

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

**A PUBLIC SHAREHOLDING COMPANY
CONSOLIDATED FINANCIAL STATEMENTS**

31 DECEMBER 2017



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INDEPENDENT AUDITOR'S REPORT

**To the Shareholders of Alia – The Royal Jordanian Airlines Company (Royal Jordanian)
Amman - Jordan**

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of **Alia – The Royal Jordanian Airlines Company (Royal Jordanian)** (the Company) and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2017, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards, are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code) together with the ethical requirements that are relevant to our audit of the financial statements in Jordan, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter provided in that context.

We have fulfilled the responsibilities described in the Auditor’s responsibilities for the audit of the consolidated financial statements section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

1. Passenger and cargo revenue recognition	
Refer to note 24 of the consolidated financial statements	
Key audit matter	How the key audit matter was addressed in the audit
<p>Passenger tickets and cargo airway bills sales are reflected in the consolidated statement of financial position as deferred revenue and recognized as revenue when the transportation service is provided. Tickets that are not used for transportation ('unused tickets') are recognized as revenue after 12 months from the date of their issuance. We focus on revenue recognition because it is material and the process is highly automated.</p> <p>In respect of customer loyalty program (Royal Plus), a portion of the fair value of the consideration received is allocated to the award credits and deferred, this is then recognized as revenue over the period that the award credits are redeemed. The fair value of the award credits is estimated by reference to the fair value of the awards for which the points could be redeemed and is reduced to take into account the proportion of award credits that are not expected to be redeemed by customers. The Group exercises its judgment in determining the assumptions to be adopted in respect of the number of points not expected to be redeemed through the use of statistical modelling and historical trends and in determining the mix and fair value of the award credits.</p>	<p>Our audit procedures included considering the appropriateness of the Group’s revenue recognition policies and assessing compliance with the policies in terms of applicable accounting standards. We also tested the Group’s controls around revenue recognition and key controls in the revenue cycle. We selected a sample before and after the cutoff period to assess whether the revenue was recognized in the correct period.</p> <p>We also performed substantive analytical procedures using financial and non-financial information about the revenue figures for the year. In addition, we selected and tested a representative sample of journal entries.</p>

2. Lease classification Refer to notes 19 and 31 of the consolidated financial statements	
Key audit matter Due to the significance of the new lease agreements signed by the Group and due to the nature of the airlines business, this considered a key audit matter.	How the key audit matter was addressed in the audit Our audit procedures included obtaining the finance and operating lease agreements. For new lease agreements signed during the year under audit, we inspected the lease agreements to ensure proper classification, recognition and presentation.
3. Obsolete and slow moving spare parts and other supplies Refer to note 13 of the consolidated financial statements	
Key audit matter Spare parts and other supplies are valued at the lower of cost or net realizable value. We focus on this area as there is a risk of inventory obsolescence, any provision for obsolescence is determined by reference to specific items of stock. A regular review is undertaken at each reporting date to determine the extent of any provision for obsolescence.	How the key audit matter was addressed in the audit We critically tested the basis for inventory obsolescence in line with management estimates. In doing so, we tested the ageing profile of inventory, the process for identifying obsolete and slow moving items in inventory and historical loss rates.

Other information included in the Company's 2017 annual report

Other information consists of the information included in the annual report, other than the consolidated financial statements and our auditor's report thereon. Management is responsible for the other information. The Group's annual report is expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information; we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group's or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exist. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exist, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However future events or conditions may cause the Company's to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period, and are therefore the key audit matters. We describe these matters in our auditor's report, unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonable be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

The Company maintains proper books of accounts which are in agreement with the financial statements.

Ernst & Young/ Jordan

Waddah Isam Barkawi
License No. 591

Amman – Jordan
18 March 2018

Alia - The Royal Jordanian Airlines Company (Royal Jordanian) - Public Shareholding Company
Consolidated Statement of Financial Position
At 31 December 2017
(In Thousands of Dinars)

	Notes	2017	2016
ASSETS			
Non- current assets			
Property and equipment	8	292,250	226,520
Advances on purchase and modification of aircrafts	9	35,993	59,731
Financial assets at fair value through other comprehensive income	10	5,992	6,022
Investments in associates	11	16,715	17,452
Restricted cash against operating lease contracts		28,469	25,243
Deferred tax assets	33	14,920	15,080
		394,339	350,048
Current assets			
Other current assets	12	27,048	32,850
Spare parts and supplies, net	13	12,508	11,008
Accounts receivable, net	14	35,617	33,872
Cash and bank balances	15	101,393	141,974
		176,566	219,704
Property and equipment held for sale	16	-	1,064
TOTAL ASSETS		570,905	570,816
EQUITY AND LIABILITIES			
Shareholders' equity			
Paid in capital	17	146,405	146,405
Payments in respect of capital increase	17	25,000	-
Statutory reserve	17	13,509	13,455
Fair value reserve		3,771	3,771
Accumulated losses		(88,607)	(88,749)
		100,078	74,882
Non-controlling interests		257	229
Total shareholders' equity		100,335	75,111
LIABILITIES			
Non- current liabilities			
Long term loans	18	118,685	143,308
Long term obligations under finance leases	19	114,534	63,266
Accounts payable	22	16,764	71,445
Other long term liabilities	20	433	789
		250,416	278,808
Current liabilities			
Current portion of long term loans	18	38,099	35,067
Accrued expenses	21	62,747	70,232
Accounts payable and other current liabilities	22	61,923	69,590
Income tax provision	33	34	63
Deferred revenues	23	46,507	30,205
Short term obligations under finance leases	19	10,844	11,740
		220,154	216,897
Total liabilities		470,570	495,705
TOTAL EQUITY AND LIABILITIES		570,905	570,816

The attached notes from 1 to 42 form part of these consolidated financial statements

Alia - The Royal Jordanian Airlines Company (Royal Jordanian) - Public Shareholding Company
Consolidated Income Statement
For the Year Ended 31 December 2017
(In Thousands of Dinars)

	Notes	2017	2016
Revenues	24	623,231	598,271
Cost of revenues	25	(543,783)	(527,668)
Gross Profit		79,448	70,603
Administrative expenses	27	(22,795)	(20,590)
Selling and marketing expenses	28	(44,463)	(45,045)
Other provisions		(254)	(133)
Net operating income		11,936	4,835
Share of profit of associates	11	1,072	2,397
Other income, net	26	3,021	7,274
Loss on property and equipment held for sale		-	(395)
Loss on disposal of property and equipment		(37)	(12)
Provision for voluntary termination	30	(1,243)	(3,501)
Gains (losses) on foreign exchange differences		206	(20,468)
Finance costs	29	(14,487)	(14,621)
Profit (loss) for the year before income tax		468	(24,491)
Income tax provision	33	(194)	(80)
Profit (loss) for the year		274	(24,571)
Attributable to:			
Equity holders of the parent		246	(24,605)
Non-controlling interests		28	34
		274	(24,571)
Basic and diluted earnings (losses) per share attributable to equity holders of the parent	32	JD 0.0017	(JD 0.168)

The attached notes from 1 to 42 form part of these consolidated financial statements

Alia - The Royal Jordanian Airlines Company (Royal Jordanian) - Public Shareholding Company
Consolidated Statement of Comprehensive Income
For the Year Ended 31 December 2017
(In Thousands of Dinars)

	<u>2017</u>	<u>2016</u>
PROFIT (LOSS) FOR THE YEAR	274	(24,571)
Add: Other comprehensive income items after tax:		
Other comprehensive income items that will be transferred to profit and loss in subsequent periods:		
Net gain on cash flow hedges	-	178
Total comprehensive income for the year	<u>274</u>	<u>(24,393)</u>
Attributable to:		
Equity holders of the parent	246	(24,427)
Non controlling interests	28	34
	<u>274</u>	<u>(24,393)</u>

The attached notes from 1 to 42 form part of these consolidated financial statements

Alia - The Royal Jordanian Airlines Company (Royal Jordanian) - Public Shareholding Company
Consolidated Statement of Cash Flows
For the Year Ended 31 December 2017
(In Thousands of Dinars)

	Notes	2017	2016
OPERATING ACTIVITIES			
Profit (loss) for the year before income tax		468	(24,491)
Adjustments for:			
Depreciation of property and equipment	8	35,938	25,975
Share of profit of associates	11	(1,072)	(2,397)
Finance costs		14,487	14,621
Provision for doubtful debts	14	12	133
Provision for slow moving inventory	13	242	-
Loss on sale of property and equipment		37	12
Loss on property and equipment held for sale		-	395
Provision for voluntary termination	30	1,243	3,501
Provision for end of service indemnity	20	82	12
Amortization of deferred revenue – Jordan Flight Catering		(300)	(300)
Working capital changes			
Accounts receivable		(1,717)	3,254
Spare parts and supplies		(1,742)	466
Other current assets		6,131	13,671
Deferred revenues		16,602	2,177
Accounts payable and other current liabilities		(37,338)	(65,494)
Accrued expenses		(8,499)	1,675
End of service indemnity paid	20	(438)	(288)
Voluntary termination program payments	30	(1,217)	(3,362)
Income tax paid	33	(63)	(249)
Net cash flows from (used in) operating activities		22,856	(30,689)
INVESTING ACTIVITIES			
Dividends received from associates	11	1,809	1,794
Purchase of property and equipment		(4,485)	(35,997)
Cash proceeds from acquisition of a subsidiary	7	411	-
Sale (purchase) of financial assets at fair value through OCI		30	(2)
Proceeds from sale of property and equipment		12	-
Change in restricted cash against lease contracts		(3,226)	(4,922)
Proceeds from sale of property and equipment held for sale		426	-
Advances on purchase and modification of aircrafts		(8,376)	(39,461)
Short term deposits		20,626	(29,582)
Net cash flows from (used in) investing activities		7,227	(108,170)
FINANCING ACTIVITIES			
Proceeds from loans		-	151,064
Repayment of term loans		(21,591)	(31,594)
Capital increase		-	99,846
Capital increase costs		(50)	(50)
Finance lease obligations		(14,898)	(7,483)
Interest paid		(13,499)	(14,621)
Net cash flows (used in) from financing activities		(50,038)	197,162
Net (decrease) increase in cash and cash equivalents		(19,955)	58,303
Cash and cash equivalents, beginning of the year		92,874	34,571
Cash and cash equivalents, end of the year	15	72,919	92,874

The attached notes from 1 to 42 form part of these consolidated financial statements

Alia - The Royal Jordanian Airlines Company (Royal Jordanian) - Public Shareholding Company
Notes to The Consolidated Financial Statements
31 December 2017
(In Thousands of Dinars, except for amounts in US Dollars)

(1) GENERAL

Alia - The Royal Jordanian Airlines Company (Royal Jordanian), the “Company”, was registered as a Jordanian public shareholding company on 5 February 2001. The Company'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 for aircrafts 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 consolidated financial statements were authorized for issue by the Board of Directors during their meeting held on 10 March 2018.

(2) BASIS OF PREPARATION

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards.

The consolidated financial statements are prepared under the historical cost convention, except for financial assets at fair value through other comprehensive income that have been measured at fair value at the date of the consolidated financial statements.

The consolidated financial statements have been presented in Jordanian Dinar which is the functional currency of the Group.

(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 December 2017:

	<u>Ownership Interest</u>	<u>Country</u>
Royal Wings Company	100%	Jordan
Royal Tours for Travel and Tourism Company	80%	Jordan
Al Mashriq for Aviation Services	100%	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.
- The ability to use its power over the investee to affect its returns

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 company are consolidated from the control date until stop this control. Revenue and expenses of the subsidiaries are consolidated in the consolidated income statement 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 presented by Governmental Investment Management Company, Mint Trading Middle East Ltd. and Social Security Corporation own 60%, 15% and 10% respectively of the Company's shares (2016: 60%, 15% and 10% respectively). As disclosed in note 17, capital increase procedures for part of the second tranche shares were completed during February 2018. Accordingly, the Government of the Hashemite Kingdome of Jordan presented by Governmental Investment Management Company share of the Company's shares became 76.4%.

(4) CHANGES IN ACCOUNTING POLICIES

The accounting policies used in the preparation of the consolidated financial statements are consistent with those used in the preparation of the annual consolidated financial statements for the year ended 31 December 2016 except for the followings starting from 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 Group's consolidated financial statements.

Amendments to IAS 12 Income Taxes: Recognition of Deferred Tax Assets for Un-recognised 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 Group's consolidated financial statements.

(5) USE OF ESTIMATES

The preparation of the consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of financial assets and liabilities and disclosure of contingent liabilities. These estimates and assumptions also affect the revenues and expenses and the resultant provisions. In particular, considerable judgment by Group's management is required in the estimation of the amount and timing of future cash flows when determining the level of provisions required. Such estimates are necessarily based on assumptions about several factors involving varying degrees of judgment and uncertainty and actual results may differ resulting in future changes in such provisions.

Significant estimates are as follows:

Useful lives of property and equipment

The Group's management determines the estimated useful lives of its property and equipment for calculating depreciation based on expected usage of the asset or physical wear and tear, management reviews the residual value and useful lives annually and future depreciation charge would be adjusted prospectively where the management believes the useful lives differ from previous estimates.

Revenue recognition – Frequent Flyer points for customer loyalty program

The Group estimates the fair value of points awarded under the Frequent Flyer Program by applying statistical techniques. Inputs to the models include making assumptions about expected redemption rates and customer preferences. Such estimates are subject to varying degrees of uncertainty. As at 31 December 2017, the estimated liability for unredeemed points was approximately JD 5,953 (2016: JD 6,163).

(6) SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted are as follows:

Business combinations and Goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree.

For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs incurred are expensed and included in the consolidated statement of income.

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interest over the net identifiable assets acquired and liabilities assumed.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date.

Impairment of Goodwill

Goodwill is tested for impairment annually and when circumstances indicate that the carrying value may be impaired.

Impairments is determined for goodwill by assessing the recoverable amount of each cash generating unit (or group of cash generating units) to which the goodwill relates. Where the recoverable amount of the cash generating unit is less than their carrying amount an impairment loss is recognized.

Property and equipment

Property and equipment are recorded at cost less accumulated depreciation and any impairment in value. Land is not depreciated. Property and equipment are depreciated when they are ready for use on a straight-line basis over their estimated useful lives. The depreciation rates and periods used are summarized as follows:

	<u>Depreciation Rate (%)</u>
Owned passenger and cargo aircrafts, aircrafts under finance leases, Aircraft engines and aircraft components	5 - 5.5
Machinery and equipment	10-15
Computers	25
Furniture and fixtures	10
Vehicles	15-20
Buildings	2.5 - 10
	<u>Period</u>
Capitalized maintenance	24- 120 months

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying value exceeds the estimated recoverable amount, the assets are written down to their recoverable amounts. Impairment losses are recognised in the consolidated income statement.

Useful lives and depreciation method are reviewed on regular basis to ensure that the depreciation method and the period of depreciation method and the period of depreciation are selected based on the economic benefits expected from assets.

Property and equipment held for sale

Property and equipment are classified as held for sales if their carrying amounts will be recovered principally through a sale transaction and when the following conditions are met:

- The Group must be committed to sale, which should be expected to qualify for recognition as completed sales within one year from the date of classification.
- Assets are available for immediate sales in its present condition.

Property and equipment held for sale are recorded at the lower of cost or fair value less cost to sell.

Financial assets at fair value through other comprehensive income

Financial assets at fair value through other comprehensive income are recorded at fair value plus acquisition costs at the date of acquisition and subsequently measured at fair value. Changes in fair value are reported as a separate component in the consolidated statement of other comprehensive income and in the consolidated statement of changes in equity, including the change in fair value resulting from conversion differences of non-cash items of assets at foreign currencies. In case of sale of such assets or part of it, the gain or loss is recorded in the consolidated statement of other comprehensive income and in the consolidated statement of changes in equity, and the valuation reserve balance for sold assets will be transferred directly to retained earnings. These assets are not subject to impairment testing and dividends received are recognised in the consolidated income statement when declared.

Investments in associates

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies.

The considerations made in determining significant influence or joint control are similar to those necessary to determine control over subsidiaries.

The Group's investments in its associates are accounted for using the equity method.

Under the equity method, the investment in an associates initially recognised at cost, the carrying amount of the investment is adjusted to recognise changes in the Group's share of net assets of the associates since the acquisition date. Goodwill relating to the associates is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment.

The consolidated income statement reflects the Group's share of the results of operations of the associates. Any change in other comprehensive income of those investees is presented as part of the Group's other comprehensive income (OCI). In addition, when there has been a change recognised directly in the equity of the associates, the Group recognises its share of any changes, when applicable, in the statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and the associates are eliminated to the extent of the interest in the associates.

The aggregate of the Group's share of profit or loss of an associate is shown on the face of the consolidated income statement within operating profit and represents profit or loss after tax and non-controlling interests in the subsidiaries of the associate.

The financial statements of the associates are prepared for the same reporting period and using the same accounting policies as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

Spare parts and other supplies

Spare parts and other supplies are valued at the lower of cost, using the weighted average method, or net realizable value.

Accounts receivable

Accounts receivable are stated at original invoice amount less a provision for any uncollectible amounts. An estimate for doubtful debts is made when collection of the full amount is no longer probable.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand, bank balances and short-term deposits with an original maturities of three months or less after deducting bank overdraft balances.

Impairment and uncollectibility of financial assets

An assessment is made at each consolidated statement of financial position date to determine whether there is objective evidence that a financial asset may be impaired. If such evidence exists, the estimated recoverable amount of that asset is determined and any impairment loss is recognised for the difference between the recoverable amount and the carrying amount. Impairment losses are recognised in the consolidated income statement.

The amount of impairment is determined as follows:

- Impairment loss over financial assets which appears at amortized cost: is the difference between the amounts recorded in books and the current value for future cash flow discounted using the effective interest rate.

With regard to accounts receivable, an impairment loss test is done when there is any evidence that the Group will not be able to collect all the due balances according to the condition of the invoices.

Fair value measurement

Fair values of financial instruments are disclosed in Note 36.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible to by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

At each reporting date, the management analyses the movements in the values of assets and liabilities which are required to be re-measured or re-assessed as per the Group's accounting policies. For this analysis, the management verifies the major inputs applied in the latest valuation by agreeing the information in the valuation computation to contracts and other relevant documents.

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised in the consolidated financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

The Group's management determines the policies and procedures for both recurring fair value measurement, such as unquoted available for sales financial assets, and for non-recurring measurement, such as assets held for distribution in discontinued operation.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

Finance leases

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the inception of the lease at amounts equal to the fair value of the leased property or, if lower, at the present value of the minimum lease payments.

Lease payments are apportioned between the finance charges and reduction of the lease liability. Finance charges are charged directly against income.

Capitalized leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term.

End of service indemnity provision

The Group provides end of service indemnity benefits to its employees. Provision is made at the consolidated financial statements date for amounts payable to employees based upon the employees' final salary and length of service prior to the date on which the employees didn't join the social security scheme.

Accounts payable and accruals

Liabilities are recognized for amounts to be paid in the future for goods or services received, whether billed by the supplier or not.

Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) arising from a past event and the costs to settle the obligation are both probable and able to be reliably measured.

Loans

All loans are initially recognized at fair value of the consideration received less directly attributable transaction costs. After initial recognition, loans are subsequently measured at amortized cost using the effective interest method.

Interests on loans are recognized in the consolidated income statement in the period they occur including the grace period, if any.

Revenue recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured.

Passenger and cargo revenues are recognized when the transportation is provided, revenues from fuel fees are recognized when the ticket is sold. Passenger tickets and airway bills sales are reflected in the consolidated statement of financial position as deferred revenue until recognized as revenue.

Other revenues are recognized at the time the service is provided.

The Company operates a frequent flyer program, (Royal Plus), which allows frequent travelers to accumulate mileage credits which entitle them to a choice of upgrade to Crown Class or free travel. A portion of the fair value of the consideration received is allocated to the award credits and deferred, this is then recognized as revenue over the period that the award credits are redeemed.

Maintenance and repair costs

Routine maintenance and repair costs for leased and owned aircraft and flight equipment are charged to the consolidated income statement as incurred.

Aircraft, engines, and components heavy maintenance expenses are capitalized on property and equipment, and are being amortized over the period until the next scheduled heavy maintenance is due.

Income tax

Tax expense comprises current tax and deferred taxes.

Current tax is based on taxable profits, which may differ from accounting profits published in the consolidated financial statements. Accounting profits may include non-taxable profits or expenses which may not be tax deductible in the current but in subsequent financial years.

Current income tax is calculated in accordance with the Income Tax law applicable in the Hashemite Kingdom of Jordan.

Deferred income tax is provided using the liability method on temporary differences at the consolidated financial statements date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred income tax is measured at the tax rates that are expected to apply to the year when the tax liability is settled or the tax asset is realized.

The balance of deferred income tax assets is reviewed at each consolidated financial statements date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized.

Operating leases

Leases of aircraft under which substantially all the risks and benefits of ownership are effectively retained by the lessor are classified as operating lease. Lease payments under an operating lease are recognized as an expense over the lease term on a straight line basis.

Foreign currencies

Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rates of exchange ruling at the date of the consolidated financial statement.

All differences are taken to the consolidated income statement.

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(7) ACQUISITION OF A SUBSIDIARY

During March 2017, the Company's Board of Directors resolved to acquire the entire shares of Al Mashriq for Aviation Services, a private shareholding company for one Jordanian Dinar only. Accordingly, the Group became the sole owner of the whole shares of Al Mashriq for Aviation Services Company.

The fair value of the identifiable assets and liabilities of Al Mashriq for Aviation Services Company as of the date of acquisition are as follows:

	<u>Fair value</u>	<u>Carrying value</u>
<u>ASSETS</u>		
Property and equipment	30	30
Accounts receivable	40	40
Other current assets	133	133
Cash and bank balances	411	411
TOTAL ASSETS	<u>614</u>	<u>614</u>
<u>LIABILITIES</u>		
Accounts payable and other current liabilities	1,547	1,547
TOTAL LIABILITIES	<u>1,547</u>	<u>1,547</u>
(Deficit) in net asset acquired	<u>(933)</u>	<u>(933)</u>
Goodwill resulted from acquisition	<u>933</u>	

From the date of acquisition on 12 March 2017 until 31 December 2017, the acquired Company contributed a loss of JD 105. If the acquisition had taken place at the beginning of the year, the Group's revenues and expenses would have increased by JD 1,327 and JD 1,612 respectively and Group's pretax income would have been JD 288. The Group recorded a provision for goodwill impairment of JD 639 during the year ended 31 December 2017. Accordingly, net goodwill amounted to JD 294 as of 31 December 2017 and recorded as part of other current assets (Note 12).

The initial accounting for this business combination was determined provisionally, as the fair values to be assigned to the acquirees' identifiable assets and liabilities could be determined only provisionally by the end of the period in which the combination was effected. The Group will recognize any adjustment to those provisional values as a result of completing the initial accounting within twelve months from the date of acquisition.

	<u>2017</u>
Cash flow on acquisition	
Net cash acquired with the subsidiary	411
Cash paid	-
Net cash acquired	<u>411</u>

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(8) PROPERTY AND EQUIPMENT

<u>2017</u>	<i>Aircrafts under finance leases</i>	<i>Aircrafts</i>	<i>Spare engines</i>	<i>Capitalized maintenance on aircrafts' engines, and components</i>	<i>Aircrafts' main Components</i>	<i>Machinery and Equipment</i>	<i>Computers</i>	<i>Furniture and Fixtures</i>	<i>Vehicles</i>	<i>Land and buildings</i>	<i>Total</i>
Cost:											
Balance as of 1 January 2017	153,583	78,131	29,363	43,808	47,475	61,712	17,984	9,321	10,670	42,596	494,643
Additions during the year	72,253	-	10,905	9,259	405	7,439	610	34	154	658	101,717
Disposals during the year	-	-	-	(3,137)	-	(23)	(61)	(21)	(50)	(450)	(3,742)
Transfers*	(40,456)	40,456	-	-	-	-	-	-	-	-	-
Balance as of 31 December 2017	185,380	118,587	40,268	49,930	47,880	69,128	18,533	9,334	10,774	42,804	592,618
Accumulated depreciation:											
Balance as of 1 January 2017	32,317	73,531	2,524	21,730	43,286	51,435	15,796	7,733	9,883	9,888	268,123
Depreciation for the year	10,569	1,713	1,627	14,946	1,198	3,212	731	314	329	1,299	35,938
Disposals during the year	-	-	-	(3,137)	-	(23)	(61)	(21)	(48)	(403)	(3,693)
Transfers	(18,955)	18,955	-	-	-	-	-	-	-	-	-
Balance as of 31 December 2017	23,931	94,199	4,151	33,539	44,484	54,624	16,466	8,026	10,164	10,784	300,368
Net book value as of											
31 December 2017	161,449	24,388	36,117	16,391	3,396	14,504	2,067	1,308	610	32,020	292,250

* During 2017, the Group has settled all lease balances related to two Embreair – E 195 aircrafts number 107 and number 131. The Group has also completed the pledge release procedures for these aircrafts. Accordingly, ownership of these aircrafts were transferred to the Company and were reclassified to Aircrafts Category (Note 19).

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2016	<i>Aircrafts under finance leases</i>	<i>Aircrafts</i>	<i>Spare engines</i>	<i>Capitalized maintenance on aircrafts' engines, and components</i>	<i>Aircrafts' main Components</i>	<i>Machinery and Equipment</i>	<i>Computers</i>	<i>Furniture and Fixtures</i>	<i>Vehicles</i>	<i>Land and buildings</i>	<i>Total</i>
Cost:											
Balance as of 1 January 2016	81,284	126,344	2,490	27,767	46,619	56,191	17,119	9,235	10,608	42,581	420,238
Additions during the year	72,299	-	26,873	24,551	856	5,532	881	90	180	15	131,277
Disposals during the year	-	(48,213)	-	(8,510)	-	(11)	(16)	(4)	(118)	-	(56,872)
Balance as of 31 December 2016	153,583	78,131	29,363	43,808	47,475	61,712	17,984	9,321	10,670	42,596	494,643
Accumulated depreciation:											
Balance as of 1 January 2016	28,185	117,972	2,490	17,700	41,262	49,547	14,825	7,391	9,609	8,568	297,549
Depreciation for the year	4,132	2,313	34	12,540	2,024	1,897	987	346	382	1,320	25,975
Disposals during the year	-	(46,754)	-	(8,510)	-	(9)	(16)	(4)	(108)	-	(55,401)
Balance as of 31 December 2016	32,317	73,531	2,524	21,730	43,286	51,435	15,796	7,733	9,883	9,888	268,123
Net book value as of											
31 December 2016	121,266	4,600	26,839	22,078	4,189	10,277	2,188	1,588	787	32,708	226,520

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(9) ADVANCES ON PURCHASE AND MODIFICATION OF AIRCRAFTS

	<u>2017</u>	<u>2016</u>
Advances for the purchase of Boeing 787 aircrafts	<u>35,993</u>	<u>59,731</u>

(10) FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	<u>2017</u>	<u>2016</u>
Royal Jordanian Air Academy	5,386	5,386
SITA Investment Certificates	583	611
Others	23	25
	<u>5,992</u>	<u>6,022</u>

(11) INVESTMENTS IN ASSOCIATES

	Country of incorporation	Ownership		Balance	
		<u>2017</u>	<u>2016</u>	<u>2017</u>	<u>2016</u>
Jordan Flight Catering Company	Jordan	30%	30%	4,976	5,194
Jordan Aircraft Maintenance Company (JORAMCO)	Jordan	20%	20%	8,259	8,606
Jordan Aircraft Training and Simulation Company (JATS)	Jordan	20%	20%	3,480	3,652
Al Mashriq for Aviation Services*	Jordan	100%	49%	-	-
				<u>16,715</u>	<u>17,452</u>

Movement on investments in associates was as follows:

	<u>2017</u>	<u>2016</u>
Beginning balance	17,452	16,849
Company's Share of profit for the year	1,072	2,397
Dividends	(1,809)	(1,794)
	<u>16,715</u>	<u>17,452</u>

* During March 2017, the Company's Board of Directors resolved to acquire the entire shares of Al-Mashriq for Aviation Services, a private shareholding company for one Jordanian Dinar only. Accordingly, the Group became the sole owner of the whole shares of Al Mashriq for Aviation Services Company (Note 7).

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The following table represents the summary of the financial statements for the Group investments in associates:

Statement of financial position	Jordan Flight Catering Company		Jordan Aircraft Maintenance Company (Joramco)		Jordan Aircraft Training & Simulation Company (JATS)		Al Mashriq for Aviation Services		Total	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
	Current assets	5,868	6,966	17,602	17,769	1,296	2,156	-	5,948	24,766
Non-current assets	1,331	1,484	18,530	18,550	21,702	22,603	-	1,875	41,563	44,512
Current liabilities	(3,499)	(3,947)	(9,293)	(7,179)	(2,363)	(2,449)	-	(2,403)	(15,155)	(15,978)
Non-current liabilities	-	-	(13,272)	(13,895)	(6,669)	(7,491)	-	(9,713)	(19,941)	(31,099)
Net assets	3,700	4,503	13,567	15,245	13,966	14,819	-	(4,293)	31,233	30,274
Group's ownerships percentage	30%	30%	20%	20%	20%	20%	100%	49%		
Investment in associate	1,110	1,351	2,713	3,049	2,793	2,964	-	-	6,616	7,364

Statement of comprehensive income	Jordan Flight Catering Company		Jordan Aircraft Maintenance Company (Joramco)		Jordan Aircraft Training & Simulation Company (JATS)		Al Mashriq for Aviation Services		Total	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
	Revenues	19,770	20,857	33,929	36,544	5,175	6,542	267	1,397	59,141
Cost of sales	(13,942)	(15,018)	(25,860)	(24,551)	(3,578)	(3,987)	(446)	(1,051)	(43,826)	(44,607)
Other income and expenses	(1,329)	(599)	(9,808)	(9,065)	(1,249)	(1,353)	-	(912)	(12,386)	(11,929)
Income (loss) before tax	4,499	5,240	(1,739)	2,928	348	1,202	(179)	(566)	2,929	8,804
Income tax	-	(5)	-	-	-	-	-	-	-	(5)
Profit (loss) for the year	4,499	5,235	(1,739)	2,928	348	1,202	(179)	(566)	2,929	8,799
Group's Share of profit for the year	1,350	1,571	(348)	586	70	240	-	-	1,072	2,397

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(12) OTHER CURRENT ASSETS

	<u>2017</u>	<u>2016</u>
Prepaid expenses	10,292	7,926
Refundable deposits	942	1,001
Receivable from lessors – maintenance claims	8,831	10,739
Employees' receivables	1,270	878
Advances to suppliers	3,056	9,700
Goodwill resulted from acquisition of a subsidiary (Note 7)	294	-
Others	2,363	2,606
	<u>27,048</u>	<u>32,850</u>

(13) SPARE PARTS AND OTHER SUPPLIES

	<u>2017</u>	<u>2016</u>
Spare parts and supplies	16,731	14,989
Provision for decrease in inventory prices	(4,223)	(3,981)
	<u>12,508</u>	<u>11,008</u>

Movement on provision for decrease in inventory prices was as follows:

	<u>2017</u>	<u>2016</u>
Beginning balance	3,981	3,981
Provision for the year	242	-
Ending balance	<u>4,223</u>	<u>3,981</u>

(14) ACCOUNTS RECEIVABLE

	<u>2017</u>	<u>2016</u>
Accounts receivable	50,381	48,633
Provision for doubtful debts	(14,764)	(14,761)
	<u>35,617</u>	<u>33,872</u>

As of 31 December 2017, trade receivables at nominal value of JD 14,764 (2016: JD 14,761) were impaired and fully provided for.

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Movement on provision for doubtful debts was as follows:

	<u>2017</u>	<u>2016</u>
Beginning balance	14,761	14,637
Provision for the year	12	133
Bad debts written off	<u>(9)</u>	<u>(9)</u>
Ending balance	<u>14,764</u>	<u>14,761</u>

As at 31 December, the aging of unimpaired trade receivables was as follows:

	Neither past due nor impaired	Past due but not impaired					Total
		1- 30 days	31 – 60 days	61 – 90 days	91 – 180 days	181-360 days	
2017	6,936	19,284	2,884	1,958	3,317	1,238	35,617
2016	2,782	20,077	3,019	2,523	2,768	2,703	33,872

Based on the Group's management estimates, the unimpaired receivables are expected, on the basis of past experience, to be fully recoverable. The Group obtains bank guarantees as collateral from the majority of its general sales agents and cargo receivables. The Group does not obtain collateral over other receivables, therefore, they are unsecured.

(15) CASH AND BANK BALANCES

	<u>2017</u>	<u>2016</u>
Cash and bank balances	27,514	12,944
Short term deposits*	28,709	62,202
Cash in transit **	<u>16,696</u>	<u>17,728</u>
Cash and cash equivalents	72,919	92,874
Short term deposits mature after 3 months ***	<u>28,474</u>	49,100
	<u>101,393</u>	<u>141,974</u>

* This item represents deposits in Jordanian Dinar in Jordanian Banks as of 31 December 2017 with an interest rate ranging between 4.5% – 5% (2016: 3% – 3.65%) and are due within three months.

** This item represents cash received on tickets sales and other sales during December that were deposited in the Company's bank accounts during January of next year.

*** This item represents deposit in Banks in Jordanian Dinar (JD 20,752) and Sudanese Pound (215,302 thousand Sudanese Pound which is equivalent to JD 7,722) (2016: 40,000 Jordanian Dinar and 191,084 Sudanese pounds which is equivalent to JD 7,022) as of 31 December 2017 with an average interest rate of 5.13% (2016: 4.5%) and are due within four months (2016: eight months).

(16) PROPERTY AND EQUIPMENT HELD FOR SALE

During 2016, the Board of Directors resolved to sell on Airbus aircraft A-310. Accordingly, the Aircraft was classified as property and equipment held for sale as at 31 December 2016 in the consolidated statement of financial position at JD 1,064, which represents the aircraft's fair value less cost to sell. Impairment loss of JD 395 was recorded in the consolidated income statement for the year ended 31 December 2016 being the difference between the aircraft's carrying value and fair value less cost to sell as at 31 December 2016. The aircraft was sold during 2017, no additional losses resulted for the year ended 31 December 2017.

(17) SHAREHOLDERS' EQUITY

- Paid in capital

	<u>2017</u>	<u>2016</u>
Authorized capital (246,405 shares of JD 1 each)	<u>246,405</u>	<u>246,405</u>
Paid in capital	<u>146,405</u>	<u>146,405</u>

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%.

The Company's paid in capital was increased during January 2016 by JD 60,120 million to become JD 106.5 million. Furthermore, the Company's paid in capital was increased during April 2016 by JD 39.9 million to become JD 146.4 million.

The Prime Ministry resolved in its meeting on 6 September 2017 to approve government's subscriptions presented by Governmental Investment Management Company in 50% of the second tranche of the suggested capital increase of JD 100 million (JD 50 million). The government shall subscribe in 100% of the capital increase if the major shareholders do not subscribe in the remaining 50%. Subscription was completed through capitalization of JD 25 million of the amounts due to the Governmental Investment Management Company and through cash payments of the remaining amount. Subscription was calculated using the share price in Amman Stock Exchange "ASE" on the date of the resolution (JD 0.390). Accordingly, an amount of JD 25 million was reclassified from long term liabilities to advance payments over capital increase in the consolidated financial statements as at 31 December 2017. The remaining amount of the second tranche will be subscribed during 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.

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(18) BANK LOANS

	2017		2016	
	Loan's Installments		Loan's Installments	
	Short term	Long term	Short term	Long term
Syndicated loan*	38,879	120,310	35,847	145,713
Less: directly attributable transaction costs**	(780)	(1,625)	(780)	(2,405)
	38,099	118,685	35,067	143,308

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

Principal installments payable during the year 2018 and after are as follows:

Year	JD
2018	38,879
2019	47,839
2020	66,699
2021	5,772
	159,189

(19) OBLIGATIONS UNDER FINANCE LEASES

	2017				2016			
	E-195	E-175	B-787	Total	E-195	E-175	B-787	Total
Long term obligations	-	-	114,534	114,534	-	1,976	61,290	63,266
Current obligations	-	1,975	8,869	10,844	3,658	3,770	4,312	11,740
	-	1,975	123,403	125,378	3,658	5,746	65,602	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. The Group has settled all lease balance during September 2017 (the outstanding balance amounted to JD 1,575 as at 31 December 2016).

- 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. The group has settled all lease balance during December 2017 (the outstanding balance amounted to JD 2,083 as at 31 December 2016).

Pledge release procedures were completed during September 2017 and December 2017 for the Embrear E195 number 107 and the Embrear E195 number 131 aircrafts. The Group has settled all lease balances related to the lease contracts of these aircrafts.

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- **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 December 2017, the outstanding balance was JD 987 (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 December 2017, the outstanding balance was JD 988 (31 December 2016: JD 2,873).

- **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 December 2017, the outstanding balance was JD 61,291 (31 December 2016: 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 December 2017, the outstanding balance was JD 62,112 (31 December 2016: nil).

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

Principal installments payable during 2018 and after relating to aircrafts delivered up to 31 December are as follows:

<u>Year</u>	<u>Amounts</u>
2018	10,844
2019	9,253
2020	9,653
2021	10,071
2022– and after	85,557
	<u>125,378</u>

Minimum lease payments under all finance leases are as follows:

	<u>2017</u>	<u>2016</u>
Total minimum lease payments	165,361	93,408
Interest	(39,983)	(18,402)
	<u>125,378</u>	<u>75,006</u>

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(20) OTHER LONG TERM LIABILITIES

	<u>2017</u>	<u>2016</u>
Provision for end of service indemnity	<u>433</u>	<u>789</u>

Movement on provision for employee's end of service indemnity was as follows:

	<u>2017</u>	<u>2016</u>
Beginning balance	789	1,065
Provision for the year	82	12
Payments during the year	<u>(438)</u>	<u>(288)</u>
	<u>433</u>	<u>789</u>

(21) ACCRUED EXPENSES

	<u>2017</u>	<u>2016</u>
Accrual for flying operations expenses	49,660	53,011
Accrued operating lease payments	<u>13,087</u>	<u>17,221</u>
	<u>62,747</u>	<u>70,232</u>

(22) ACCOUNTS PAYABLE AND OTHER CURRENT LIABILITIES

	<u>2017</u>		<u>2016</u>	
	<u>Short Term</u>	<u>Long Term</u>	<u>Short Term</u>	<u>Long Term</u>
Fuel suppliers*	1,800	16,764	11,062	36,929
Government of the Hashemite Kingdom of Jordan (note 34)**	9,706	-	16,200	34,516
Spare parts suppliers and accounts payable	12,099	-	10,950	-
Ministry of Finance (note 34)	1,581	-	1,919	-
Employees Provident fund	4,473	-	5,009	-
Others	32,264	-	24,450	-
	<u>61,923</u>	<u>16,764</u>	<u>69,590</u>	<u>71,445</u>

* During 2016, the Company signed an agreement with Jordan Petroleum Refinery to reschedule an amount of JD 83,024 over 60 monthly installments of JD 1,383.7 each with an annual interest rate of 4.4%. The first installment fell due on 30 April 2016.

During 2017, interest rate decreased to 0.5%. Accordingly, the liability was recorded at its fair value of JD 45,483 which was calculated by discounting the future cash flows using the average interest rate of 4.4% which is equivalent to the Company's average borrowing rate for 2017. The difference between the fair value and the liability balance of JD 2,346 was recorded as other income in the consolidated income statement for the year ended 31 December 2017. This amount will be recognized as finance costs in subsequent periods.

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** During 2016, the Company signed an agreement with the Hashemite Kingdom of Jordan – Ministry of Finance to reschedule an amount of JD 49,435 over 51 monthly installments of JD 969.3 each with an annual interest rate of 0.5%. The first installment fell due on 30 June 2016.

The liability was recorded at its fair value of JD 46,361 which was calculated by discounting the future cash flows using average interest rate of 3.5% which is equivalent to the Company's average borrowing rate for 2016. The difference between the fair value and the liability balance of JD 3,074 was recorded as other income in the consolidated income statement for the year ended 31 December 2016. This amount will be recognized as finance costs in subsequent periods. An amount of JD 2,847 was recorded as finance costs during the year ended 31 December 2017.

The Prime Ministry resolved in its meeting on 6 September 2017 to approve governments' subscription presented by Governmental Investment Management Company in the first part of the second tranche of the Company's capital increase. An amount of JD 25 million was transferred from amounts due to the government to Management Investment Management Company. Accordingly, an amount of JD 25 million was reclassified from long term liabilities to advances in respect of capital increase as of 31 December 2017 (Note 17).

(23) DEFERRED REVENUES

	<u>2017</u>	<u>2016</u>
Unutilized passenger tickets, air way bills and other service sales	45,482	28,880
Deferred revenue – Jordan Flight Catering Company***	1,025	1,325
	<u>46,507</u>	<u>30,205</u>

*** Alia – The Royal Jordanian Airlines Company signed an 11.5 years catering contract with Jordan Flight Catering Company during January 2010, and in return the Company was granted an additional share of 10% in Jordan Flight Catering Company. The grant was recorded as deferred revenues to be amortized over the catering contract period of 11.5 years, which will expire during 2021.

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(24) REVENUES

	<u>2017</u>	<u>2016</u>
Scheduled Services		
Passengers	487,351	477,957
Cargo	34,648	33,811
Excess baggage	4,374	4,742
Airmail	6,619	6,480
Total scheduled services (note 35)	<u>532,992</u>	<u>522,990</u>
Chartered flights (note 35)	27,287	15,851
Commercial revenues from arriving and departing aircrafts of other companies	11,235	9,354
Revenues from technical and maintenance services provided to other companies	3,983	4,690
Cargo warehouse revenues	13,909	11,159
First class services revenues	4,721	4,960
Revenues from services provided to other aviation companies	1,749	1,870
Revenues from NDC (Galileo)	3,335	3,557
Change of reservation revenues	6,264	6,825
Other revenues	17,756	17,015
	<u>623,231</u>	<u>598,271</u>

(25) COST OF REVENUES

	<u>2017</u>	<u>2016</u>
Flying operations costs		
Aircraft Fuel	121,450	102,374
Other flying operations costs	78,929	73,948
Total flying operations costs	<u>200,379</u>	<u>176,322</u>
Repair and maintenance	73,744	82,104
Aircraft rental expenses	80,647	85,386
Depreciation of aircraft and engines and capitalized maintenance	29,550	20,343
Stations and ground services	63,536	61,183
Ground handling unit	22,085	22,192
Passenger services	73,842	80,138
	<u>543,783</u>	<u>527,668</u>

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Employees benefits expenses included in cost of revenues are as follows:

	<u>2017</u>	<u>2016</u>
Salaries and wages	43,944	46,451
Overtime	2,490	2,744
End of service indemnity	1,462	1,647
Social Security contribution	5,452	5,815
Provident fund contribution	3,241	3,350
Medical expenses	1,970	2,022
Other benefits	2,493	2,529
	<u>61,052</u>	<u>64,558</u>

(26) OTHER INCOME - NET

	<u>2017</u>	<u>2016</u>
Interest income	2,449	4,382
Others	572	2,892
	<u>3,021</u>	<u>7,274</u>

(27) GENERAL AND ADMINISTRATIVE EXPENSES

	<u>2017</u>	<u>2016</u>
Salaries and wages	6,957	7,511
Computer expenses	2,694	2,711
Depreciation	2,499	1,487
Professional and consultation expenses	1,612	164
Employees benefits	622	616
Overtime	246	289
Medical expenses	578	664
End of service indemnity	403	429
Social security contribution	755	874
Provident fund contribution	511	562
Life insurance	194	203
Rent	435	350
Maintenance and cleaning expenses	192	102
Water, electricity and heating	590	654
Communication expense	173	138
Legal expenses	527	383
Others	3,807	3,453
	<u>22,795</u>	<u>20,590</u>

(28) SELLING AND MARKETING EXPENSES

	<u>2017</u>	<u>2016</u>
Commission	18,387	17,073
Salaries and wages	10,949	11,506
Marketing and advertisement	3,158	3,292
Other employee benefits	2,566	2,566
Rent	2,005	2,024
Social security contribution	1,805	1,797
Overtime	192	197
Medical expenses	765	793
End of service indemnity	165	647
Provident fund contribution	286	316
Life insurance	76	67
Maintenance and cleaning expenses	187	215
Water, electricity and heating	199	193
Computer expenses	650	367
Depreciation	231	229
Communication expenses	793	674
Legal expenses	238	238
Consulting expenses	70	71
Others	1,741	2,780
	<u>44,463</u>	<u>45,045</u>

(29) FINANCE COSTS

	<u>2017</u>	<u>2016</u>
Interest on loans	7,618	12,786
Interest on finance leases contracts	5,861	540
Other interest and bank charges	1,008	1,295
	<u>14,487</u>	<u>14,621</u>

(30) PROVISION FOR VOLUNTARY TERMINATION

During March 2017, the Company signed a labor collective contract with 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 1,243 for the year ended 31 December 2017 which represents the accrued amounts for employees who applied to the plan and management approved their applications (31 December 2016: the Company has recorded a provision amounted to JD 3,501 against the labor collective contract covering the period from 1 April 2016 to 30 October 2016).

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Movement on provision was as follows:

	<u>2017</u>	<u>2016</u>
Provision at the beginning of the year	139	-
Provision provided during the year	1,243	3,501
Payments during the year	(1,217)	(3,362)
	<u>165</u>	<u>139</u>

(31) 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 aircrafts, two Airbus A-321 aircrafts, four Airbus A-319 aircrafts, one Embraer E-175 aircraft, and five Boeing B-787 aircrafts.

Payments under the operating leases are detailed as follows:

<u>Year</u>	<u>Amount</u>
2018	67,948
2019	57,775
2020	50,309
2021	47,521
2022 and after	194,338

(32) EARNINGS PER SHARE

	<u>2017</u>	<u>2016</u>
Profit (loss) for the year attributed to the equity holders of the parent ('000)	246	(24,605)
Weighted average number of shares ('000)	146,405	146,405
Basic and diluted earnings (losses) per share (JD)	<u>0.0017</u>	<u>(0.168)</u>

(33) INCOME TAX

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

	<u>2017</u>	<u>2016</u>
Current year's income tax charge	34	80
Deferred Tax Assets		
Related to temporary differences additions	<u>160</u>	-
Income tax expense	<u>194</u>	<u>80</u>

Provision for income tax was calculated for the years 2017 and 2016 in accordance with Jordanian Income Tax Law No. (34) of 2014.

Provision for income tax charge during the years 2017 and 2016 with an amount of JD 34 and JD 80 represent the income tax expense incurred by Royal Tours for Travel and Tourism Company and Royal Wings Company – Limited Liability Company (Subsidiaries) for the year ended 31 December 2017 and 2016, respectively.

The Income and Sales Tax Department raised a claim to RJ by an amount of JD 701 which represents sales tax differences for the years 2012, 2013 and 2014. The Company appealed the case at the Tax Court. The case is still outstanding up to date of the consolidated financial statement. Although results of the case can not be determined accurately, management believes that no material liability is likely to result.

The Company filed its tax return for the years 2016 and 2015. The Income Tax Department has not reviewed the Company's accounting records up to the date of the consolidated financial statements.

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

Royal Wings Company reached a final settlement with the Income Tax Department up to the year 2014.

Royal Tours for Travel and Tourism Company reached a final settlement with the income tax department up to the year 2014.

Al-Mashriq for Aviation Services Company filed its tax return for the years 2016 and 2015. The Income Tax Department has not reviewed the company's accounting records up to the date of the consolidated financial statements.

Al-Mashriq for Aviation Services Company reached a final settlement with the income tax department up to the year 2014.

Movement on provision for income tax was as follows:

	<u>2017</u>	<u>2016</u>
Beginning balance	63	232
Current year's income tax charge	34	80
Income tax paid	<u>(63)</u>	<u>(249)</u>
Ending balance	<u>34</u>	<u>63</u>

Movement on deferred tax assets was as follows:

	<u>2017</u>	<u>2016</u>
Beginning balance	15,080	15,080
Deferred tax assets for the year	<u>(160)</u>	<u>-</u>
Ending balance	<u>14,920</u>	<u>15,080</u>

Reconciliation between accounting profit and taxable profit

	<u>2017</u>	<u>2016</u>
Accounting profit (loss)	468	(24,491)
Non-taxable profits	(1,072)	(1,798)
Non-deductible expenses	1,545	23,609
Prior years tax losses	<u>(129,288)</u>	<u>(126,608)</u>
Accumulated tax losses	<u>(128,347)</u>	<u>(129,288)</u>
Relates to:		
Total loss – Parent Company	(128,036)	128,838
Total loss – Subsidiaries	(311)	(450)
Effective income tax rate for Subsidiaries	20%	20%
Statutory income tax rate	20%	20%
Current year income tax – Subsidiaries	<u>34</u>	<u>80</u>
Income tax expense	<u>34</u>	<u>80</u>

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(34) RELATED PARTY TRANSACTIONS

Related party transactions represent transactions with associated companies, employees' Provident fund, and the Government of the Hashemite Kingdom of Jordan. Pricing policies and terms of these transactions are approved by the Group's management.

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

	2017		2016	
	Accounts receivable	Accounts payable	Accounts receivable	Accounts payable
Government of Jordan	3,830	11,287	4,026	52,635
Employees' Provident Fund	-	4,423	-	5,009
Jordan Aircraft Maintenance Company	3	14	674	-
Jordan Flight Catering Company	-	2,294	-	1,659
Jordan Aircraft Training and Simulation Company	-	269	7	457
Al Mashriq for Aviation Services	-	-	105	-
	<u>3,833</u>	<u>18,287</u>	<u>4,812</u>	<u>59,760</u>

	2017	2016
Payments in respect of capital increase – included in shareholders equity:		
Governmental Investment Management Company	<u>25,000</u>	<u>-</u>

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

	2017	2016
Jordan Aircraft Maintenance Company (JORAMCO):		
Scheduled services revenues	<u>168</u>	<u>166</u>
Repair and maintenance expenses	<u>(4,958)</u>	<u>(5,217)</u>
Jordan Flight Catering Company:		
Passenger services expenses	<u>(16,162)</u>	<u>(17,951)</u>
Jordan Aircraft Training and Simulation Company:		
Scheduled services revenues	<u>11</u>	<u>79</u>
Pilots training expenses	<u>(721)</u>	<u>(1,525)</u>

The Company signed a 4 years maintenance contract with Jordan Aircraft Maintenance Company (JORAMCO) during January 2005, and in return the Company was granted a 20% share in Jordan Aircraft Maintenance Company. The contract was extended for 7 years up to the end of October 2016. The contract was renewed up to the end of January 2018. Management will agree on contract renewal during 2018.

The Company signed a 4 year training contract with Jordan Aircraft Training and Simulation Company during July 2006 and in return the Company was granted a share of 20% in Jordan Aircraft Training and Simulation Company which has been extended until the end of January 2018. Management will agree on contract renewal during 2018.

Alia – The Royal Jordanian Airlines Company signed a 11.5 years catering contract with Jordan Flight Catering Company during 2010, and in return the Company was granted an additional share of 10% in Jordan Flight Catering Company to reach a total share of 30%.

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

	<u>2017</u>	<u>2016</u>
Scheduled services revenues – passengers	4,860	4,729
Scheduled services revenues – cargo	1,520	1,480
Charter flights	1,777	998
	<u>8,157</u>	<u>7,207</u>

- The Company's contribution to the employees' saving fund amounted to JD 3,702 and JD 4,127 for the years 2017 and 2016, respectively.

Compensation of key management personnel

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

	<u>2017</u>	<u>2016</u>
Salaries and other benefits	552	425
Board of Directors remuneration	51	70

(35) 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, which is used by the management executives to measure the Group's performance:

	<u>2017</u>			<u>2016</u>				
	<u>Scheduled services</u>	<u>Chartered Flights</u>		<u>Total</u>	<u>Scheduled services</u>	<u>Chartered Flights</u>		<u>Total</u>
		<u>Passengers</u>	<u>Cargo</u>			<u>Passengers</u>	<u>Cargo</u>	
Levant	71,921	13,278	2,499	87,698	72,294	4,638	2,126	79,058
Europe	139,451	4,467	1,462	145,380	133,256	1,357	929	135,542
Arab Gulf	129,974	908	490	131,372	123,651	24	121	123,796
America	123,073	-	3,401	126,474	115,867	3,805	2,440	122,112
Asia	53,391	379	298	54,068	59,653	-	-	59,653
Africa	15,182	105	-	15,287	18,269	246	165	18,680
Total Revenue	<u>532,992</u>	<u>19,137</u>	<u>8,150</u>	<u>560,279</u>	<u>522,990</u>	<u>10,070</u>	<u>5,781</u>	<u>538,841</u>

(36) FAIR VALUE OF FINANCIAL INSTRUMENTS

Financial instruments comprise of financial assets and financial liabilities.

Financial assets consist of cash and bank balances, accounts receivable, financial assets at fair value through other comprehensive income, and some other current assets. Financial liabilities consist of accounts payable, bank loans, obligations under finance leases and some other current liabilities.

The fair values of financial instruments are not materially different from their carrying values.

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(37) Fair Value Hierarchy

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

Level 1 - market prices in active markets for identical assets or liabilities

Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable

Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

31 December 2017	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Financial assets:				
Financial assets at fair value through other comprehensive income	-	5,992	-	5,992
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
31 December 2016	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Financial assets:				
Financial assets at fair value through other comprehensive income	-	6,022	-	6,022
	<u> </u>	<u> </u>	<u> </u>	<u> </u>

(38) RISK MANAGEMENT

Interest rate risk

The Group is exposed to interest rate risk on its interest bearing financial assets and liabilities (bank deposits, obligation under finance leases and bank loans).

The sensitivity of the consolidated income statement is the effect of the assumed changes in interest rates on the Group's profit for one year, based on the floating rate financial assets and financial liabilities held at 31 December 2017.

The following table demonstrates the sensitivity of the consolidated income statement to reasonably possible changes in interest rates as of 31 December 2017, with all other variables held constant.

	<u>Increase in interest rate (points)</u>	<u>Effect on profit</u>
2017-		
Currency		
USD	50	(1,410)
JD	50	246
	<u> </u>	<u> </u>
	<u>Decrease in interest rate (points)</u>	<u>Effect on profit</u>
Currency		
USD	(25)	705
JD	(25)	(123)

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	Increase in interest rate <u>(points)</u>	Effect on loss <u></u>
2016-		
Currency		
USD	50	1,322
JD	50	(511)
	Decrease in interest rate <u>(points)</u>	Effect on loss <u></u>
Currency		
USD	(25)	(661)
JD	(25)	256

Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

The Group seeks to limit its credit risk with respect to customers by setting credit limits for individual customers and monitoring outstanding receivables and with respect to banks by only dealing with reputable banks.

The Group provides its services to a large number of customers. No single customer accounts for more than 10% of outstanding accounts receivable at 31 December 2017 and 2016.

Liquidity risk

The Group limits its liquidity risk by ensuring bank facilities are available.

The table below summarises the maturities of the Group's (undiscounted) financial liabilities at 31 December 2017 and 2016, based on contractual payment dates and current market interest rates.

	Less than 3 months	3 to 12 months	1 to 5 years	More than 5 years	Total
31 December 2017					
Accounts payables and other current liabilities	2,473	59,525	16,689	-	78,867
Bank loans	12,144	33,126	127,136	-	172,406
Obligations under finance leases	5,637	11,143	75,593	72,988	165,361
Other long term liabilities	-	-	-	433	433
Total	20,254	103,794	219,418	73,421	416,887
	Less than 3 months	3 to 12 months	1 to 5 years	More than 5 years	Total
31 December 2016					
Accounts payables and other current liabilities	17,542	52,627	73,279	-	143,448
Bank loans	9,275	27,826	150,813	-	187,914
Obligations under finance leases	3,711	10,750	36,829	42,118	93,408
Other long term liabilities	-	-	355	434	789
Total	30,528	91,203	261,276	42,552	425,559

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Currency risk

The table below indicates the Group's foreign currency exposure at 31 December, as a result of its monetary assets and liabilities. The analysis calculates the effect of a reasonably possible movement of the JD currency rate against the foreign currencies, with all other variables held constant, on the consolidated statement of income.

2017 -

Currency	<i>Increase in foreign currency rate to the JD currency</i> (%)	<i>Effect on profit</i>
Euro	1	50
GBP	1	36
SDG	1	59

Currency	<i>Decrease in foreign currency rate to the JD currency</i> (%)	<i>Effect on profit</i>
Euro	(1)	(50)
GBP	(1)	(36)
SDG	(1)	(59)

2016 -

Currency	<i>Increase in foreign currency rate to the JD currency</i> (%)	<i>Effect on loss</i>
Euro	1	(30)
GBP	1	(16)
SDG	1	(70)

Currency	<i>Decrease in foreign currency rate to the JD currency</i> (%)	<i>Effect on loss</i>
Euro	1	30
GBP	1	16
SDG	1	70

The Jordanian Dinar exchange rate is fixed against the U.S. Dollars (USD 1.41 for JD 1).

Gains on foreign exchange rate differences amounted to JD 206 for the year ended 31 December 2017 (31 December 2016: foreign currency loss of JD 20,468. JD 19,000 out of JD 20,468 resulted from the drop in the value of the Sudanese pound and the Egyptian pound as a result of the incentive rate imposed on Sudanese pound, in addition to the Egyptian Government decision to unpeg the Egyptian pound).

(39) CAPITAL MANAGEMENT

The primary objective of the Group's capital management is to ensure that it maintains healthy capital ratios in order to support its business and maximize shareholder value.

The Group manages its capital structure and makes adjustments to it in light of changes in business conditions. As disclosed in note 17, the Company's capital was increased by JD 100 million during 2016. The Prime Ministry resolved in its meeting on 6 September 2017 to approve governments subscription presented by Governmental Investment Management Company by 50% of the second tranche of the Company's capital increase amounted to JD 100 million (JD 50 million). The government shall subscribe in 100% of the capital increase if the major shareholders do not subscribe the remaining 50%. Accordingly, an amount of JD 25 million was reclassified from amounts due to government to Governmental Investment Management Company. Subscription was through capitalization of amounts due to Governmental Investment Management Company of JD 25 million and through cash payments for the remaining amount. Subscription was calculated using the share price in Amman Stock Exchange "ASE" on the date of the resolution which amounted to JD 0.390 per share. Accordingly, an amount of JD 25 million was reclassified from long term liabilities to advance payments over capital increase in the consolidated financial statements as at 31 December 2017. The remaining amount of the second tranche will be subscribed during 2018.

Capital comprises of share capital, payments in respect of capital increase, statutory reserve and accumulated losses and is measured at JD 96,307 as at 31 December 2017 (2016: JD 71,111).

(40) CONTINGENCIES AND COMMITMENTS

Bank guarantees

As of 31 December 2017, the Group had letters of guarantee amounting to JD 15,034 (2016: JD 24,030).

Claims against the Group

The Group is a defendant in a number of lawsuits amounting to JD 17,038 (2016: JD 15,466) 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 December 2017, the Group had capital commitments of USD 508,539,929 (2016: USD 604,326,155), equivalent to JD 360,667 (2016: JD 428,600) relating to finance lease agreements signed for four new aircrafts. The Group has the option not to purchase three aircrafts given that it informs the aircrafts producer during a maximum period of thirty seven months prior to the date of delivery of these aircrafts. Capital commitments for these three aircrafts amounted to USD 423,714,932 which is equivalent to JD 300,414 as at 31 December 2017.

(41) STANDARDS ISSUED BUT NOT YET EFFECTIVE

The standards and interpretations that are issued but not yet effective, up to the date of issuance of the Group's financial statements are disclosed below, the Group intends to adopt these standards, when they become effective.

IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments that replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for financial instruments project: classification and measurement, impairment and hedge accounting. The Company has implemented the first phase of IFRS 9 as issued during 2009. The date of initial implementation of the first phase of IFRS 9 was 1 January 2011.

The new version of IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Except for hedge accounting, retrospective application is required; but providing comparative information is not mandatory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions

The Company plans to adopt the remaining phases on the effective date and will not restate comparative information.

(a) Classification and Measurement

The Group does not expect a material impact on its balance sheet or equity on applying the new classification and measurement category of IFRS 9.

Loans as well as trade receivables are held to collect contractual cash flows and are expected to give rise to cash flows representing solely payments of principal and interest. The Group analysed the contractual cash flow characteristics of those instruments and concluded that they meet the criteria for amortised cost measurement under IFRS 9. Therefore, reclassification for these instruments is not required.

(b) Impairment

IFRS 9 requires the Group to record expected credit losses on all of its debt securities, loans and trade receivables, either on a 12-month or lifetime basis. The Group will apply the simplified approach and record lifetime expected losses on all trade receivables. The Group has estimated that the additional provision to be recorded resulting from the expected credit loss from its trade receivables will not be material compared to the current requirements of provisioning for doubtful trade receivables.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 specifies the accounting treatment for all revenue arising from contracts with customers. It applies to all entities that enter into contracts to provide goods or services to their customers, unless the contracts are in the scope of other IFRSs, such as IAS 17 Leases. IFRS 15 supersedes IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfers of Assets from Customers; and SIC-31 Revenue—Barter Transactions Involving Advertising Services. The standard is effective for annual periods beginning on or after 1 January 2018, and early adoption is permitted.

During 2017, the Group has performed an impact assessment of IFRS 15. This assessment is based on currently available information and may be subject to changes arising from further reasonable and supportable information being made available to the Company in 2018 when the Company adopts IFRS 15, whereas, the Group does not expect a material impact on its balance sheet or equity on applying the requirements of IFRS 15.

Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and Its Associate or Joint Venture

The amendments address the conflict between IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that the gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture, is recognised in full. Any gain or loss resulting from the sale or contribution of assets that do not constitute a business, however, is recognised only to the extent of unrelated investors' interests in the associate or joint venture.

IFRS 2 Classification and Measurement of Share-based Payment Transactions - Amendments to IFRS 2

The IASB issued amendments to IFRS 2 Share-based Payment that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled.

Entities may apply the amendments prospectively and are effective for annual periods beginning on or after 1 January 2018, with early application permitted.

IFRS 16 Leases

During January 2016, the IASB issued IFRS 16 "Leases" which sets out the principles for the recognition, measurement, presentation and disclosure of leases.

IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

IFRS 16 introduced a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments.

The new standard will be effective for annual periods beginning on or after 1 January 2019. Early application is permitted.

IFRS 17 Insurance Contracts

IFRS 17 provides a comprehensive model for insurance contracts covering the recognition and measurement and presentation and disclosure of insurance contracts and replaces IFRS 4 -Insurance Contracts. The standard applies to all types of insurance contracts (i.e. life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. The standard general model is supplemented by the variable fee approach and the premium allocation approach.

The new standard will be effective for annual periods beginning on or after 1 January 2021. Early application is permitted.

Transfers of Investment Property (Amendments to IAS 40)

The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property.

The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use.

Entities should apply the amendments prospectively and effective for annual periods beginning on or after 1 January 2018. Early application of the amendments is permitted and must be disclosed.

Amendments to IFRS 4 Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts

In September 2016, the IASB issued amendments to IFRS 4 to address issues arising from the different effective dates of IFRS 9 and the upcoming new insurance contracts standard (IFRS 17).

The amendments introduce two alternative options for entities issuing contracts within the scope of IFRS 4, a temporary exemption from implementing IFRS 9 to annual periods beginning before 1 January 2021 at latest and an overlay approach that allows an entity applying IFRS 9 to reclassify between profit or loss and other comprehensive income an amount that results in the profit or loss at the end of the reporting period for the designated financial assets being the same as if an entity had applied IAS 39 to these designated financial assets.

IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration

The interpretation clarifies that in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognises the nonmonetary asset or non-monetary liability arising from the advance consideration. Entities may apply the amendments on a fully retrospective or prospective basis. The new interpretation will be effective for annual periods beginning on or after 1 January 2018. Early application of interpretation is permitted and must be disclosed.

IFRIC Interpretation 23 Uncertainty over Income Tax Treatment

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 and does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. An entity must determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The interpretation is effective for annual reporting periods beginning on or after 1 January 2019, but certain transition reliefs are available.

(42) COMPARATIVE FIGURES

Some of 2016 balances were reclassified to correspond with the consolidated financial statements figures for the year 2017 presentation, with no effect on profit and equity for the year 2016.