS</u>			
Non- current assets			
Property and equipment	4	227,463	227,558
Projects under construction		8,040	4,864
Advances on purchase and modification of aircraft		5,466	5,466
Available- for- sale investments		2,151	2,151
Deferred tax assets	7	1,971	7,000
Investments in associates		14,138	13,323
Restricted cash against lease contracts		16,577	17,009
		<u>275,806</u>	<u>277,371</u>
Current assets			
Other current assets		30,075	24,092
Spare parts and other supplies, net		5,562	5,050
Accounts receivable, net		45,253	43,011
Cash and bank balances		39,106	24,837
		<u>119,996</u>	<u>96,990</u>
TOTAL ASSETS		<u><u>395,802</u></u>	<u><u>374,361</u></u>
<u>EQUITY AND LIABILITIES</u>			
Shareholders' equity			
Paid in capital		84,373	84,373
Statutory reserve		6,574	6,574
Accumulated losses		(5,277)	(13,030)
Total shareholders' equity		<u>85,670</u>	<u>77,917</u>
Liabilities			
Non- current liabilities			
Long term loans		12,760	10,934
Long term obligations under finance leases		50,598	53,123
Other long term liabilities		2,666	2,668
		<u>66,024</u>	<u>66,725</u>
Current liabilities			
Current portion of long term loans		9,455	6,560
Accrued expenses		46,821	37,949
Accounts payable and other current liabilities		95,759	81,261
Income tax provision		3,088	3,048
Derivative financial instruments	5	13,190	46,674
Deferred revenues		70,823	49,409
Obligations under finance leases		4,972	4,818
		<u>244,108</u>	<u>229,719</u>
Total liabilities		<u>310,132</u>	<u>296,444</u>
TOTAL EQUITY AND LIABILITIES		<u><u>395,802</u></u>	<u><u>374,361</u></u>

The attached notes from 1 to 10 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 2009 (Unaudited)
(In Thousands Dinars)

	Notes	For the three months ended 30 June		For the six months ended 30 June	
		2009	2008 (Restated)	2009	2008 (Restated)
Revenues	6	150,326	175,683	274,048	313,842
Cost of revenues		(135,295)	(173,862)	(255,118)	(316,974)
Profit (loss) from operations		15,031	1,821	18,930	(3,132)
Share of profit of associates		657	1,078	1,425	1,908
Other income (expense), net		1,239	(1,223)	18	155
Change in fair value of derivative financial assets		-	4,460	-	5,571
Change in fair value of derivative financial liabilities	5	6,986	-	3,209	-
General and administrative expenses		(4,121)	(4,998)	(9,151)	(8,726)
Gain on disposal of aircraft, engines and components	4	44	34	4	2,020
Provisions		-	(50)	-	(50)
Foreign exchange gain		243	648	6	543
Finance costs		(806)	(1,233)	(1,569)	(2,156)
Profit (loss) for the period before tax		19,273	537	12,872	(3,867)
Income tax	7	(2,950)	(151)	(5,119)	(151)
Profit (loss) for the period		16,323	386	7,753	(4,018)
Other comprehensive income, net of tax		-	-	-	-
Total profit (loss) and comprehensive income for the period		16,323	386	7,753	(4,018)
Basic and diluted earning per share		JD 0.193	JD 0.005	JD 0.092	(JD 0.048)

The attached notes from 1 to 10 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 2009 (Unaudited)
(In Thousands Dinars)

	<u>Paid in capital</u>	<u>Statutory reserve</u>	<u>(Accumulated losses) retained earnings</u>	<u>Total</u>
Balance at 1 January 2009	84,373	6,574	(5,211)	85,736
Changes in accounting policies (Note 2)	<u>-</u>	<u>-</u>	<u>(7,819)</u>	<u>(7,819)</u>
Restated balance at 1 January 2009	84,373	6,574	(13,030)	77,917
Total profit and comprehensive income for the period	<u>-</u>	<u>-</u>	<u>7,753</u>	<u>7,753</u>
Balance at 30 June 2009	<u>84,373</u>	<u>6,574</u>	<u>(5,277)</u>	<u>85,670</u>
Balance at 1 January 2008	84,373	6,574	18,151	109,098
Changes in accounting policies (Note 2)	<u>-</u>	<u>-</u>	<u>(6,534)</u>	<u>(6,534)</u>
Restated balance at 1 January 2008	84,373	6,574	11,617	102,564
Total loss and comprehensive Income for the period	<u>-</u>	<u>-</u>	<u>(4,018)</u>	<u>(4,018)</u>
Balance at 30 June 2008	<u>84,373</u>	<u>6,574</u>	<u>7,599</u>	<u>98,546</u>

The attached notes from 1 to 10 form part of these interim condensed consolidated financial statements

Alia - The Royal Jordanian Airlines Company (Royal Jordanian)
Interim Consolidated Cash Flow Statement
For The Six Months Ended 30 June 2009 (Unaudited)
(In Thousands Dinars)

	For the six months ended 30 June	
	2009	2008 (Restated)
<u>OPERATING ACTIVITIES</u>		
Profit (loss) for the period before income tax	12,872	(3,867)
Adjustments for:		
Depreciation of property and equipment	10,559	7,510
Provision for doubtful debts	-	50
Change in fair value of derivative financial assets	-	(5,571)
Change in fair value of derivative financial liabilities	(3,209)	-
Share of profit of associates	(1,425)	(1,908)
Finance costs	1,569	2,156
Gain on sale of property and equipment	(4)	(2,020)
Provision for end of service indemnity	544	1,239
Amortization of deferred revenue - JATS	(327)	(327)
Amortization of deferred revenue – JORAMCO	-	(916)
Working capital changes:		
Increase in accounts receivable	(2,242)	(10,358)
Increase in spare parts and other supplies	(512)	(704)
Increase in other current assets	(5,983)	(5,079)
Increase in deferred revenues	21,741	38,009
Decrease in derivative financial liabilities	(30,275)	-
Increase (decrease) in accounts payable and other current liabilities	14,498	(8,030)
Increase in accrued expenses	8,872	18,853
End of service indemnity paid	(546)	(1,066)
Income tax paid	(50)	(1,761)
Net cash flows from operating activities	<u>26,082</u>	<u>26,210</u>
<u>INVESTING ACTIVITIES</u>		
Dividends from associates	610	935
Purchase of property and equipment	(10,610)	(21,091)
Sale of property and equipment	150	3,672
Projects under construction	(3,176)	-
Change in restricted cash against lease contracts	432	(1,291)
Net cash flows used in investing activities	<u>(12,594)</u>	<u>(17,775)</u>
<u>FINANCING ACTIVITIES</u>		
Proceeds from loans	8,032	-
Repayment of loans	(3,311)	(3,280)
Finance lease obligations	(2,371)	(1,174)
Interest paid	(1,569)	(2,156)
Net cash flows from (used in) financing activities	<u>781</u>	<u>(6,610)</u>
Net increase in cash and cash equivalents	14,269	1,825
Cash and cash equivalents, beginning of the period	24,837	46,570
Cash and cash equivalents, end of the period	<u><u>39,106</u></u>	<u><u>48,395</u></u>

The attached notes from 1 to 10 form part of these interim condensed consolidated financial statements

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

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 29 July 2009.

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 2008. In addition, results of the six month period ended 30 June 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 effective 1 January 2009:

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 recognized 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 30 June 2008 were restated in accordance with International Accounting Standard (8) as follows:

	<u>As previously reported</u>	<u>As restated</u>	<u>Difference</u>
31 December 2008			
Statement of Financial Position			
Accumulated losses	5,211	13,030	7,819
Accrued expenses	38,449	37,949	(500)
Deferred revenues	41,090	49,409	8,319
Statement of Changes in Equity			
Retained earnings opening balance	18,151	11,617	(6,534)
30 June 2008			
Income Statement			
Loss for the period	3,091	4,018	927

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 six months ended 30 June 2009, The Group acquired property and equipment with a cost of JD 10,610 (2008: JD 57,956).

During the six months ended 30 June 2009, the Group sold property and equipment with net book value of JD 146 (2008: JD 1,652).

5 DERIVATIVE FINANCIAL INSTRUMENTS

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 income statement.

As of 30 June 2009, the Company had cash settled-option aircraft fuel contracts outstanding for U.S. gallon 15,600,000 with fuel traders through December 2009.

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

	30 June 2009	31 December 2008
	<u>Derivative financial liabilities</u>	
Fair value at beginning of the period	46,674	-
Change in fair value	(33,484)	46,674
Fair value at the end of the period	13,190	46,674

6 REVENUES

	For the three months ended 30 June		For the six months ended 30 June	
	2009	2008	2009	2008
Scheduled Services				
Passengers	102,752	117,058	182,794	206,902
Cargo	7,066	10,735	14,660	20,849
Excess baggage	1,275	2,214	2,524	3,174
Airmail	449	768	989	1,336
Total scheduled services (note 9)	111,542	130,775	200,967	232,261
Chartered flights (note 9)	3,293	3,665	6,098	7,710
Commercial revenues from arriving and departing aircrafts of other companies	4,882	2,430	8,179	5,316
Revenues from technical and maintenance services provided to other companies	682	974	1,964	1,592
Cargo warehouse revenues	2,616	2,501	5,220	4,414
Revenues from fuel fees	23,996	32,703	45,993	57,791
First class services revenues	403	258	743	497
Change reservation fees	954	250	1,307	473
Revenues from NDC (Galileo)	1,325	901	2,223	1,620
Other revenues	633	1,226	1,354	2,168
	150,326	175,683	274,048	313,842

7 INCOME TAX

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

	For the three months ended 30 June		For the six months ended 30 June	
	2009	2008	2009	2008
Current income tax charge	90	151	90	151
Deferred income tax				
Relating to reversal of temporary differences	2,860	-	5,029	-
Income tax	<u>2,950</u>	<u>151</u>	<u>5,119</u>	<u>151</u>

Current period income tax recorded in the financial statements of JD 90 represents the income tax of the Company's wholly owned subsidiary, the Royal Wings Company, for the six month period ended 30 June 2009.

No provision for income tax was calculated by Alia – the Royal Jordanian Airlines Company for the six month period ended 30 June 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 reviewed the accounting records of the Group for the years 2007 and 2008.

Alia- the Royal Jordanian Airlines Company and its subsidiary reached a final settlement with the Income Tax Department up to the year 2006.

Following is the movement on the deferred tax assets:

	30 June 2009	31 December 2008
Balance at beginning of the period / year	7,000	-
Deferred tax assets	-	7,000
Amortization of deferred tax assets	(5,029)	-
Balance at end of the period / year	<u>1,971</u>	<u>7,000</u>

8 COMMITMENTS AND CONTINGENCIES

Bank guarantees and letters of credit -

At 30 June 2009, the Group had letters of guarantee outstanding amounting to JD 3,240 (31 December 2008: JD 2,900) in respect to performance bonds, and letters of credit outstanding amounting to JD 3,172 (31 December 2008: JD 3,500).

Claims against the Group

The Group is a defendant in a number of lawsuits amounting to JD 6,889 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 2009, the Group had capital commitments of USD 508,300,000 equivalent to JD 360,496 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, four Airbus A-319 and three embreair E-195 aircraft.

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

Period	
1 July 2009 – 30 June 2010	58,359
1 July 2010 – 30 June 2011	52,160
1 July 2011 – 30 June 2012	44,550
1 July 2012 – 30 June 2013	30,281
1 July 2013 and after	31,677

9 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:

	2009				2008			
	Scheduled services	Chartered Flights		Total	Scheduled services	Chartered Flights		Total
	Passengers	Cargo	Passengers			Cargo		
Levant	20,024	2,407	232	22,663	17,217	403	288	17,908
Europe	31,718	485	152	32,355	42,342	1,673	503	44,518
Arab Gulf	20,595	17	-	20,612	20,775	17	-	20,792
America	25,229	-	-	25,229	32,054	-	-	32,054
Asia	8,775	-	-	8,775	13,252	-	-	13,252
Africa	5,201	-	-	5,201	5,135	-	-	5,135
Others	-	-	-	-	-	781	-	781
Total Revenue	111,542	2,909	384	114,835	130,775	2,874	791	134,440

For the six months ended 30 June:

	2009				2008			
	Scheduled services	Chartered Flights		Total	Scheduled services	Chartered Flights		Total
	Passengers	Cargo	Passengers			Cargo		
Levant	38,380	3,019	1,699	43,098	33,151	604	1,984	35,739
Europe	54,160	629	442	55,231	74,515	3,114	829	78,458
Arab Gulf	34,766	17	253	35,036	35,866	17	-	35,883
America	40,899	-	-	40,899	53,168	-	-	53,168
Asia	18,872	-	-	18,872	26,616	-	-	26,616
Africa	8,817	-	-	8,817	8,945	-	-	8,945
Others	5,073	-	39	5,112	-	1,162	-	1,162
Total Revenue	200,967	3,665	2,433	207,065	232,261	4,897	2,813	239,971

10 RELATED PARTY TRANSACTIONS

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

	For the three months ended 30 June		For the six months ended 30 June	
	2009	2008	2009	2008
Jordan Aircraft Maintenance Company (JORAMCO):				
Scheduled services revenues	116	219	250	364
Revenues from computer services	24	25	48	36
Revenue from technical and maintenance services	19	41	34	116
	<u>159</u>	<u>285</u>	<u>332</u>	<u>516</u>
Other income	<u>18</u>	<u>96</u>	<u>59</u>	<u>725</u>
Repair and maintenance expenses	<u>3,075</u>	<u>782</u>	<u>5,065</u>	<u>2,008</u>
Jordan Flight Catering Company:				
Passenger services expenses	<u>4,207</u>	<u>3,757</u>	<u>6,378</u>	<u>7,098</u>
Jordan Aircraft Training and Simulation Company (JATS):				
Scheduled services revenues	15	5	24	5
Other income	8	8	11	11
Training and simulation expenses	<u>179</u>	<u>128</u>	<u>479</u>	<u>128</u>

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

	For the three months ended 30 June		For the six months ended 30 June	
	2009	2008	2009	2008
Scheduled services revenues – passengers	1,816	2,751	3,904	4,309
Scheduled services revenues – cargo	355	363	745	742
	<u>2,171</u>	<u>3,114</u>	<u>4,649</u>	<u>5,051</u>
Chartered flights	<u>705</u>	<u>437</u>	<u>1,071</u>	<u>437</u>

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	
	2009	2008	2009	2008
Salaries and other benefits	<u>181</u>	<u>146</u>	<u>332</u>	<u>267</u>