

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

**A PUBLIC SHAREHOLDING COMPANY**

**UNAUDITED INTERIM CONDENSED CONSOLIDATED  
FINANCIAL STATEMENTS**

**31 March 2017**

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

***Introduction***

We have reviewed the accompanying interim condensed consolidated financial statements of Alia- The Royal Jordanian Airlines Company and its subsidiaries (the Group) as at 31 March 2017, comprising of the interim consolidated statement of financial position as at 31 March 2017 and the related interim consolidated statements of comprehensive income, changes in equity and cash flows for the three month period then ended and explanatory information. Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Accounting 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.

***Emphasis of a Matter***

- Without qualifying our opinion, the Group's accumulated losses of JD 115 million as at 31 March 2017 exceeded 78.6% of the Company's capital. According to article No. 266 of the Jordanian Company's Law No. 22 for the year 1997 and its amendments, if the accumulated losses of the public shareholding company exceeds 75% of its capital, the company shall be liquidated unless the General Assembly of the Company decides in its extraordinary meeting to increase the paid up capital of the Company to cover the accumulated losses. The General Assembly approved to increase the company's capital by the first tranche of JD 100 million during 2016. The General Assembly has also approved to increase the Company's capital by the second tranche of JD 100 million during 2017 and 2018.

Amman – Jordan  
29 April 2017

*Ernst + Young*

**Alia - The Royal Jordanian Airlines Company (Royal Jordanian)**  
**Interim Consolidated Statement of Financial Position**  
**At 31 March 2017**  
**(In Thousands of Jordanian Dinars)**

	Notes	31 March 2017 (Unaudited)	31 December 2016 (Audited)
<b>ASSETS</b>			
<b>Non- current assets</b>			
Property and equipment	4	305,669	226,520
Projects under construction		593	674
Advances on purchase and modification of aircrafts		31,401	59,731
Financial assets at fair value through other comprehensive income		6,020	6,022
Investments in associates		17,540	17,452
Restricted cash against operating lease contracts		25,828	25,243
Deferred tax assets		15,080	15,080
		<b>402,131</b>	<b>350,722</b>
<b>Current assets</b>			
Other current assets		32,891	32,815
Spare parts and supplies, net		9,928	11,008
Accounts receivable, net		42,760	33,233
Cash and bank balances	5	115,578	141,974
		<b>201,157</b>	<b>219,030</b>
Property and equipment held for sale		2,343	1,064
<b>TOTAL ASSETS</b>		<b>605,631</b>	<b>570,816</b>
<b>EQUITY AND LIABILITIES</b>			
<b>Shareholders' equity</b>			
Paid in capital	8	146,405	146,405
Statutory reserve	8	13,455	13,455
Fair value reserve		3,771	3,771
Accumulated losses		(115,016)	(88,749)
		<b>48,615</b>	<b>74,882</b>
Non-controlling interests		229	229
<b>Total shareholders' equity</b>		<b>48,844</b>	<b>75,111</b>
<b>LIABILITIES</b>			
<b>Non- current liabilities</b>			
Long term loans	6	133,875	143,308
Long term obligations under finance leases	7	122,216	63,266
Accounts payable		58,479	71,445
Other long term liabilities		763	789
		<b>315,333</b>	<b>278,808</b>
<b>Current liabilities</b>			
Current portion of long term loans		35,733	35,067
Accrued expenses		76,269	70,232
Accounts payable and other current liabilities		68,134	69,590
Income tax provision		63	63
Deferred revenues		46,201	30,205
Short term obligations under finance leases	7	15,054	11,740
		<b>241,454</b>	<b>216,897</b>
<b>Total liabilities</b>		<b>556,787</b>	<b>495,705</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>605,631</b>	<b>570,816</b>

The attached notes from 1 to 14 form part of these interim condensed consolidated financial statements

**Alia - The Royal Jordanian Airlines Company (Royal Jordanian)**  
**Interim Consolidated Statement of Comprehensive Income**  
**For The Three Months Ended 31 March 2017 (Unaudited)**  
**(In Thousands of Jordanian Dinars)**

	Notes	For the three months ended 31 March	
		2017	2016
<b>Revenues</b>	9	<b>126,569</b>	140,379
<b>Cost of revenues</b>		<b>(133,140)</b>	(127,822)
<b>Gross (loss) profit</b>		<b>(6,571)</b>	12,557
Administrative expenses		(4,880)	(5,698)
Selling and marketing expenses		(10,468)	(10,275)
Other provisions		(110)	-
<b>Net operating loss</b>		<b>(22,029)</b>	(3,416)
Share of profit of associates		642	785
Other income, net		340	782
Provision for voluntary termination	14	(857)	(1,400)
Loss on sale of property and equipment		-	(10)
Gain (loss) on foreign currency exchange		326	(675)
Finance costs		(4,689)	(3,380)
<b>Loss for the period</b>		<b>(26,267)</b>	(7,314)
Attributable to:			
Equity holders of the parent		(26,267)	(7,313)
Non-controlling interests		-	(1)
		<b>(26,267)</b>	(7,314)
Basic and diluted earnings per share attributable to equity holders of the parent		<b>JD (0.18)</b>	JD (0.13)

The attached notes from 1 to 14 form part of these interim condensed consolidated financial statements

**Alia - The Royal Jordanian Airlines Company (Royal Jordanian)**  
**Interim Consolidated Statement of Changes in Equity**  
**For The Three Months Ended 31 March 2017 (Unaudited)**  
**(In Thousands of Jordanian Dinars)**

	<i>Attributable to equity holders of the parent</i>							Non – controlling interests	Total equity
	<i>Paid in capital</i>	<i>Payments in respect of capital increase</i>	<i>Statutory reserve</i>	<i>Fair value reserve</i>	<i>Cash flow hedges</i>	<i>Accumulated losses</i>	<i>Total</i>		
<b>For the three months ended 31 March 2017</b>									
Balance as of 1 January 2017	146,405	-	13,455	3,771	-	(88,749)	74,882	229	75,111
Total loss and comprehensive income for the period	-	-	-	-	-	(26,267)	(26,267)	-	(26,267)
<b>Balance as of 31 March 2017</b>	<b>146,405</b>	<b>-</b>	<b>13,455</b>	<b>3,771</b>	<b>-</b>	<b>(115,016)</b>	<b>48,615</b>	<b>229</b>	<b>48,844</b>
<b>For the three months ended 31 March 2016</b>									
Balance as of 1 January 2016	46,405	50,154	13,455	3,771	(178)	(64,094)	49,513	195	49,708
Total loss and comprehensive income for the period	-	-	-	-	-	(7,313)	(7,313)	(1)	(7,314)
Payments in respect of capital increase (note 8)	-	23,669	-	-	-	-	23,669	-	23,669
Capital increase	60,121	(60,121)	-	-	-	-	-	-	-
Capital increase costs	-	-	-	-	-	(50)	(50)	-	(50)
<b>Balance as of 31 March 2016</b>	<b>106,526</b>	<b>13,702</b>	<b>13,455</b>	<b>3,771</b>	<b>(178)</b>	<b>(71,457)</b>	<b>65,819</b>	<b>194</b>	<b>66,013</b>

The attached notes from 1 to 14 form part of these interim condensed consolidated financial statements

**Alia - The Royal Jordanian Airlines Company (Royal Jordanian)**  
**Interim Consolidated Statement of Cash Flows**  
**For The Three Months Ended 31 March 2017 (Unaudited)**  
**(In Thousands of Jordanian Dinars)**

	Notes	For the three months ended 31	
		2017	2016
<b>OPERATING ACTIVITIES</b>			
Loss for the period before income tax		(26,267)	(7,314)
<b>Adjustments for:</b>			
Provision for slow moving and spare parts		110	-
Depreciation of property and equipment		8,242	5,958
Share of profit of associates		(642)	(785)
Finance costs		4,689	3,380
Loss on sale of property and equipment		489	10
Provision for end of service indemnity		-	1,400
Provision for voluntary termination	14	857	-
Amortization of deferred revenue - Jordan Flight Catering Company Ltd		(75)	(75)
<b>Working capital changes:</b>			
Accounts receivable		(9,527)	(11,130)
Spare parts and other supplies		970	(489)
Other current assets		268	13,857
Deferred revenues		16,071	7,562
Accounts payable and other current liabilities		(9,647)	1,327
Accrued expenses		4,333	5,894
End of service indemnity paid		(26)	(154)
Provisions paid for labor collective contract		(41)	-
<b>Net cash flows (used in) from operating activities</b>		<b>(10,196)</b>	<b>19,441</b>
<b>INVESTING ACTIVITIES</b>			
Purchase of property and equipment		(354)	(9,662)
Projects under construction		(263)	(19)
Change in restricted cash against lease contracts		-	(1,132)
Advances on purchase and modification of aircrafts		-	(13,755)
Restricted bank accounts		(585)	(726)
Sale (purchase) of financial assets at fair value through OCI		2	(2)
Short term deposits		(7)	-
Dividends received from associates		554	-
<b>Net cash flows used in investing activities</b>		<b>(653)</b>	<b>(25,296)</b>
<b>FINANCING ACTIVITIES</b>			
Proceeds from loans		-	129,272
Repayment of term loans		(8,767)	(58,905)
Finance lease obligations		(2,986)	(1,826)
Interest paid		(3,801)	(822)
Payments in respect of capital increase		-	13,702
Capital increase		-	59,967
Capital increase costs		-	(50)
<b>Net cash flows (used in) from financing activities</b>		<b>(15,554)</b>	<b>141,338</b>
Net (decrease) increase in cash and cash equivalents		(26,403)	135,483
Cash and cash equivalents, beginning of the period		92,874	34,571
<b>Cash and cash equivalents, end of the period</b>	5	<b>66,471</b>	<b>170,054</b>

The attached notes from 1 to 14 form part of these interim condensed consolidated financial statements

**Alia - The Royal Jordanian Airlines Company (Royal Jordanian)**  
**Notes to The Interim Consolidated Financial Statements**  
**31 March 2017 (unaudited)**  
**(In Thousands of Jordanian Dinars except for amounts in US Dollars)**

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**1. GENERAL**

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

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

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

The interim condensed consolidated financial statements were authorized for issue by the Board of Directors in their meeting held on 29 April 2017.

**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's annual financial statements as of 31 December 2016. In addition, results of the three month period ended 31 March 2017 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2017:



## Changes in accounting policies

### New standards, interpretations and amendments adopted by the Group

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Company's annual consolidated financial statements for the year ended 31 December 2016, except for the adoption of new standards effective as of 1 January 2017:

#### **Amendments to IAS 7 Statement of Cash Flows: Disclosure Initiative**

Limited amendments which require entities to provide disclosures about changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses). However, the adoption of these amendments have no impact on the Company's interim condensed consolidated financial statements.

#### **Amendments to IAS 12 Income Taxes: Recognition of Deferred Tax Assets for Unrecognised Losses**

Limited amendments to clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference and some other limited amendments, the adoption of these amendments have no impact on the Company's interim condensed consolidated financial statements.

### **3. BASIS OF CONSOLIDATION**

The consolidated financial statements comprise the financial statements of Alia - The Royal Jordanian Airlines Company (the Company) and the following subsidiaries (collectively referred to as the "Group") as at 31 March 2017:

	Ownership	
	<u>Interest</u>	<u>Country</u>
Royal Wings Company	100%	Jordan
Royal Tours for Travel and Tourism Company	80%	Jordan

Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

Specifically, the Group controls an investee if and only if the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee, and
- The ability to use its power over the investee to affect its returns

**Alia - The Royal Jordanian Airlines Company (Royal Jordanian)**  
**Notes to The Interim Consolidated Financial Statements**  
**31 March 2017 (unaudited)**  
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When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Group's voting rights and potential voting rights

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control.

The financial statements of the subsidiaries are consolidated from the control date until stop this control. Revenue and expenses of the subsidiaries are consolidated in the consolidated statement of comprehensive income from the date of control until stop this control.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary without a loss of control is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- Derecognizes the assets (including goodwill) and liabilities of the subsidiary.
- Derecognizes the carrying amount of any non- controlling interests.
- Derecognizes the cumulative translation differences, recorded in equity.
- Recognizes the fair value of the consideration received.
- Recognizes the fair value of any investment retained.
- Recognizes the gain or loss resulted from loss of control.
- Reclassifies the parent's share of components previously recognized in OCI to profit or loss.

**Shareholders who have a significant influence over the Group**

The Government of the Hashemite Kingdom of Jordan, Mint Trading - Middle East Ltd. and Social Security Corporation own 60%, 15% and 10%, respectively from the Company's shares.

**4. PROPERTY AND EQUIPMENT**

During the three months ended 31 March 2017, the Group acquired property and equipment with a cost of JD 89,159 (31 March 2016: JD 9,662).

**Alia - The Royal Jordanian Airlines Company (Royal Jordanian)**  
**Notes to The Interim Consolidated Financial Statements**  
**31 March 2017 (unaudited)**  
(In Thousands of Jordanian Dinars except for amounts in US Dollars)

**5. CASH AND CASH EQUIVALENTS**

	<u>31 March 2017 (unaudited)</u>	<u>31 December 2016 (audited)</u>
Cash and bank balances	22,714	12,944
Short term deposits*	20,741	62,202
Cash in transit **	23,016	17,728
Cash and cash equivalents	<u>66,471</u>	<u>92,874</u>
Short term deposits mature after 3 months ***	49,107	49,100
	<u>115,578</u>	<u>141,974</u>

\* This item represents deposits in Jordanian Dinar in Jordanian Banks as of 31 March 2017 with an interest rate ranging between 3.5% - 4.1% (2016: 3%- 3.65%).

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

\*\*\* This item represents deposit in Banks in Jordanian Dinar (JD 40,000) and Sudanese Pound (191,084 thousand Sudanese Pound which is equivalent to JD 7,022) as of 31 March 2017 and 31 December 2016 with an average interest rate of 4.5% (2016: 4. 5%) and are due within eight months (2016: eight months).

**6. Loans**

	<u>31 March 2017 (unaudited)</u>		<u>31 December 2016 (audited)</u>	
	<u>Loans' installments</u>		<u>Loans' installments</u>	
	<u>Short term</u>	<u>Long term</u>	<u>Short term</u>	<u>Long term</u>
Syndicated loan*	36,513	136,085	35,847	145,713
Less: directly attributable transaction costs**	(780)	(2,210)	(780)	(2,405)
	<u>35,733</u>	<u>133,875</u>	<u>35,067</u>	<u>143,308</u>

\* On 20 December 2015, the Company signed a new syndicated loan agreement amounted to JD 195 million (USD 275 million), the loan bears annual interest rate of 3 months LIBOR plus 3 %. The loan is repayable in 49 installments. The first installment amounting to JD 3 million will fall due on 20 December 2017 and the last installment will fall due on 20 December 2021.

According to the loan agreement, the Company is obliged to transfer the proceeds from its sales from travel agents (GSA) in 23 stations that are collected through IATA to the Company's account at Al-Mashreq Bank as a collateral.

Some of the loan agreements contain loan covenants which require the Company to meet certain financial ratios. The Company has obtained a waiver until 30 September 2017.

**Alia - The Royal Jordanian Airlines Company (Royal Jordanian)**  
**Notes to The Interim Consolidated Financial Statements**  
**31 March 2017 (unaudited)**  
**(In Thousands of Jordanian Dinars except for amounts in US Dollars)**

Principal installments payable for the period ended 31 March 2017 and after are as follows:

<u>Period</u>	<u>Amount</u>
1 April 2017– 31 March 2018	36,513
1 April 2018– 31 March 2019	36,473
1 April 2019– 31 March 2020	47,515
1 April 2020 and thereafter	52,097

**(7) OBLIGATIONS UNDER FINANCE LEASES**

	<u>31 March 2017</u>				<u>31 December 2016</u>			
	<u>E-195</u>	<u>E-175</u>	<u>B-787</u>	<u>Total</u>	<u>E-195</u>	<u>E-175</u>	<u>B-787</u>	<u>Total</u>
Long term obligations	-	995	121,22	122,21	-	1,976	61,290	63,266
Current obligations	2,632	3,829	8,593	15,054	3,658	3,770	4,312	11,740
			129,81	137,27			65,602	
	2,632	4,824	4	0	3,658	5,746		75,006

**- E-195 Lease Agreement - Aircraft Number 107**

The lease agreement was signed on 17 September 2007 with a total amount of USD 22,500,000 (JD 15,957). The term of the agreement is for 10 years. Interest on the lease was computed based on LIBOR plus 0.75%. The lease provides for 40 quarterly installments commencing on 20 December 2007. As of 31 March 2017, the outstanding balance is JD 1,058 (31 December 2016: JD 1,575).

**- E-195 Lease Agreement - Aircraft Number 131**

The lease agreement was signed on 17 September 2007 with a total amount of USD 22,500,000 (JD 15,957). The term of the agreement is for 10 years. Interest on the lease was computed based on LIBOR plus 0.75%. The lease provides for 40 quarterly installments commencing on 20 February 2008. As of 31 March 2017, the outstanding balance was JD 1,574 (31 December 2016: JD 2,083).

**- E-175 Lease Agreement - Aircraft Number 223**

The lease agreement was signed on 17 September 2007 with a total amount of USD 21,000,000 (JD 14,894). The term of the agreement is for 10 years. Interest on the lease was computed based on LIBOR plus 0.75%. The lease provides for 40 quarterly installments commencing on 15 August 2008. As of 31 March 2017, the outstanding balance has JD 2,412 (31 December 2016: JD 2,873).

**- E-175 Lease Agreement - Aircraft Number 232**

The lease agreement was signed on 17 September 2007 with a total amount of USD 21,000,000 (JD 14,894). The term of the agreement is for 10 years. Interest on the lease was computed based on LIBOR plus 0.75%. The lease provides for 40 quarterly installments commencing on 15 September 2008. As of 31 March 2017, the outstanding balance is JD 2,412 (31 December 2016: JD 2,873).

**Alia - The Royal Jordanian Airlines Company (Royal Jordanian)**

**Notes to The Interim Consolidated Financial Statements**

**31 March 2017 (unaudited)**

**(In Thousands of Jordanian Dinars except for amounts in US Dollars)**

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**- B-787 Lease Agreement - Aircraft Number 37984**

The lease agreement was signed on 15 November 2016 with a total amount of USD 92,500,000 (JD 65,602). The term of the agreement is for 12 years. Interest on the lease was computed based on LIBOR plus 3.25%. The lease provides for 48 quarterly installments commencing on 15 February 2017. As of 31 March 2017, the outstanding balance is JD 64,544 (31 December 2016: JD 65,602).

**- B-787 Lease Agreement - Aircraft Number 37985**

The lease agreement was signed on 15 January 2017 with a total amount of USD 92,031,250 (JD 65,270). The term of the agreement is for 12 years. Interest on the lease was computed based on LIBOR plus 3.25%. The lease provides for 48 quarterly installments commencing on 15 April 2017. As of 31 March 2017, the outstanding balance is JD 65,270 (31 December 2016: nil).

The Company has mortgaged the Embraer aircrafts E-195 and E-175 and Boeing B787 aircrafts for the finance lease agreements.

Principal installments payable during 2017 and after relating to aircrafts delivered up to 31 March are as follow:

<u>Period</u>	<u>Amount</u>
1 April 2017 – 31 March 2018	15,054
1 April 2018 – 31 March 2019	9,959
1 April 2019 – 31 March 2020	9,350
1 April 2020 – 31 March 2021	9,970
2021 – and after	92,937
	<u>137,270</u>

Minimum lease payments under all finance leases are as follows:

	<u>31 March 2017</u>	<u>31 December</u>
	<u>(unaudited)</u>	<u>2016</u>
		<u>(audited)</u>
Total minimum lease payments	173,114	93,408
Interest	(35,844)	(18,402)
	<u>137,270</u>	<u>75,006</u>

**8. SHAREHOLDERS' EQUITY**

	<b>31 March 2017</b>	31 December 2016
	<b>(unaudited)</b>	(audited)
<b>- Paid in capital</b>		
Authorized capital (246,405 shares of 1JD each)	<b>246,405</b>	246,405
Paid in capital	<b>146,405</b>	146,405

**Payments in respect of capital increase**

The General Assembly approved in its extraordinary meeting held on 2 May 2015 to reduce the Company's capital in an amount of JD 37,968 to become JD 46,405 through writing off part of the accumulated losses. Those procedures were completed at the Ministry of Industry and Trade on 26 July 2015. The General assembly also approved the Government's private and / or general subscriptions in 50% of the first tranche of the suggested capital increase of JD 100 million (JD 50 million). The Government shall subscribe in 100% of the amount of capital increase (JD 100 million) in the event that the other shareholders do not subscribe in the remaining 50%.

On 4 August 2015, the Ministry of Finance (MOF) requested the Central Bank of Jordan (CBJ) to open an escrow account and transfer an amount of JD 50 million to this account from the MOF account. On 22 October 2015, the amount was deposited by the CBJ in a special account "The Government's share of Royal Jordanian capital increase". This amount was recorded as restricted cash within the current assets and the corresponding amount was recorded as payments in respect of capital increase within the equity. The Company's paid in capital has increased during January 2016 by JD 60.1 million to become JD 106.5 million. Furthermore, the Company's capital was increased during April 2016 by JD 39.9 million to become JD 146.4 million. The Company's capital will be increased by the second tranche of JD 100 million during 2017 and 2018.

**- Statutory Reserve**

As required by Jordanian Company Law, 10% of the profit before income tax is transferred to statutory reserve. This reserve is not available for distribution to the shareholders.

Alia - The Royal Jordanian Airlines Company (Royal Jordanian)  
Notes to The Interim Consolidated Financial Statements  
31 March 2017 (unaudited)  
(In Thousands of Jordanian Dinars except for amounts in US Dollars)

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**9. REVENUES**

	For the three months ended 31 March	
	<u>2017</u>	<u>2016</u>
<b>Scheduled Services</b>		
Passengers	<b>99,660</b>	108,220
Cargo	<b>7,864</b>	9,202
Excess baggage	<b>954</b>	1,114
Airmail	<b>1,402</b>	1,684
<b>Total scheduled services (note 12)</b>	<b>109,880</b>	120,220
Chartered flights (note 12)	<b>3,895</b>	5,788
Commercial revenues from arriving and departing aircrafts of other companies	<b>2,384</b>	2,468
Revenues from technical and maintenance services provided to other companies	<b>925</b>	1,107
Cargo warehouse revenues	<b>2,503</b>	2,633
Revenues from services provided to other aviation companies	<b>417</b>	822
First class services revenues	<b>1,015</b>	994
Change reservation revenues	<b>1,411</b>	1,715
Revenues from National Distribution Center (Galileo)	<b>850</b>	737
Other revenues	<b>3,289</b>	3,895
	<b><u>126,569</u></b>	<u>140,379</u>

## **10. INCOME TAX**

No provision for income tax was calculated by the Company for the periods ended 31 March 2017 & 2016 due to the excess of deductible expenses over taxable income in accordance with the Income Tax Law No. (34) of 2014.

The Company filed its tax return for the years 2016, the Income Tax Department has not reviewed the Company's accounting records up to the date of the consolidated financial statements

The Company reached a final settlement with the Income and Sales Tax Department up to 2014.

Royal Wings Company reached a final settlement with the Income and Sales Tax Department up to 2013 and the tax declaration was accepted in 2014 by using sampling basis.

Royal Tours Company reached a final settlement with the Income and Sales Tax Department up to 2015.

## **11. COMMITMENTS AND CONTINGENCIES**

### **- Bank guarantees**

At 31 March 2017, the Group had letters of guarantee amounting to JD 22,807 (31 December 2016: JD 24,300).

### **- Claims against the Group**

The Group is a defendant in a number of lawsuits amounting to JD 15,750 as at 31 March 2017 (31 December 2016: JD 13,516) representing legal actions and claims related to its ordinary course of business. Related risks have been analyzed as to the likelihood of occurrence, although the outcome of these matters cannot always be ascertained with precision, the management and their legal advisors believe that no material liabilities are likely to result.

### **- Capital Commitments**

As of 31 March 2017, the Group had capital commitments of USD 518,691,029 (31 December 2016: USD 604,326,155) equivalent to JD 367,866 (31 December 2016: JD 428,600) relating to finance lease agreements signed for new aircrafts.



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**- Operating lease commitments**

As of the date of these consolidated financial statements, Alia - The Royal Jordanian Airlines Company has future commitments, which represent operating lease agreements in respect of six Airbus A-320 aircraft, two Airbus A-321 aircraft, four Airbus A-319 aircraft, one Embraer E-175 aircraft, and five Boeing B-787 aircrafts.

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

<u>Period</u>	<u>JD</u>
1 April 2017– 31 March 2018	69,163
1 April 2018 – 31 March 2019	61,183
1 April 2019– 31 March 2020	49,580
1 April 2020 – 31 March 2021	42,330
1 April 2021 and after	226,601

**12. GEOGRAPHICAL DISTRIBUTION OF REVENUES**

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

	<b>For the three months ended 31 March 2017</b>				<b>For the three months ended 31 March 2016</b>			
	<b>(Unaudited)</b>				<b>(Unaudited)</b>			
	<b>Scheduled services</b>	<b>Chartered Flights</b>		<b>Total</b>	<b>Scheduled services</b>	<b>Chartered Flights</b>		<b>Total</b>
	<b>Passengers</b>	<b>Cargo</b>			<b>Passengers</b>	<b>Cargo</b>		
Levant	16,565	667	887	18,119	17,561	444	474	18,479
Europe	27,040	1,040	260	28,340	29,362	138	71	29,571
Arab Gulf	27,793	177	-	27,970	33,149	24	49	33,222
America	21,347	-	677	22,024	21,341	3,805	681	25,827
Asia	13,619	187	-	13,806	13,834	-	-	13,834
Africa	3,516	-	-	3,516	4,973	-	102	5,075
<b>Total</b>	<b>109,880</b>	<b>2,071</b>	<b>1,824</b>	<b>113,775</b>	<b>120,220</b>	<b>4,411</b>	<b>1,377</b>	<b>126,008</b>

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**13. RELATED PARTY TRANSACTIONS**

Following is a summary of balances due to/ from related parties included in the interim consolidated statement of financial position:

	31 March 2017		31 December 2016	
	Accounts receivable (unaudited)	Accounts payable (unaudited)	Accounts receivable (audited)	Accounts payable (audited)
Government of Jordan	4,173	47,496	4,026	52,635
Employees Provident Fund	-	4,328	-	5,009
Jordan Aircraft Maintenance Company	188	-	674	-
Jordan Flight Catering Company	-	3,430	-	1,659
Jordan Aircraft Training and Simulation Company	12	466	7	457
Al-Mashreq for Aircraft Services Company	159	-	105	-
	<u>4,532</u>	<u>55,720</u>	<u>4,812</u>	<u>59,760</u>

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

	For the three months ended 31 March	
	2017 (unaudited)	2016 (unaudited)
<b>Jordan Aircraft Maintenance Company (JORAMCO):</b>		
Scheduled services revenues	<u>51</u>	<u>42</u>
Repair and maintenance expenses	<u>1,729</u>	<u>1,610</u>
<b>Jordan Flight Catering Company:</b>		
Passenger services expenses	<u>3,528</u>	<u>3,709</u>
<b>Jordan Aircraft Training and Simulation Company (JATS):</b>		
Other income	<u>4</u>	<u>17</u>
Pilots training expenses	<u>253</u>	<u>304</u>

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

	For the three months ended 31 March	
	2017 (unaudited)	2016 (unaudited)
Scheduled services revenues – passengers	870	1,102
Scheduled services revenues – cargo	340	347
	<u>1,210</u>	<u>1,449</u>
Chartered flights	<u>678</u>	<u>71</u>

**Compensation of key management personnel:**

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

	For the three months ended 31 March	
	2017 (unaudited)	2016 (unaudited)
Salaries and other benefits	<u>105</u>	<u>88</u>
Bonus\ transportation of board members	<u>10</u>	<u>26</u>

**14. PROVISION FOR VOLUNTARY TERMINATION**

During March 2017, the Company signed a Labor collective contract with the Union of Workers in Air Transport and Tourism as requested from some of the staff who decided to terminate their services voluntarily. The agreement covering the period from 15 March 2017 to 30 April 2017. Accordingly, the Company has recorded a provision amounted to JD 857 as of 31 March 2017 which represents the best estimate as at the date of the interim condensed consolidated financial statements.