

## **Royal Jordanian Airlines PLC**

**Annual Report** 

2012

## Our Vision, Mission and Values

## Vision:

To be the airline of choice, connecting Jordan and the Levant with the world.

## Mission:

To ensure our customers always recommend our airline because we consistently provide:

- The highest level of safety, security and reliability.
- A seamless travel experience with exceptional customer care.
- Value for money through maintaining cost efficiency.

To ensure our people are motivated and work productively as a team, because we offer:

- A healthy and stimulating work environment with open dialogue and participation.
- Competitive employment benefits and rewards.
- Opportunities for training and career development.
- Energetic and decisive leadership.

To ensure our shareholders invest in the Company because we deliver:

- An attractive return on investment.
- Sustainable profitable growth.
- The highest levels of corporate integrity and responsibility.

To ensure Jordan will be proud of us because we:

- Represent the best of Jordanian hospitality and culture.
- Promote Jordan as a destination and a gateway to the Middle East, to both business and leisure travelers.
- Support local communities and charities.

## Values:

- We strive for excellence and those who succeed in our Company will be team players.
- We enjoy working and succeeding through effective communication and believe we can achieve more by working together as one team.
- We respect people's opinions and learn from our differences.

## **Objective:**

- We make decisions based on hard facts and robust business cases, not on emotions or opinions.
- We always provide data to make our point and convince our colleagues.

## Reliable:

- We constantly endeavor to provide customers with their needs.
- We guarantee strict compliance with the Company's internal policies and external regulatory requirements.

## Committed

- We are dedicated to deliver the best to our stakeholders.
- We set and achieve high performance standards.
- We take responsibility for our actions and our work.
- We listen and respond to both our external and internal customer needs.

## Caring

- We are always understanding and helpful to our customers.
- We always try to be supportive and accommodating to our colleagues.
- We aim to deliver standards to others that we wish for ourselves.

## **Trustworthy**

- We are always honest and transparent with our customers, partners and employees.
- We nurture trust and respect in our working environments, and promote an atmosphere of open communication.

## **Board of Directors**

Chairman	H. E. Eng. Nasser A. Lozi Representing Government of Jordan
Vice Chairman	Mr. Marwan M.H. Awad
Members	Mr. "Mohammad Aqil" E.M. Biltaji Representing Government of Jordan
	H.E. Mr. "Mohammad Sharif" A. Zu'bi
	Mr. Samer A. Muasher
	Eng. Amr F. Bilbeisi
	Eng. Abdul Rahman M. Khatib Representing Social Security Corporation
	Mr. Maher N. Mikati Representing Mint Trading Middle East Ltd.
	Mr. "Mohammad Ali" I. Bdair Representing Mint Trading Middle East Ltd.
President/CEO	Eng. Amer M. Al-Hadidi
Auditors	Ernst & Young
Legal Advisor	Mr. Ahmad Abu Arkoub

## Chairman's Letter

Dear Shareholders,

Greetings,

It gives me and my fellow directors' great pleasure to present you with the annual report which includes the results of the work and achievements of the Company as well as the consolidated financial statements for the year ended 31.12.2012.

2012 has not been better than the year before it from the point of view of negative effects and regional tension which pushed back financial markets as well as company results.

An observer of the region does not need much effort to notice the difficult challenges imposed upon it as a result of events in the last two years, and still happening Syria. It's the violence that occupies front seat in the world mass media.

Air transport and tourism industry has always been sensitive to the state of uncertainty and instability of any source or type. Probably it is among the industries most susceptible to recession both locally and regionally, despite the fact that Jordan enjoys a state of safety and stability. But the dependence of Jordan's tourism on joint tourism programs with neighboring countries had a negative effect on the incoming tourism. This has prompted us, in cooperation with the relevant sides in the tourism sector, to look for alternative programs that concentrate on considering Jordan as a main and single destination and a starting point to other countries.

In light of this reality, Royal Jordanian being a fully independent airline, had to do its utmost during 2012 in facing and defeating the challenges with the efforts of its staff and by various possible means. The Company worked hard to maintain its competitive position among airlines operating in the region, despite the growing competition among Arab carriers many of which still enjoy generous support by their governments.

The support qualifies these carriers to overcome faster the challenges facing other carriers which do not get such support or do not ask for it.

#### Dear Shareholders

Despite the recession in the travel industry worldwide, yet RJ's operational results for 2012 were generally positive. Seat factor went up from 70% to 73%. Number of passengers went up by 6%, from 3.2 million in 2011 to 3.4 million in 2012. Numbers of departures and flying hours in 2012 were the same numbers achieved in 2011, i.e. 40,000 departures and 116,275 flying hours.

The outcome of operations reflected positively on the Company's financial results. Revenues achieved in 2012went up to JD 802 million compared to JD 736 million in 2011, a rise of 9%. RJ was able to reduce its operational expenses from around JD 728.6 million in 2011 to JD 722.8 million in 2012, a reduction of 1%. Gross profit realized was JD 79.2 million compared with a gross profit of JD 7.4 million in 2011, an increase of 968%. This remarkable growth in revenues and reduction in expenses enabled the Company to reverse the net losses of JD 57.9 million in 2011, into net profits of JD 1.1 million in 2012. This is a big leap and RJ is proud that its staff managed to achieve during 2012 with their will, determination and loyalty to their Company. The losses in 2011 were caused by the events in the region, the rise in the prices of fuel and the recession in tourism.

The practical program executed by RJ in 2012 for reducing expenses in various aspects, did not affect the standards of services provided to passengers. The program was effective and resulted in reversing the loss into profit. The Company looks to a future of more profit, less expenses and higher revenues. I assure you that the 2012 profit rate could have been much better, had it not been for the high fuel prices which exceeded US\$ 110 a barrel. This pushed RJ's fuel bill is around JD 290 million. This is almost equal to the bill of 2011.

The fuel bill paid by RJ in 2012 forms around 40% of RJ's total operational expenses. Since it is very difficult to control the expenses relating to fuel prices, their effect will be noticeable on the net results, although the company signed in 2012 a number of fuel hedging positions of 31% of the Company's total fuel consumption. The Company appreciates the efforts of various members of staff especially the pilots who have executed an ambitious program which resulted in saving US\$ 10.3 million.

#### Dear Shareholders

In 2012 RJ has completed its strategic plan to modernize its short and medium haul fleet. Five Airbus 320 and 321's has been replaced with five new aircraft of the same types. Two new Airbus 320 aircrafts has been added to the fleet in order to increase the seat capacity.

With the introduction of these aircraft, RJ's fleet now consists of 33 aircrafts, 15 of which are of the Airbus family, all new in addition to 8 modern Embraer 195 and 175 aircraft, as well as three modern airbus 330 aircraft and four Airbus 340 aircraft fully modernized, also three Airbus 310 aircraft, two of which are allocated for air cargo.

At present RJ's network covers 60 destinations worldwide. The company always seeks to expand in a considered and gradual way. In 2012 the Libyan city of Misratah was added to the network. Algiers, the capital of Algeria was added in February 2013.

There are plans for more expansion in Africa. But at the same time the Company continuously reviews all its destinations in order to check their economic feasibility and decide whether to continue, amend or stop operating to them. For instance the Company suspended operation to Brussels, Al-Ain in UAE, Muscat and Bahrain, operating to which has been replaced by a shared code agreement with Gulf air Bahrain which operates flights to Amman instead of RJ, while the two companies share the financial return within the framework of a commercial agreement that secures the interests of both parties.

#### Dear Shareholders

While celebrating RJ's fiftieth anniversary, it looks forward with ambition to the implementation of a number of strategic plans which aim to enhance the value of the Company by giving it more chances to develop, grow and expand. Foremost among these plans is the Company's intention to increase its capital from JD 84.3 m to JD 184.3 m. The Government of Jordan agreed to the increase while keeping its share of 26% of the capital. At present the Company is studying the mechanism and methodology for the capital increase. The plan also includes helping the company with revenues from sources other than from carrying passengers and airfreight. These sources includes providing ground handling services in Arab airports besides QAIA and providing maintenance service for aircrafts of other airlines especially that RJ's maintenance hanger is now open. Other sources of revenue will be sought. We hope that these plans will result in raising the value of and the return on RJ's share, as well

as enhancing the value of the Company in general for the amount of JD 500 m in the next five years.

During 2013 and the subsequent years, RJ will continue with its efforts to attract more passengers, raise revenues, complete the modernization of IT systems and continue to improve ground and air services. Moreover, the company is preparing to receive eleven Boeing 787 (Dream line) aircrafts. The first batch of these aircrafts will join the fleet during the third quarter of 2014, which will coincide with the inauguration of QAIA new building, a prominent economic landmark in Jordan.

#### Dear Shareholder

At the end of my word, my fellow Directors and I wish to extend our thanks and esteem to you for your trust in RJ, who is proud of being Jordan's national carrier and a symbol of civilization and developed economy. We also extend our thanks to the Company management and staff for their great efforts which enabled the Company to flourish and achieve prosperity. We pray to Almighty to safeguard Royal Jordanian and safeguard Jordan under the leadership of H.M. King Abdullah II Bin Al Hussein.

Eng. Nasser Lozi Chairman of the Board

## President/CEO's Letter

#### Dear Shareholders

It gives me great pleasure to express feelings of thanks and gratitude towards you. I do appreciate your trust in Royal Jordanian. And on the occasion of RJ's fiftieth anniversary on December 15, 2013, I present to you my sincere congratulations and best wishes.

This occasion inspires me with pride and gives me a feeling of originality, pioneering and national pride. RJ is the national carrier of Jordan, a civilization and economic symbol ALIA, as it used to be called then, was launched on 15 December 1963 in the reign of the late King Hussein Bin Talal. In the Royal Decree His Majesty issued on that day, he said. "I want our fleet of aircraft to be the ambassador of love and a bridge for cultural, commercial and technological exchange, and for friendship and understanding with the whole world".

During its march of fifty years, this Company witnessed successive developments in its fleet, network, human resource, and aviation technology. It has become one of the best airlines in the Middle East from the point of view of air and ground services provided, IT systems and modern fleet that comprises 33 aircrafts serving a network of around 60 destinations in four continents directly from Amman in addition to more than 850 other world destinations through the networks of airlines who are members of oneworld alliance, which RJ joined in 2007.

#### Dear Shareholders

The growth achieved by our Company over half a century has been in harmony with the marked developments that Jordan witnessed in economic, social, legislative and infrastructure fields. This has increased the chances of the National Carrier to make use of Jordan's environment which is attractive for tourism, investment and for achieving quality expansion leaps, all of which helped put Jordan on the map of world tourism making it a gateway to the Middle East.

When comparing RJ's operational and financial figures between the first year of operation and 2012, we see that the number of passengers carried by RJ has risen from 87 thousand passengers in 1964 to around 3.4 million passengers in 2012. The number of departures rose from around four thousands to forty thousands in 2012,

executed in a fleet of 33 modern aircrafts compared to only two aircrafts serving three destinations which were Beirut, Cairo and Kuwait.

Since its inception, RJ has been considered one of the pillars of national economy, from the point of view of its contribution to the GDP and its pioneering role in serving the community. The number of staff rose from 250 employees at the inception, with a productivity of JD 4000 each, to around 4500 employees with a productivity of around JD 175,000 each in 2012. Revenues in 2012 reach JD 802 million compared to only one million JD in 1964.

Royal Jordanian is a success story written by its staff and their efforts, hard work and care to provide passengers with the service that befits RJ's reputation both locally and worldwide. RJ considers the trust of its shareholders and passengers the criterion for measuring the standard of its performance and level of success, also to identify the need for amendments according to passenger needs and wishes.

## Dear Shareholders

When we read the figures in this report, which were discussed in the Chairman's letter, we can describe 2012 as the year of positive changes, whether with regard to operational results and the growth in the number of passengers, or the huge net financial results achieved by the Company.

In 2012 RJ's strategy focused on moving forward in two parallel lines or two ambitious axes with positive results regardless of 2011 financial results.

Through one axis we worked hard to raise the average of productivity and attract more passengers despite the difficulties faced by our Company as well as other airlines because of the state of political instability in the region. The other axis focused on increasing revenues, reducing cost and, in general, rationalizing expenses without affecting the standard of services provided for passengers.

No doubt we are happy with the success achieved by this practical strategy which was executed by RJ's staff as one team working for the same goal. We do appreciate their keenness to rise with their Company and enable it to overcome challenges and move forward with will and optimism. On the operations level, the Company was able to increase the number of passengers from 3.2 million in 2011 to 3.4 millions in 2012, an increase of 6%, which raised the seat factor from 70% to 72%.

On the other hand, figures reflected a rise of 9% in revenues and that expenses were reduced by 1%. Although operational costs remained high in 2012 as a result of high fuel prices and the normal growth in various other aspects of expenses. This is a positive indicator as long as employees are committed to carry out company instructions, maintain the reputation of the Company and continue to provide high standard of air and ground services which our passengers are used to.

These good efforts bore fruit. RJ's staff was able to reverse the negative financial results of 2011 to comfortable profits. This indicates that the Company is moving in the right direction and is intending to achieve more profits in 2013, especially that the coming years shall depend on the implementation of a clear strategy that targets augmenting the value of the Company by JD 500 millions in the next five years through the introduction of new means of revenue other than the traditional methods derived from transporting passengers.

## Dear Shareholders

The new vision which RJ shall interpret focuses on more investments in various fields and on increasing investment in its network operating in the Middle East, being a strong and solid network that can be expanded in particular towards the West and Europe, and at the same time looking for new opportunities and promising markets in various parts of the world especially in Africa. Already the Company added Algiers to its network of destinations. Research is going on for new destinations in this continent which, we believe, has a great potential.

There is not enough room here to mention all RJ's achievements in 2012, or to review the strategy which the Company looks forward to implementing. But what I would like to emphasize that a bright and prosperous future awaits RJ, especially that the new terminal at QAIA is now open to Jordan's visitors: citizens, expatriates, tourists or investors. RJ looks forward to the coming fifty years with much hope and optimism in order to transform the plans and programs into reality and to carry this Company to wider horizons and higher levels that suit its national and international status, its history and pioneering role in serving our country under the wise leadership of the Hashemite.

Eng. Amer Al-Hadidi President/CEO

## **Basis of Excellence**

- Management Report
- Senior Executive Management
- Organizational Structure of the Company
- Risks
- Achievements in 2012
- Future business developments in 2013
- Company contributions in the protection of environment and in serving local community

## **Company's Objectives and Main Activities**

RJ Group works towards achieving the objectives for which it was founded, important among which are carrying out regular and chartered air transportation of passengers, mail and freight within the Kingdom and abroad, in addition to providing aircraft handling services.

## RJ's Geographical Locations and Number of Employees:

Royal Jordanian headquarters (General Administration) is in Amman. Operations and flights take off from QAIA. There are sales offices in 45 cities around the world and general sales agents in 49 other cities.

The Company operates through its employees who numbered 4541 as recorded on 31.12.2012. 391 of these employees work in stations abroad and 112 in Royal Wings and its subsidiary Royal Tours.

## Capital:

RJ's capital is JD 84,373,350 divided into 84,373,350 shares with a par value of JD 1 per share.

## **Subsidiaries:**

## **Royal Wings and its subsidiary Royal Tours**

Royal wings was established in Jordan in 1975 as a limited liability company. It has no branches and it is wholly owned by RJ. With the implementation of the Company strategy in November 2005, regional services operated by RW have been transferred to

RJ, the mother company. RW became in charge of chartered operations of RJ. The Company also acts as an agent for chartered flights (i.e. it regulates alternative chartered flights when its planes are not available).

It also leases its aircraft to the mother company when necessary. RW operates new routes to destinations not served currently by RJ.

RW headquarters is in the first floor of the Passenger Terminal, 7<sup>th</sup>Circle. It has a staff of 103. Its capital is JD 5 million and it owns one Airbus A320.

In October 2009 Royal Wings acquired 80% of Royal Jordanian Tourism and Travel Company (Royal Tours) shares. RT was established in 1979 with the aim of providing complementary services to RJ's services, to help RJ market its flights in tourist attractive areas in the world. RT books tickets and sends tourist groups to various tourist resources in the region and worldwide, always looking for new options for tourists.

## **RJ Board of Directors**

**Brief Resumes of Directors:** 

Director	Position	Board Member Since	Date of Birth	Qualifications	Graduation
Eng. Nasser A. Lozi	Chairman	5.9.2006	26.2.1957	BSc Civil Engineering	1979
Mr. Marwan M. Awad	Vice Chairman	26.4.2012	11.3.1951	MA Economics	1980
Mr. "Mohammad Aqil" E. Biltaji	Government of Jordan	26.4.2012	10.2.1941	Diploma in Education	1962
Mr. "Mohammad Sharif" A.Zu'bi	Lawyer	27.3.2008	16.5.1963	MA Commercial Law	1985
Mr. Samer A. Muasher	Businessman	5.9.2006	19.7.1971	BA Political Science	1992
Eng. Amr F. Bilbeisi	Businessman	5.9.2006	25.1.1961	BA Engineering	1982
Eng. Abdul Rahman Al- Khatib	Chairman of Nationalization Exec. Commission	27.3.2008	1.1.1947	MA Strategic Studies/Telecomm unications Engineering	1980
Mr. Maher N. Mikati	Businessman	27.3.2008	11.6.1980	MA Business Administration	2006
Mr. Mohammad Ali I. Bdair	Businessman	27.3.2008	18.10.1976	MA Engineering Management	2001

## Following is biographical information on the Directors' business experiences:

## Eng. Nasser Lozi:

- Mr. Lozi was appointed chairman of the Board of Directors in September 2006 and was reelected for the position in March 2008 and in April 2012.
- Was Chairman of the Board of Trustee of King Abdulla II for Development (2010 – 2012).
- Held the position of the Chief of Royal Court (2008 2011).
- Was Chairman of Arab East Insurance Company, also was a director of Jordan Steel Company, Jordan Kuwait Bank, United Financial Investments, Modern Cable Company, and others.
- Director of King Hussein Foundation (1999 present).
- Prior to that Mr. Lozi held a number of Ministerial portfolios including: Minister of Transport (1998 2000), Minister of Public works and Housing (1996 1999), Minister of Information and culture (1999).
- Mr. Lozi holds a BSc in Civil Engineering from Arlington University, Texas (1979).

#### Mr. Marwan A. Awad

- Mr. Awad was appointed Vice Chairman in April 2012.
- Currently he is the President/CEO of Al-Ahli Bank.
- Held the position of Minister of Finance.
- Held the position of Undersecretary of the Ministry of Industry and Trade.
- Held positions in Islamic, Commercial and development banks as well as in Jordan's Central Bank.
- Was CEO of Societe Generale Bank (Middle East) Industrial Development Bank and Qatar Islamic Bank in Qatar.
- Chairman of the Board of Trustee of the University of Mu'ta, chairman of the Board of Directors of Himaya Company, chairman of the Board of directors of Al-Ahli Financial Leasing, he is also a director on a number of Boards, unions, commissions and societies.
- Author of a number of books and articles on banking and finance.
- Holds a BSc. In Business Administration from the University of Jordan (1973), Higher Diploma in Economic Development, MA in Economics from Vanderbilt University/USA 1980.

## Mr. "Mohammad Aqil" E. Biltaji

- Held the position of Vice Dean of the University of Jordan (1976 1997).
- Was Minister of Tourism (1997).
- Was Chief Commissioner of ASEZ.
- Was an advisor to H.M. King Abdullah II Bin Al-Hussein.
- Worked in the Saudi Ministry of Defense in Civil Aviation.
- A member of Jordan's Senate, Head of Heritage and Tourism Committee.
- Board member in a number of companies and national, regional and international institutions.
- Holder of a number of medals and awards.
- Holds a Diploma in Education (1962).

## Mr. "Mohammad Sharif"Zu'bi:

- He was appointed a Board member in March 2008, he was also a Board member from August 2003 until April 2005.
- Currently he is the General Manager of Ali Sharif Al-Zu'bi Law Firm.
- Former Minister of Justice during the period 2006 2007, and Minister of Industry and Trade during the period 2005 – 2006.
- Board Member in a number of Jordanian companies and commissions: Al-Hussein Cancer Centre, International Academy and Jordan Micro Financing Company.
- Currently he is a member of Jordanian Lawyers Trade Union, the International Lawyers union, and the Jordan's Senate.
- Former Director of a number of commissions and institutions such as Jordan's Central Bank, Regional Arab Forum, and the Economic Social Council.
- Holds a BA Degree in Law and MA in Commercial Law from Bristol University, Great Britain.

## Mr. Samer A. Muasher

- Mr. Muahser was appointed Board Member in September 2006, he was also a Board Member during the period August 2003 until August 2005.
- He is a Director of a number of Jordanian and international institutions including Royal Wings, Scientific Society for the Conservation of Nature, Medical and Scientific Supplies Co., Saraya Holdings Inc., Saraya Aqaba, mega Teck, Royal Film Commission, Amman Drug Co., and Exploration for Tourism and Travel Co.
- Holds a BA Degree in Political and Economics from Northwestern University, Illinois, USA.

## Eng. Amr F. Bilbeisi

- Mr. Bilbeisi was appointed Director in September 2006.
- He is a partner and CEO of Associated Services Agencies (ASA).
- He is a Director of a number of Jordanian and international companies and bodies, including Ru'ya Modern Electronics, LG Electrical Appliances, and Al-Mutarabeta Wood Industries Co.
- Holds a BSc. In Engineering from Northeastern University, USA.

## Eng. AbdulRahman Al-Khatib

- Mr. Al-Khatib was appointed Director in March 2008.
- Currently he is the Chairman of the Privatization Executive Commission.
- Former director of Orange, Chairman of Jordan Aircraft Engines Maintenance Co., Chairman of Wanadoo Internet Services, Chairman of Dimensions for Building and Developing electronic data.
- Holds a BA degree in Electronic Engineering from the Royal Greek Air Academy, an MA in Electronic Engineering and an MA in Defense and Strategic Studies.

## Mr. Maher Mikati

- Mr.Mikati was appointed Director in March 2008.
- Currently he is the CEO of M1 Holding Group, CEO of M1 Travel, and a member in the Investment Committee of M1 Holding Group.
- Former general manager of ARIBA Communications, Cyprus, from 2003 until 2005, and general manager of Investcom Holding Co. Lebanon, for the period 2002 2003.
- Holds a BA Degree and an MA Degree in Business Administration from France.

## Mr. "Mohammad Ali" Bdair

- Mr. Bdair was appointed Director in March 2008.
- Currently he is the General Manager of Perfect Dimension Investment Co., and a board member of Arab Mining Co.
- Former General Manager of International Telecommunications Technology (2000 – 2005) and a member of Investment Promotion Council.
- Holds a BA Degree in Industrial Engineering from Perdue University, USA in 1997, and an MA in Engineering Management from the AUB in 2001.

## **Senior Executive Management**

Brief Resumes of Members of the Senior Executive Management Team:

Name	Position	Date Appointe d	Date of Birth	Qualific ations	Specialty	Gradu ation
Mr. Amer Al-Hadidi	President/CEO	3.7.2012	5.6.1968	BSc	Mechanical Engineering	1990
Mr. Omar S. Al-Said	VP Finance	1.7.2012	20.5.1964	MA	Accountancy	1988
Mr. Guido Ruther	VP Commercial Affairs & Planning	1.1.2006	26.2.1949	MA	IT, Intl. Mgt Development	1976
Mr. Maath A. Majali	VP Cargo	1.6.1976	1.5.1954	BA	English, Sociology	1976
Mr. Mohammd H. Mortada	VP Airport Services	1.6.1976	24.10.1953	ВА	Accountancy	1976

## **Biographical Information on the Senior Executives Business Experiences:**

## Mr. Amer Al-Hadidi

- Former councilor in the Royal Court, he headed the Economic and Social Departments at the Office of H.M. King Abdullah II.
- Former Minister of Industry and Trade in three successive cabinets (2007 2011).
- Former undersecretary of the Ministry of Transport.
- Appointed as Executive Director by the Council of Ministers to reform the public sector.
- Former Executive Director for industrial development in the Ministry of Industry and Trade.
- Former Director in Jordan American Business Partnership.
- Chairman of Royal Wings, also a director of Governance Council of oneworld,
   Jordan Tourism Promotion Commission and Engineers Union.
- Participated in a number of courses and national, regional and international conferences.
- Holds a BSc in Mechanical Engineering from the University of Bridgeport, USA.

## Mr. Omar Al-Said

- Was appointed head of finance in July 2012.
- Former executive director of Frendy Communications Co. in Jordan and Saudi Arabia.
- Held the position of executive financial director in Zain Communications.

- Held the position of executive financial director in Jordan Telecommunications Group-French Telecom "Orange".
- Worked for Repsol .... Oil Drilling.
- · Worked for Arthur Anderson, the auditors.
- Has a wide experience in the fields of telecommunications, oil, gas, auditing and tourism.
- Holds a BSc in Accounting from the University of Jordan.
- Holds an MA with honors in Accountancy from Oklahoma City University, USA.
- Participated in an advanced course on management development at Harvard University, USA.

## Mr. Guido Ruther

- Appointed VP/Commercial Affairs and Planning in 2009, having occupied the position of VP/Network management and Alliances since the beginning of 2006.
- He held the position of SVP for Network Strategy and Planning in Swissair and Swiss Airline, also the position of SVP at NYRAS Capital, which provides consulting services to the airline industry.
- Spent 30 years in the airline industry and held various executive positions, including roles in IT, Marketing, Sales, Alliance Integration, Planning and Network Strategies, Revenue Management and business Change Management prior to employment by the Company.
- Trained at the Swiss Federal Institute of Technology in advanced economics and advanced project management methodologies.
- Holds a MSc. Degree in Electronics and Information Technology from the University of Zurich in 1976, and an MSc. in Executive Business Management from the International Institute of Management Development in Lausanne, Switzerland.

## Mr. Maath A. Majali

- Started work in the Company in June 1976.
- Became VP Cargo in August 2011.
- Held the positions of Head of Cargo department, Deputy Airport Services manager, executive manager of sales in Jordan, Manager of a number of stations abroad.
- Holds a BSc. In English and sociology from the University of Jordan.

#### Mr. Mohammad H. Mortada

- Started work in the company in June 1976.
- Became V.P Airport Services in August 2011.
- Held the positions of Head of Cargo Department, manager of Airport Services Department, Assistant VP Cargo.
- Holds a BSc. In Accountancy from the University of Jordan.

## **Major Shareholders**

Major shareholders, juridical or natural who hold 5% or more of the company's capital at the end of 2012 and compared to the previous year.

		No. of Shares	Ratio	No. of shares	
No	Shareholder	31.12.2012	%	31.12.2011	%
1	The Government of the Hashemite Kingdom of Jordan	21,937,070	26.00	21,937,070	26.00
2	Mint Trading Middle East Ltd.	16,030,937	19.00	16,030,937	19.00
3	Social Security Corporation	8,497,335	10.07	8,497,335	10.07

## **Competitive Position**

RJ is the national carrier of Jordan. It operates regular flights from Jordan to 57 cities around the world in 2013, as follows:

East: Beirut, Cairo, Damascus, Aleppo, Alexandria, Agaba,

Suleimaniya, Baghdad, Basra, Erbil, Sharm El-Sheikh, Tel

Aviv.

Arabian Gulf: Abu Dhabi, Aden, Al Ain, Dammam, Doha, Dubai, Jeddah,

Kuwait, Riyadh, Sanaa, Medina.

Africa: Khartoum, Tripoli, Tunis, Benghazi, Algiers, Maserata.

Europe: Amsterdam, Athens, Barcelona, Frankfurt, Geneva, Istanbul,

Kiev, Larnaca, London, Madrid, Milan, Moscow, Munich,

Paris, Vienna, Zurich, Rome, and Berlin

Far East and

Indian Bangkok, Colombo, Delhi, Hong Kong, Mumbai and Kuala

Peninsula: Lumpur.

North America: New York, Chicago, Detroit and Montreal.

Out of 57 destinations, RJ faces direct competition from other airlines in 27 destinations only.

On 1/4/2007, RJ joined the international airline alliance "oneworld", which includes a group of the biggest and best airlines in the world. RJ was able to join because of its distinguished reputation and the competitive services it provides for passengers. RJ is the first Arab airline to join "oneworld", an alliance which offers RJ's passengers access to more than 800 cities worldwide served by members of this alliance. In 2011 the American authorities approved a request made by five of the Alliance companies – Royal Jordanian, British Airways, American Airlines, Iberia Airlines, Finnish Airlines – to obtain immunity from the American Antimonopoly Law. This has improved the competitive merits of the Company and enabled it to coordinate its operations with the aforementioned companies.

The members of oneworld Alliance in addition to RJ are Air Berlin, American Airlines, British Airways, Cathay Pacific, Spanish airways (Iberia), Finnish Airlines, Japan Airlines, QANTAS, Malaysian Airlines, Siberia Airlines, LAN Airlines in South America. The Alliance invited Qatar Airlines and Sri Lanka Airlines to join during 2013 and 2014.

Moreover, RJ has entered into marketing alliances with international airlines through a number of commercial agreements to operate on the basis of code sharing, where RJ's code appears on other airlines flights where RJ does not operate directly, as such it acts as marketing carrier. This includes direct flights that serve RJ's passengers from Amman to Bucharest direct, in addition to direct flights between Amman and Bahrain, and soon between Amman and Muscat.

# Government Protection or Privileges enjoyed by the Company or any of its products in accordance with laws and regulations

- There are no Government protections or privileges enjoyed by the Company or any of its products in accordance with laws and regulations.
- There are no patents or privileges earned by the Company.

## **Suppliers and Customers**

The Company deals with a wide group of local and foreign suppliers who provide various goods and services. The Company does not depend on particular suppliers, whether local or foreign, who provide 10% or more of the company's purchases, with the exception of aircraft fuel supply from Jordan Petroleum Refinery who has exclusive right of supply in Jordan to date.

On the other hand the Company deals with a wide range of clients, local and foreign, and provides them with flight services. RJ does not depend on particular clients whether local or foreign, who constitute 10% or more of its total sales.

# Effect of Decisions taken by the Government or the International Organizations or others which have Material Effect on the Work or the products of the Company or its Competitive Power

- Resolution by the Council of Ministers dated 10.1.2012 exempting contracts of buying, selling, leasing and financing aircraft and their engines and the contracts related to them, which are contracted by Royal Jordanian from general sales tax, income tax and stamp duty. (Prime minister's letter No. 12/11/4/1096 dated 11.1.2012).
- There are no decisions by the Government or the International Organizations or others which have material effect on the work, or the products of the Company or its competitive power.

## **Application of International Quality Standards**

RJ implements International Quality Standards through applying the IOSA Certificate (IATA Operational Safety Audit) requirements. Obtaining this international certificate depends upon the implementation of the principles of auditing practiced worldwide at all times in accordance with international rules and regulations. This audit has become an international requirement for an airline to maintain its IATA membership. The Company also implements the requirements of ISAGO (IOSA Safety Audit for Ground Operations). This audit covers the main divisions of airport services and the necessary documentation operations making sure of their practical application and taking into consideration the presence of public safety requirements including the performance of equipment and machinery and those who operate them, as well as implementing the terms and requirements of ground safety while adhering to local and international regulations laid down by the relevant bodies. This was in addition to implanting the standards and requirements of European Aviation Safety Agency (EASA) which applies the highest standards of air safety through providing suitable work environment. RJ also applies International Standards Organization known as ISO Air Operation Department and Passenger Services Department obtained ISO9001 certificate without any violations.

# Organization Structure of the Company Royal Jordanian organization structure at end 2012

- 1- Chairman of the Board, NasserLozi
- 2- Board of Directors
- 3- Audit Committee
- 4- President/CEO, Amer Hadidi
- 5- Technical Section, VP Technical (Vacant)
- 6- Commercial Section and Planning, VP Commercial (Vacant)
- 7- Airport Services VP Hashem Mortada
- 8- Cargo, VP Maath Majali
- 9- Finance CFO Omar Al-Said
- 10- Finance VP Finance Ali Abu Hijleh
- 11- Operations Control Centre Executive Director Capt.Zaid Kalbouneh
- 12- Air Operations Head of Dept Capt Adnan Takrouri
- 13- Engineering & Maintenance, Head of Department Imad Al Faraheed
- 14- Marketing, Executive Director, Anwar Atallah,
- 15- Fleet Planning, Network Alliances, Executive Director, Basma Majali
- 16- Management of Revenues Executive Director Mohannad Khraishah
- 17- Sales & Distribution Head of Dept Abdul Kader Al-Kilani
- 18- Administrative Accounting Head of Dept Samer Taha
- 19- Finance Head of Dept Ziad Jarrar
- 20- In-flight Services & product Head of Dept Bilal Malkawi
- 21- Human Resources Head of Dept RanaSweiss
- 22- Procurement & Logistics Head of Dept S.A. Raheem
- 23- National Distribution Head of Dept Dina Azar
- 24- Information Technology Head of Dept Ashraf Ayoub
- 25- Financial Controller Bilal Boshnag
- 26- Internal Audit Executive Assistant Ali Al-Zaben
- 27- Quality Control Executive Assistant Abdullal latif Olayaan
- 28- Safety & Security Executive Assistant Capt. HaiderQol
- 29- Legal Affairs Executive Assistant (Vacant)
- 30- Insurance & Risk Management Executive Assistant Mazen Ghalayeeni
- 31- Public Relations Executive Assistant Basel Kilani
- 32- Social Responsibility Executive Director Iman Rihani
- 33- Technical Training Executive Director Capt. Ghassan Obaidat
- 34- Business Development Executive Director Fawzi Al-Mulki

## **Staff Numbers and Academic Qualifications**

Below is a table of staff numbers and qualifications in the mother and subsidiary companies at end of 2012:

Academic Qualifications	RJ	RW & Subsidiary	Total
PhD	4	2	6
MA	97	-	97
BA	1677	37	1714
Diploma	829	17	846
High School	752	14	766
Below High School	1070	42	1112
Total	4429	112	4541

391 of the above work in outer stations

## **Staff Training Programs**

The Company is committed to various training programs required by different aviation bodies, in addition to refresher courses held for pilots and flight attendants staff. These courses aim at improving staff level of efficiency and maintain standards of safety for RJ's passengers and aircraft. In 2012 the Company provided training for the staff through 292 courses in which 5690 members of the staff from different departments took part to improve their managerial, technical, computer and English language skills. There were also courses in marketing, sales and passenger services.

## **Details of Courses and numbers of staff who attended**

Course Title	No. of Courses	No. of Participants
Marketing, Sales, passenger Services	70	1260
Technical Courses	210	4200
Managerial Courses	10	200
Computer, IT Courses	2	30
Total	292	5690

## **Risks**

The Company deals with various types of risks within comprehensive framework of risk management in accordance with the best international standards, traditions and practices. Risk management is carried out in cooperation between the Board of Directors and the Executive Management. The Board of Directors makes sure that the Executive Management implements an efficient and effective system for internal control. The CEO, being at the top of the executive management, is responsible for risk management and the practices related thereto. The Chief Financial Officer is responsible for identifying financial risk, controlling, maintaining the quality of financial information, and making sure that accurate financial statements are being disclosed. The rest of the Executive Management shall identify risks in their departments and work on managing these risks within an institutional framework that defines duties and authorities of each one of them.

Risks which could have a substantial effect on the company during the coming year may be summarized as follows:

## **Geographical Location Risks**

Most RJ's operations take place within the borders of Jordan. All of its flight departs from Amman. As such the geographical location of the Kingdom constitutes a big challenge to the Company especially in these days when political and economic tension is happening in some neighboring Arab countries. The Company has to adapt in its operations within these difficult data which give the Company extra burdens the effect of which on the work of the Company cannot be ignored.

## Market Risks

Competition among airlines has intensified in the Arab region lately particularly with the emergence of low cost airlines which constituted a big challenge for most airlines, large and small. In order to meet this type of competition, the Company prepared short and long term strategies to limit the effect of this type of airlines on the Company's share of the market, through improving the standard of services provided rising to the level of passengers ambitions and wishes, simplifying travel procedures, providing more travel choices and benefiting from its membership in the "oneworld" alliance.

The world still suffers from the effect of the global economic crisis which has affected directly the performance of the air transport industry and reduced the volume of air

traffic. In this context, the Company initiated certain procedures such as opening new and promising markets, intensifying marketing activities on various routes, in addition to controlling expenses without affecting the quality of services provided for passengers.

## **Credit Risks**

The Company follows a clear credit policy in dealing with its sales agents around the globe. This policy entails providing bank guarantees by the agents in favor of the Company. At present and in light of the existing economic circumstances, the Company is following up on the agents' performance to protect its rights and avoid unforeseen situations that could adversely affect the Company's operations.

## **Fluctuation of Fuel Prices**

The cost of fuel constitutes a large and escalating part of the company's operations expenses. It amounted to 40% of the total operational expenses for the year ended 31.12.2012. As such any material change in the price of crude oil and subsequently the price of jet fuel, could affect the operational results of the Company substantially. In this field, RJ has taken big steps to deal with the rising fuel prices through imposing fuel surcharge on tickets, focusing on increasing passenger numbers, and yield management to maximize the revenues, in addition to entering into fuel hedging contracts benefiting from the experience of international airlines in this field.

## **Fluctuations of Interest Rates**

The Company is exposed to fluctuations in interest rates through entering into lease contracts and medium and long term loans to finance expansion projects. Prior to inviting bids for facilities from banks, the Company examines the risks of interest rate fluctuations and their effect on its operations. The company then determines the interest rates that suit its objectives and future as privations. The international interest rate (LIBOR) was adopted as the basis for pricing all the Company's existing loans.

As part of the risk policy, the Company examines interest rates of major currencies and their future expectations, in addition to the possibility of entering into interest rates swaps to reduce the risk of fluctuations and subsequently the cost of borrowings.

## Fluctuations of Exchange Rate

The Company is exposed to changes in the rates of exchange between the Jordan Dinar and various other currencies. Most of the Company's revenue comes from the sale of tickets abroad in the local currency of each country. In order to reduce the effect of fluctuation of exchange rates of foreign currencies on the Company's operations, the company reconciles the revenues and the expenditure of each currency separately. Any surplus will be converted to JD or USD depending on the needs of the Company, within a clear policy based on market study and trends. Euro and Sterling form the major part of the Company's revenue, in addition to the JD which does not constitute any risk since its rate of exchange is tied to the USD.

## **Internal Risks**

## **Electronic Systems Risks**

In light of the great and accelerating development in the field of electronic systems, we face a new kind of risk which could adversely affect the electronic systems used in the Company's operations. These systems should be continuously updated to ensure their efficiency and ability to keep up with new requirements especially in the field of aviation. The Company has done a lot in this direction through the introduction of advanced and efficient electronic systems. A special team in the Company follows up on the performance of these systems to ensure their continuous safety and efficiency.

## **Purchasing Risks**

In its daily operations, the Company purchases several types of raw materials and spare parts which are necessary for the work of the Company. Any delay in supplying the Company with these materials or spare parts might lead to interruption in the flow of operations and expose it to big losses. To avoid such situations, the Company updates the purchasing mechanism continuously and maintains good relations with all suppliers in Jordan and abroad. As a result of the above, the Company entered into a number of insurance contracts to limit the risks that could affect its performance.

## **Achievements in 2012**

The Company continued with its march towards growth and excellence in aviation and air transport in 2012. This was done through the execution of plans and programs to modernize the fleet and the network, also the development of electronic systems and endeavor to implement measures that raise the standard of the Company and its air and ground services and maintain its excellent position both locally and worldwide. These

achievements would not have been realized had it not been for the efforts of the staff who worked as a team.

Following are the more salient achievements in 2012.

## **Modernization of the Fleet**

This year, the Company completed its strategic plan to modernize its fleet of medium and short haul aircrafts. Five Airbus 320 and 321's have been replaced by five aircrafts of the same type. Two A320's were introduced increasing the seat capacity to fit the growing demand.

The new planes are characterized by the highest specifications of comfort and enjoyment for passengers. There are amusement systems and personal video screens. From operational point of view, RJ chose the most advanced engine in the world, the V2500, which enjoys high technology, great performance and it is fuel saver.

With the introduction of these Airbus 320, the medium haul left of the Company now consists of fifteen aircrafts: (4) 321, (7)320 and (4) 319.

The Company looks forward to modernizing its long haul fleet starting in 2014. Staff are preparing for the introduction of Boeing 787 (Dream Liner) aircraft, which will take place over four years. These aircrafts will replace the airbus 340s and 330s now in operation.

## Network

Since RJ operates on commercial basis, it has done and still do feasibility studies for all its network destinations. In different times during 2012, take offs were stopped to some destinations such as Brussels, Al-Ain, Muscat and Bahrain. At the same time and in order to improve the commercial return on some routes, the Company went into partnership with Gulf Air and Oman Airlines to improve the performance of Bahrain and Muscat routes. This decision was taken in an endeavor to reduce operational cost in light of rising fuel prices and the state of instability resulting from the political disturbances in the Middle East.

On 28 January RJ started a route to Misratah in Libya in response to a growing air traffic between Jordan and Libya especially from that city whose population frequent Jordan for medical treatment. Misratah became the third Libyan destination after Tripoli and Benghazi.

On the other hand the Code Sharing Agreement with Sri Lankan Airways became operational on 26 August. According to it, Sri Lankan Airways started to put its code on RJ's journeys between Amman and Colombo, and sell unlimited number of seats on RJ's flights from Amman to Colombo.

RJ also has code sharing agreements with American Airlines, Air Berlin, British Airways, Iberia, Russian S7, USA Airways, Tarom, Meridiana Fly, Gulf Air, Syrian airways and Malaysian Airlines.

In a measure by RJ to enable its passengers to Montreal from continuing their journeys by land, RJ made on agreement with Canadian Trains Company VIA, which enabled passengers to use this company trains which could carry them to Toronto and Ottawa.

## **Oneworld**

On 20 March, Air Berlin joined the Alliance. It is the second biggest company in Germany and the sixth largest company in Europe. RJ's network in Germany, Austria and middle and south Europe was strengthened. More options were opened for passengers. At the same time NIKI a subsidiary of Air Berlin joined the Alliance. In early 2013 Malaysian Airlines joined the Alliance after completing the requirements. Sri Lankan Airways shall join the Alliance by the end of 2013, to be followed by Qatar Airlines to become the second Arab airline to join the Alliance after RJ.

## **Qlikview Electronic System**

Qlikview system which was introduced by RJ in early 2011 to do economic feasibility studies for operating routes through varying indicators which are introduced continuously to the system. This helps decision makers to take measures to increase the network's economic feasibility.

This system is characterized by accuracy and speed in producing results, the most important of which is identifying the more lucrative regions on the network and the more efficient aircraft in fuel saving. The system also provides alternative plans for operating the network in an ideal way.

## Follow up System of Electronic Purchase of Tickets

The Company introduced a developed electronic system to increase the efficiency of controlling the operation of electronic buying of tickets, which is done through the website or call centre. This system limits fraud in buying tickets with credit cards.

It should be noted that IATA has granted RJ and the International Airport Group a certificate of merit for their efficiency in implementing the Fast Travel program in air travel also for providing personal advanced and speedy services in the airport.

# <u>Commercial Agreements for providing Distinguished Services for Frequent Traveler "Royal Plus"</u>

RJ entered into several commercial and marketing agreements with various business sectors in Jordan and abroad, such as:

- Tourist partnership Agreement with the website specialized in selling amusement programs around the world through internet City Discovery.com. This Agreement aims at providing more than six thousand amusement programs, which RJ's passengers can buy in more than 110 countries around the world, through RJ's electronic website.
- Introducing a new program with American Express, which allows American Express card holders to exchange every two points of membership Rewards for one mile in the Frequent Flyer Program with RJ.
- Commercial Cooperation with Akram Sbenani and Sons and Sbenani Homes Palestine. The participant can collect extra miles when he buys electronic and electric appliances from a branch of the two companies in Palestine.
- Launching a campaign in cooperation with Arab Bank for promoting Arab Bank Visa card – RJ credit with the aim of attracting new clients and providing more chances for card holders to earn additional miles to be added to their accounts in the Frequent Traveler program when they use this card in purchases locally and internationally.

## Air Cargo

Cargo sector moved forward in 2012 from the point of view of raising the efficiency of various services provided by the Company; simplifying the shipping of Jordanian goods and exports, increasing the speed of handling, loading and unloading, increase storage capacity, increase sales and improving the quality of services provided to clients.

## Elevating Transportation Vehicles System

The Company started to execute the first stage of it. It will be completed over the next three years. It will raise storage capacity.

- \* Follow up on the IATA initiative in relation to electronic air cargo through operating Cargo spot System, and strengthening cooperation between the Company and Jordan Customs. Also linking with the computerized customs clearing system (ASECUDA) which entails sending details of cargos before they arrive at the airport. This facilitates clearance procedure and delivery of goods to its owner.
- \* In mid April an Express Mail Warehouse for exchanging express mail between various companies and their clients and through RJ.

## **Talis System for Boeing 787 Aircraft**

The Company chose Talis system for amusement and communications onboard, to be fitted in its 787 aircraft which will join the fleet starting the third quarter of 2014. Talis will provide "Top Series Event" amusement system, characterized by speed efficiency, large storage, modern design and light weight. This is in addition to providing modern electronic solutions in connection with air communications service GSM, internet Wi-Fi. It also enabled the passenger to make phone calls in the air through cell communication program On Air.

## **Public Safety**

RJ is committed to implement all general safety standards through the follow-up of air and ground safety procedures in various sections and departments. This is in order to maintain the safety of its operations, staff, passengers and aircraft. In appreciation of this commitment RJ gets the IOSA and the ISAGO certificates year after year. The IOSA certificate has been renewed for the fifth time in a row in appreciation of the Company's efficient operations and its adherence to international laws. RJ got this certificate from IATA for the first time in 2004. It is renewed every two years.

The Company got the ground handling operations safety (ISAGO) for the third time from IATA. RJ got this certificate for the first time in 2008. Royal wings got the ISAGO for the first time in 2012.

On the other hand the Company got the accreditation of safety management system from CARC (Civil Aviation Regulatory Commission). Thus becoming the first airline to get this accreditation in Jordan. This accreditation has to do with systems and

programs operated by the company with the aim of raising the standards of air and ground safety.

## **Engineering and Maintenance**

In 2012 RJ started to prepare several technical workshops to be opened in 2013, with the aim of reducing the cost of aircraft maintenance currently done by foreign sides. There will be tires and brakes workshop in addition to a workshop for designing and printing aircraft instructions stickers.

## Moving to the New headquarters

In early 2012 all administration departments were moved to the new building in Abdoun area. Building the new Headquarters started in 2009.

## **Financial Effect of Non-Recurring Operations**

In its meeting in October 2011, the Board of Directors decided to sell two Airbus A310's and a 195E engine, in addition to seven apartments in Aqaba during 2012. The assets were classified in the consolidated Financial Position statement as properties and equipment for sale. They were listed for the value of JD 7180 which represents the fair price of these properties and equipment less the cost of sale. Also was recorded the sum of JD 5949 being a loss as a result of the drop in value of the properties and equipment, which represents the difference between the book value and the fair value of the properties less the cost of sale as on 31.12.2011.

During 2012, the Company sold an airbus A-310 and an engine of an A-310 in addition to the apartments. This resulted in an additional loss of JD751 which were entered in the Consolidated Income Statement. The board of Directors decided to keep the second Airbus A-310 in the fleet. It was reclassified in the Consolidated Financial Position Statement as part of the properties and equipment and listed for the sum of JD 2730 which represents the fair value of that aircraft less the cost of sale.

## **Timetable of Profit or Loss**

Following is a timetable of realized profit or loss, dividends, shareholders equity and price of shares for the last five years:

		YEAR							
Description	2012	2011	2010	2009	2008				
Realized Profit/Loss (JD'000)	1,114	(57,936)	9,655	28,614	(24,647)				
Dividends	-	-	-	-	-				
Shareholders' Equity (JD'000)	59,424	58,124	116,246	106,591	77,917				
Share price	0.63	0.66	1.52	2.03	1.57				

## **Network-Future Plans**

In February 2013 RJ will open a new route between Amman and Algiers. And a new direct route between Amman and Mosul will be opened in April 2013, as well as a route that will connect Amman with Lagos (Nigeria) and Accra (Ghana) in the month of June.

In this direction, RJ will continue with its plans to increase the number of departures to the destinations on its network. The Company will continue to serve its present 57 destinations in 2013 – except the stations mentioned above which will be added this year. These destinations will be served through 408 weekly departures (83) of which to Europe (25) to Asia (125) to the Gulf, (131) to the Middle East region; (16) to North America and (28) to Africa.

## The Fleet

In its policy and strategic plans for continuous modernization of the fleet over the years, the Company added a number of aircraft of Airbus and Embraer types. In 2012 RJ introduced two A321's to replace two older aircrafts of the same type. It also introduced two new A320's. RJ follows a policy of maintaining the capability and efficiency of its fleet through continuous modernization, in addition to maintaining young age fleet, which will reduce the cost of maintenance. At the end of 2010, the Company completed the modernization of passenger cabins in four A 340's. They were fitted with personal amusement on passenger seats. These planes will stay in service until the arrival of the Boeing 787's starting in August 2014 with five aircraft.

In 2013 no additions to the fleet are expected with the exception of extending the lease of an Airbus 320 aircraft. The Company completed its plan to replace A310 planes by A330 modern aircraft. This project was started in 2011 and completed in 2012.

At present RJ's fleet consists of:

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Type of Aircraft	No. of Aircraft
Airbus A340	4
Airbus A330	3
Airbus A320*	8
Airbus A321	4
Airbus A319	4
Embraer EMJ 195	5
Embraer 175	3
Airbus A310 (cargo)	2
Total	33

<sup>\*</sup> One of these aircraft is for the use of Royal Wings.

## **Future Plans: Oneworld Alliance and Code Sharing**

Since joining oneworld alliance in 2007, RJ works to strengthen its relations with companies in this alliance. RJ will also cooperate and coordinate with companies who are alliance members and who have code sharing agreements with RJ. The Company will also contribute to the success of joint projects with the aim of reducing cost and exchanging experiences among the companies of the alliance which provides more than 800 extra destinations that RJ passengers can have access to.

In this context, RJ will continue its efforts in 2013 to execute the programs of joining the alliance by Qatar Airways and Sri Lankan Airways expected in 2013 – 2014.

At the same time, RJ will try in 2013 to enhance the benefits derived from some code sharing agreements with a number of companies through increasing the number of destinations included in the agreements with: British Airways, American Airlines, Iberia, Siberian Airlines, Air Berlin and Malaysian Airways.

As for code sharing agreements with companies from outside the alliance, the Company added in 2012 a code sharing agreement with Sri Lankan Airlines to join previous agreements with Romanian airways, Syrian airlines, Gulf Air, US Airways and the Italian Meridiana Fly.

In 2012 RJ increased the number of stations included in the code sharing agreements to 70 stations around the world in addition to the stations served by its fleet. In 2013 RJ will continue to increase the number of these stations through amending the agreements with American Airlines and Air Berlin.

The Company also plans to communicate with Cathay Pacific with headquarters in Hong Kong and the Australian QANTAS with the aim of signing code sharing agreements. Moreover, the Company plans to sign code sharing agreements with Oman Airlines and Cyprus Airlines.

## **Future Developments**

In October 2010 RJ started to implement ALTEA AMADEUS system in passenger services related to booking, transfer and sales. In 2013 the Company will complete the second phase of the project which includes the study of operating AMADEUS system for the procedure of boarding of passengers in various RJ stations around the world. This includes the procedure of receiving passengers, examining their E-tickets, issuing boarding passes and allowing them to board the plane, in addition to checking baggage.

The implementation of the integrated band of ALTEA AMADEUS system, specialized in the management of various air transport services will make RJ's services more smooth, starting with booking and buying tickets through the internet, until the issue of the boarding pass. This will increase sales and lead to better means for improving revenues.

Moreover, the Company will introduce in 2013 a new system which will improve its strategic planning through acquiring a system for IT management and for operations related to the planning of network, the fleet and the alliance in addition to issuing the seasonalflight schedule of the Company and the management thereof. This will be done through buying an integrated system which offers a band of technological solutions for IT and to help in making strategic decisions. This will develop the planning operation in the Company on the medium and long term.

## New passenger Terminal at QAIA

The new passenger terminal at QAIA is expected to be opened in March 2013. This will enhance the ability of Amman to attract more passengers and transit passengers. It will also increase RJ's competitive power against regional companies especially with expected excellent service that first class and business class passenger will enjoy. The new terminal is characterized with an advanced infrastructure compared to the old terminal. There is more room for entry and checking in of passengers. Flight data screens and clearer guiding signs will be provided, in addition to comfortable seats, bigger duty free market and more restaurants and cafés.

## **Audit Fees**

Audit fees for RJ and its subsidiary Royal Wings for 2012 were as follows:

- Royal Jordanian audit fee JD 81,820 inclusive of tax.
- Ernst and young also charged the sum of JD 58,904 inclusive of tax for studies and training for RJ.
- Royal wings and subsidiary audit fee JD 12,180 inclusive of tax.
- Royal wings and subsidiary fee for tax consultations: JD 4,370 inclusive of tax.

## **Share Ownership – Board of Directors**

Below is a table of natural board of Directors and their relatives with the ownership of each of them, compared to last year:

	<b>T</b> *41	N - 41 114	Number of shares as on		
Name	Title	Nationality	31.12.2012	31.12.2011	
Eng. Nasser A. Lozi	Chairman	Jordanian	5,000	5,000	
Mr. Marwan Awad	Vice	Jordanian	10,000	-	
	Chairman				
Mr. AqilBiltaji	Member	Jordanian	-	-	
Mr. "Mohammad Sharif" Zu'bi	Member	Jordanian	5,000	5,000	
Mr. Samer Muasher	Member	Jordanian	3,000	3,000	
Mr. AmrBilbeisi	Member	Jordanian	7,001	7,001	
Eng. Abdul RahmanKhatib	Member	Jordanian	-	-	
Mr. Maher Mikati	Member	Lebanese	-	-	
Mr. "Mohammad Ali" Bdair	Member	Jordanian	14,000	14,000	

There are no securities owned by relatives of members of the Board of Directors by the end of 2012.

## Securities Owned by Senior Executive Management

Below is a table of Senior Executive Management and their relatives, with the ownership of each of them in the Company shares compared to last year:

Name	Title	Nationality	Number of Shares		
Numo	TRIC	reactionality	31.12.2012	31.12.2011	
Mr. Omar Al-Said	CFO	Jordanian	-	-	
Mr. Maath Al-Majali	VP Cargo	Jordanian	13,931	11,144	
Mr. Mohammad H. Murtada	VP Airport Services	Jordanian	13,871	11,096	

There are no securities owned by relatives of members of the Senior Executive Management by the end of 2012.

It should be noted that subsidiary companies do not own shares in the mother company, whether by the Board of Directors or their relatives or the Executive Management or their relatives.

## **Board of Directors Remunerations and Benefits**

Below is a table of remunerations and benefits received by the Chairman and Board members in 2012 in JD:

Name	Title	Date (new Members)	Membership Ended	Representation Allowance	Annual Remune ration	Travel Allowa nce	Total Annual Benefits
Eng. Nasser A. Lozi	Chairman	-	-	66,000	-	-	66,000
Mr. Fares Sharaf	Vice Chairman	-	April 2012	2,000	-	-	2,000
Mr. Marwan Awad	Vice Chairman	May 2012	-	4,000	-	-	4,000
Mr. AqilBiltaji	Member	May 2012	-	4,000	-	-	4,000
Mr. Hussein Dabbas	Member	-	April 2012	2,000	-	-	2,000
Mr. "Mohammad Sharif" Zu'bi	Member	-	-	6,000	-	-	6,000
Mr. Samer Muasher		-		6,000	-		6,000
Mr. AmrBilbeisi	Member	-	-	6,000	-	-	6,000
Eng. Abdul RahmanKhatib	Member	-	-	6,000	-	-	6,000
Mr. Maher Mikati	member	-	-	6,000	-	-	6,000
Mr. "Mohammad Ali" Bdair	Member	-	-	6,000	-	-	6,000

#### **Senior Executive Management Remunerations and Benefits**

Below is a table of remunerations and benefits received by Senior Executive management during 2012 in JD, excluding productivity and incentive bonuses:

Name	Title	Date of Appointm ent	Annual Salary	Annual Remuner ation	Travel Allowance (JD)	Total Annual Benefits
Mr. Hussein Dabbas	President/CEO	To May 2012	94,565	97,440	750	192,755
Eng. Abdul RahmanKhatib	President/Actin g CEO	June 2012	-	21,000	-	21,000
Eng. Amer Al-Hadidi	President/CEO	From July 2012	112,218	-	-	112,218
Mr.Omar Al-Said	CFO	From July 2012	78,080	-	215	78,395
Mr. Guido Ruther	VP Network/Allianc es	-	105,600	-	630	106,230
Mr. Maath Majali	VP Cargo	-	80,304	-	1,575	81,879
Mr. Mohammad H. Murtada	VP Airport Services	-	80,464	-	215	80,779

Donations and Grants made by the Company in 2012

Recipients	Amount (JD)
Royal Jordanian Staff Club	10,000
General Union of air Transport & Tourism	10,000
Ramadan Charitable Campaign	15,000
Others	16,556
Total	51,556

Contracts, projects and commitments concluded by the Company with its subsidiary, sister or allied companies or with the Chairman or Board members of the Chief Executive or any employee of the Company or their relatives:

- Consultation Service Agreement with Royal wings
- Staff Commissioning Agreement with RW
- Pilots Commissioning Agreement with RW
- Maintenance Agreement with RW
- Fit to fly agreement with RW
- Engine leasing agreement with RW
- Aircraft Check in QAIA with RW

- Agreement with RW to include it in the maintenance agreement between RJ and Air France.
- Leasing aircraft capacity with RW
- Agreement to supply RW with fuel and include it in fuel buying agreements concluded by RJ.
- Service Agreement with Royal Jordanian Tourism Company.

#### **Company Contribution – Serving Local Community**

Year after year RJ emphasizes its presence in the local community through its charitable, social and humanitarian contributions which aim at helping the orphans, the poor and the under privileged. In 2012 RJ carried out the following activities:

#### Ramadan Annual Campaign

During the month of Ramadan, RJ carried out, for the seventh year in succession, its charity campaign. This entails distributing hundreds of food parcels to needy families in Shobak, Al-Baida Village, Kofranja Charitable Society in Ajloun, some poor families in North Badiya, Child Charitable Society in North East Badiya, Jordan Dyslexia Society in Tareq, Um Rummaneh in Al-Jeezeh, Bayyouda Zakat and Alms Committee in Balqaa Governorate. The campaign included Iftar banquets for hundreds of young orphans adopted by Dar Al-Nahda for Girls, Al-Hussein foundation in Al-Ashrafiya, Omar Bin Al-Khattab Society in Zarqa, Al-Saliheen society for Memorizing the Koran in Amman.

#### Donations to Charities

The Company donated a large amount of clothes given by its staff for the General Union of Charities, who in turn, distributed them in various governorates. There were fifteen various kinds of male and females clothes.

The Company also donated a large number of blankets which are used on board planes, in addition to a quantity of tableware. On the occasion of Id Al-fitr RJ bought new clothes for tens of children who are sponsored by Thawee Al-Baseera society.

#### Sponsoring Local Activities

During 2012 RJ sponsored a number of local activities by offering free or reduced tickets. Also by allocating a booth in the company for communicating with the participants and answering their queries regarding services.

- Sponsoring 9th "Sofex" Exhibition
- Sponsoring National Day of High Command and General Staff.
- Sponsoring Thailand Cultural Day in Amman
- Sponsoring Namaa Foundation.
- Sponsoring Al-Hussein Cancer Center Charity Gala.

#### Donating Free or Reduced Tickets for Humanitarian Purposes

RJ provided free tickets for Human Aid Club bazaar, Haretna Festival organized by Al-Ahlia School for Girls, Orthodox Culture and Education Society, Handicapped Persons Friends and Relatives Association, Mar Mansour Charitable Society, Jordan Friends Club, Orthodox Charitable shelter Society, Friends of Kidney Patient Society, Al-Hussein Cancer Foundation, Military Retired (Female) Cooperative Society, Al-Awj Centre for Autism and Mental Handicap, Jordan Anticancer Society, Um Al-Hussein Charity Bazaar, Air France Ladies Club and Desert Moon Marathon. Reduced tickets were also offered to South Theatre Troupe and The International Family for Community Service. Also subsidized were the Arab Experts participating in the Haya Centre Winter club Program.

### Donating the Freight of Material

RJ carried, for free a large quantity of aid material donated by the National Commission for Removing Mines and Rehabilitation for Jordanian charities. It included three thousand books, five thousand blankets and five thousand toys.

RJ also donated the freight of a large quantity of dates and local mineral salts from Amman to Geneva for the Swiss charitable Bazaar organized by diplomats wives in Geneva. The Company also carried materials donated by Italian institutions and companies for the benefit of Um Al-Hussein Charity in Amman.

#### Sponsoring Sports

RJ sponsored the second squash championship of international players. It offered reduced tickets. Jordan Squash Federation named this championship after Royal

Jordanian. It also named one of the courts after RJ, in appreciation of its role in serving the community.

In its support of football teams, the Company offered eleven tickets for those who participated in voting to choose "star of the month", within the awards of Ziad Al-Manaseer for Jordan football.

#### Participation in Job Days

RJ arranged a special booth in which it received a number of CVs from young men and women interested in working in RJ. This practice for providing training and employment chances for Jordanian University and college students, is arranged by the Open Arab University in cooperation with a number of institutions, companies, and official bodies in Jordan.

RJ also participated in School Job Days, organized by Al-Baqaa Secondary School for Girls and Ajnadain School for Girls in Irbid, with the aim of encouraging students in both schools to work in the field of aviation and as air stewardesses. Also to give them an idea about the nature of the RJ's work and the profession of pilot and stewardess.

#### Celebrating Mother's Day

RJ organized a Mother's Day Celebration for around 100 mothers and widows sponsored by Jabal Amman Zakat and Alms committee. RJ staff provided gifts and sweets in addition to food parcels in appreciation of the ladies continued giving to the community.

#### Aiding Handicapped Persons

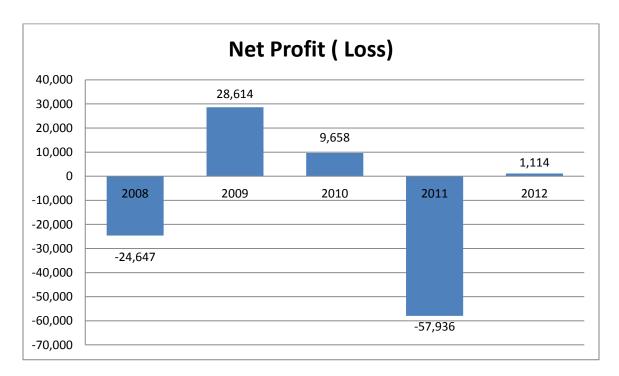
RJ participated in the course organized by Jordan Society for Caringfor the Blind under the title "Prepare Trainers in the Art of Moving and Indentifying Handicapped Persons". Participants from RJ transferred their acquired experience to their colleagues whose jobs require communicating with handicapped persons whether in Airports or on board airplanes.

#### Meetings of the Board of Directors and the Audit Committee during 2012

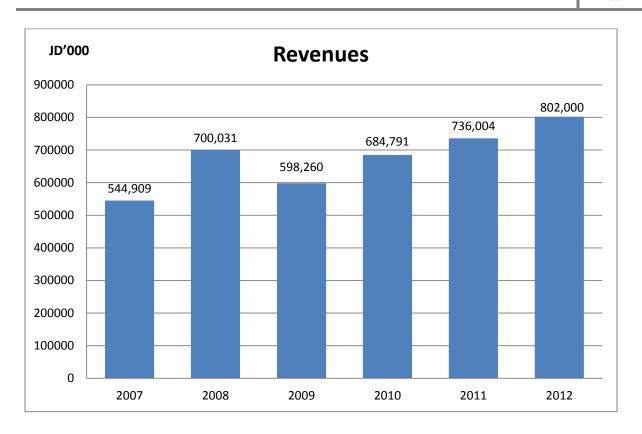
During 2012 the Board of Directors held fifteen meetings, and the Audit Committee five meetings.

## **Financial Analysis**

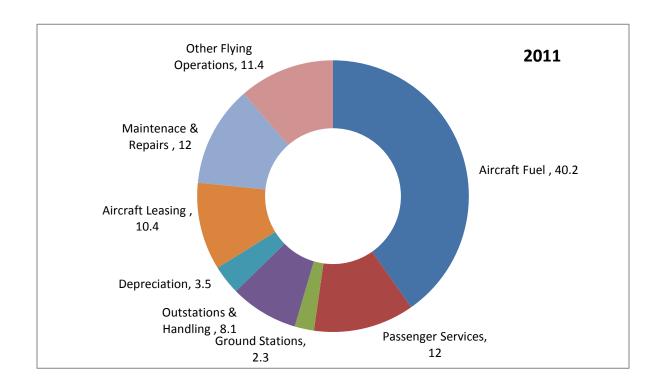
During 2012 RJ was able to reverse the negative results of 2011, caused by huge rise in fuel prices and the political disturbances in the region. The company realized a net profit of JD 1.1 m compared to net losses of JD 57.9 m in 2011.

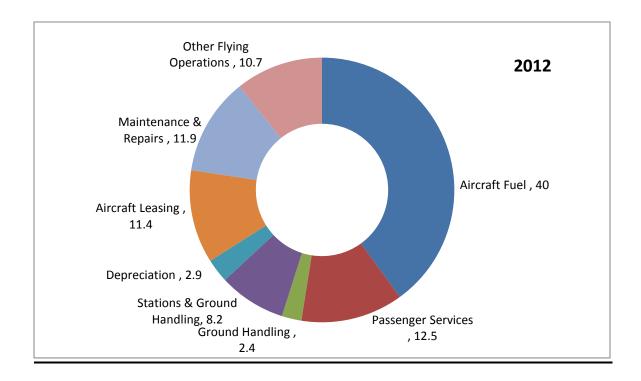


Revenues rose by 9% to JD 802 m compared to JD 736m in 2011. Expenses to revenues ratio dropped from 105% in 2011 to 96% in 2012. Expenses in 2012 dropped by 1% to JD 770m compared to JD 776 m in 2011.

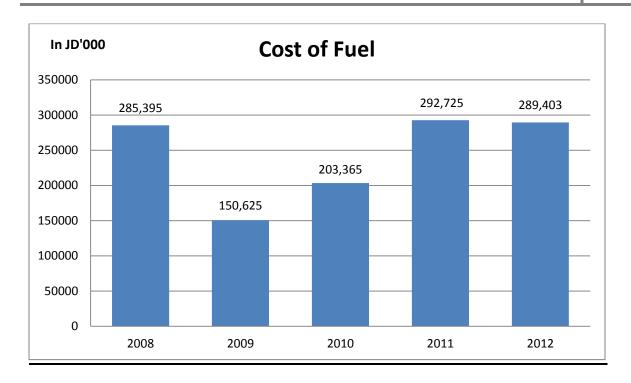


#### **Cost of Revenue**



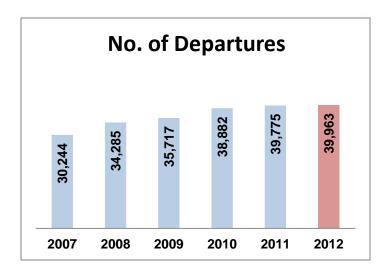


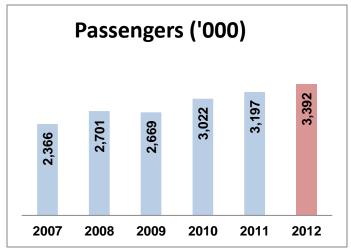
The Company was able to realize these results although 2012 was the highest ever in fuel prices. Average price of Brent crude over the year was US\$ 112 per barrel. Despite this rise, the Company was able to keep the fuel bill at its 2011, through a hedging fuel policy, and fuel saving programs implemented bythe Air Operations Department.

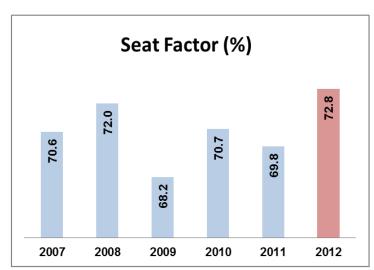


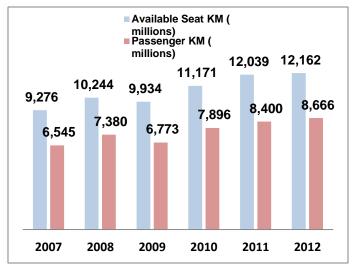
## **Operational Indicators**

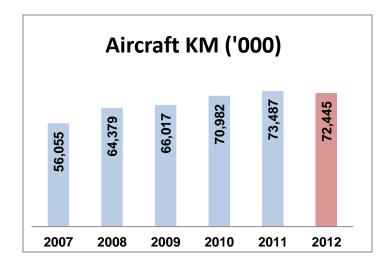
There was a marked rise in the operational indicators during 2012 compared to 2011. The company was able to carry 3.4 million passengers during 2012 compared to 3.2 millions in 2011, an increase of 6%. Seat factor rose to 72% in 2012 compared to 69.8% in 2011.

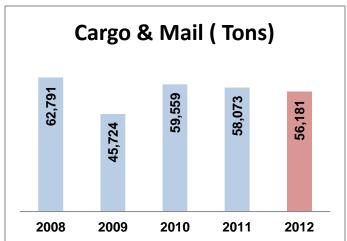












# **Compliance with Corporate Governance Guidelines**

Operational	2012	2011	2010	2009	2008
Indicators					
Aircraft kilometers	72,445,000	73,487,000	70,982,388	66,017,391	64,379,058
Departures	39,963	39,775	38,882	35,715	34,285
Flying hours	116,275	116,175	113,113	105,579	101,381
Number of	33	32	28	26	25
passenger aircraft					
Number of	56	59	58	57	54
destinations					
Number of	3,391,965	3,196,763	3,022,013	2,668,590	2,701,000
passengers					
Cargo (kilograms)	56,180,957	52,402,073	53,467,143	41,477,399	56,985,656
Revenue passenger	8,753,795	8,399,839	7,896,357	6,772,631	7,380,092
kilometers ('000)					
Available seat	12,161,689	12,038,770	11,170,888	9,933,780	10,244,395
kilometers ('000)					
Seat factor %	72	70	71	68	72
Number of	4,541	4,545	4,700	4,399	4,507
employees					

Financial Indicators	2012	2011	2010	2009	2008
Revenues	802,062	736,004	684,791	598,260	700,031
EBITDAR	116,688	59,068	103,486	121,967	53,620
EBITDA	34,199	(16,799)	41,390	64,933	(2,614)
Profit/(loss)	1,114	(57,936)	9,655	28,614	(24,647)
Non-current assets	245,442	232,305	267,320	269,465	277,371
Current assets	145,250	113,930	115,670	106,417	96,990
Shareholders' equity	59,524	58,124	116,246	106,591	77,917
Paid in capital	84,373	84,373	84,373	84,373	84,373
Net cash flow from operating activities	9,035	(30,528)	33,776	39,134	30,745

Financial Ratios	2012	2011	2010	2009	2008
Profitability Ratios:					
% EBITDAR	14.5	8.0	15.1	20.4	7.7
% EBITDA	4.3	(2.3)	6.0	10.9	(0.4)
% Return on capital	1.5	(68.7)	11.4	33.9	(29.2)
% return on Assets	0.3	(16.4)	2.5	7.6	(6.6)

Liquidity Ratios:		51.5			
% Current ratio	63.1		55.4	52.6	42.2
% Operating cash flow / current liabilities	3.9	(13.8)	16.2	19.3	13.4
Debt Ratio:					
% Liabilities / assets	84.8	83.6	69.8	71.6	79.2
% Debt / capital	151.3	99.8	86.4	94.3	89.4

## **Compliance with Corporate Governance Guidelines**

The company abides by the Companies Law in force, the securities Commission Law and disclosure regulations issued by the Securities Commission. In 2011 the company implemented most of the directives and guidelines stated in the Governance Guide of the companies listed in Amman Stock Exchange with the exception of certain clauses which were not implemented or were partially implemented, for the following reasons:

No.	Regulation	Reason for not implementing
1.	Date of disclosure of financial statements should be announced at least three work days before that date.	Companies Law and disclosure instructions are implemented
2.	Laying down a policy for disclosure and transparency in the company, and following up on the implementation thereof according to the requirements of the regulatory bodies and the laws in force.	Disclosure instructions are implemented
3.	Laying down mechanism for receiving complaints and suggestions from shareholders	There is no special policy for that, but the company is always ready to receive shareholders remarks and suggestions in its offices.
4.	Listing shareholders suggestions on the general assembly agenda to discuss and take decisions within a limited period of time.	Companies Law is applied
5.	Audit and nominations and remunerations committees shall submit their decisions and recommendations to the Board of Directors, also submit a report on their work to the ordinary general assembly	Reports of the two committees are submitted to the Board of Directors only



6.	Date and place of the general assembly shall be published in three local daily newspapers twice at least, as well as on the Company's website.	Date and place of the general assembly shall be published in two daily newspapers once in accordance with the provisions of Article 145 of the Companies Law.
7.	No new subjects should be added to the agenda of the general assembly which has been sent to shareholders	New subjects proposed by the general assembly for discussing may be added according to Companies Law.
8.	A shareholder who wishes to be nominated for board membership should send a resume of himself before the end of the financial year which precedes the year when the general assembly of the company will be held to elect the board	The provisions of the Companies Law are applied in this respect.
9.	The Board of Directors shall enclose the resume of the shareholder wishing to be nominated for Board membership with the invitations send to shareholders to attend the general assembly	The provisions of the Companies Law are applies in this respect.
10.	Shareholders shall receive annual dividend within thirty days from the date of announcing the general assembly's decision to distribute a dividend	The provisions of the Companies' Law are applied in this respect.
11.	Priority in subscribing in the company's new shares before offering to new investors	The provision of the Companies' Law are applied in this respect.
12.	The company shall lay down in writing a work plan in accordance with the disclosure policy adopted by the Board of Directors for regulating the disclosure of information and follow up on implementation thereof, according to the requirements of the regulatory bodies and the legislation in force.	The disclosure instructions of the Securities Commission Law are applied in this respect.

The Board of Directors hereby declares that there are no material misstatements that could affect the continuation of the Company during the coming financial year, 2013.

Nasser Lozi Marwan Awad "Mohammad Aqil" Biltaji

Chairman Vice Chairman Member

"Mohammad Sharif" Zubi Samer Muasher Amr Bilbeisi

Member Member Member

Abdul Rahman Al-Khatib Maher Mikati "Mohammad Ali" Bdair

Member Member Member

We, the undersigned acknowledge the correctness, accuracy and completeness of the information in the annual report for 2012.

Nasser Lozi Amer Al-Hadidi Omar Al-Said

Chairman President/CEO Chief Financial Officer