

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

A PUBLIC SHAREHOLDING COMPANY

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2018



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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 2018, 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 2018, 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 in accordance with IFRS (15). 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> <p>We obtained an understanding of management’s process related to scoping and identifying the revenue streams.</p>

2. Lease classification Refer to notes 19 and 31 of the consolidated financial statements	
Key audit matter Due to the significance of the lease agreements signed by the Group and due to the nature of the airlines business, this was considered as 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 2018 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 exists. 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 consolidated financial statements.

The partner in charge of the audit resulting in this auditor's report was Waddah Isam Barkawi; license number 591.

Amman – Jordan
27 March 2019

Ernst + Young

Alia - The Royal Jordanian Airlines Company (Royal Jordanian) - Public Shareholding Company
Consolidated Statement of Financial Position
At 31 December 2018
(In Thousands of Dinars)

	Notes	2018	2017
<u>ASSETS</u>			
Non- current assets			
Property and equipment	8	266,852	292,250
Advances on purchase and modification of aircrafts	9	5,254	35,993
Financial assets at fair value through other comprehensive income	10	5,967	5,992
Investments in associates	11	17,680	16,715
Restricted cash against operating lease contracts		32,881	28,469
Deferred tax assets	33	14,920	14,920
		343,554	394,339
Current assets			
Other current assets	12	25,575	27,048
Spare parts and supplies, net	13	6,256	11,193
Accounts receivable, net	14	41,339	35,617
Cash and bank balances	15	92,012	101,393
		165,182	175,251
Assets classified as held for sale	16	8,631	-
TOTAL ASSETS		517,367	569,590
<u>EQUITY AND LIABILITIES</u>			
Shareholders' equity			
Paid in capital	17	246,405	146,405
Share discount	17	(61,000)	-
Payments in respect of capital increase	17	8,000	25,000
Statutory reserve	17	13,509	13,509
Fair value reserve		3,771	3,771
Accumulated losses		(94,483)	(88,607)
		116,202	100,078
Non-controlling interests		276	257
Total shareholders' equity		116,478	100,335
LIABILITIES			
Non- current liabilities			
Long term loans	18	71,626	118,685
Long term obligations under finance leases	19	105,281	114,534
Accounts payable	22	-	16,764
Other long term liabilities	20	404	433
		177,311	250,416
Current liabilities			
Current portion of long term loans	18	47,059	38,099
Accrued expenses	21	66,115	61,432
Accounts payable and other current liabilities	22	50,735	61,923
Income tax provision	33	-	34
Deferred revenues	23	46,713	46,507
Short term obligations under finance leases	19	9,253	10,844
		219,875	218,839
Liabilities associated with assets classified as held for sale	16	3,703	-
Total liabilities		400,889	469,255
TOTAL EQUITY AND LIABILITIES		517,367	569,590

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 2018
(In Thousands of Dinars)

	Notes	2018	2017
Revenues	24	653,300	605,781
Cost of revenues	25	(562,909)	(526,330)
Gross Profit		90,391	79,451
Administrative expenses	27	(20,372)	(20,472)
Selling and marketing expenses	28	(45,716)	(44,463)
Other provisions	13,14	(5,292)	(1,569)
Net operating profit		19,011	12,947
Share of profit of associates	11	2,242	1,072
Other (expense) income, net	26	(4,457)	511
Gain (Loss) on disposal of property and equipment		747	(37)
Provision for voluntary termination	30	(1,874)	(1,243)
(Loss) gain on foreign exchange differences	38	(4,248)	206
Finance costs	29	(16,238)	(14,482)
Interest income		2,850	2,449
(Loss) profit before tax for the year from continuing operations		(1,967)	1,423
Income tax provision	33	(39)	(194)
(Loss) profit for the year from continuing operations		(2,006)	1,229
Discontinued operations			
Loss for the year from discontinued operations (net of tax)	16	(3,851)	(955)
(Loss) Profit for the year		(5,857)	274
Attributable to:			
Equity holders of the parent		(5,876)	246
Non-controlling interests		19	28
(Loss) profit for the year		(5,857)	274
Earnings per share			
Basic and diluted earnings per share attributable to equity holders of the parent	32	JD (0.0250)	JD 0.0017
Basic and diluted earnings per share from continuing operations after tax attributable to equity holders of the parent	32	JD (0.0086)	JD 0.0082

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 2018
(In Thousands of Dinars)

	<u>2018</u>	<u>2017</u>
(LOSS) PROFIT FOR THE YEAR	(5,857)	274
Add: Other comprehensive income items after tax	-	-
Total comprehensive income for the year	<u>(5,857)</u>	<u>274</u>
Attributable to:		
Equity holders of the parent	(5,876)	246
Non controlling interests	19	28
	<u>(5,857)</u>	<u>274</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 Changes in Equity
For the Year Ended 31 December 2018
(In Thousands of Dinars)

	<i>Attributable to equity holders of the parent</i>							Total equity
	Paid in Capital	Share discount	Payments in respect of capital increase	Statutory reserve	Fair value reserve	Accumulated losses	Total	
2018-								
Balance as of 1 January 2018	146,405	-	25,000	13,509	3,771	(88,607)	100,078	100,335
Total comprehensive income for the year	-	-	-	-	-	(5,876)	(5,876)	19 (5,857)
Payments in respect of capital increase (note 17)	-	-	22,000	-	-	-	22,000	22,000
Capital increase	100,000	(61,000)	(39,000)	-	-	-	-	-
Balance as of 31 December 2018	246,405	(61,000)	8,000	13,509	3,771	(94,483)	116,202	276 116,478
2017 -								
Balance as of 1 January 2017	146,405	-	-	13,455	3,771	(88,749)	74,882	75,111
Total comprehensive income for the year	-	-	-	-	-	246	246	28 274
Transfers to statutory reserve	-	-	-	54	-	(54)	-	-
Payments in respect of capital increase (note 17)	-	-	25,000	-	-	-	25,000	25,000
Capital increase costs	-	-	-	-	-	(50)	(50)	(50)
Balance as of 31 December 2017	146,405	-	25,000	13,509	3,771	(88,607)	100,078	257 100,335

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 2018
(In Thousands of Dinars)

	Notes	2018	2017
OPERATING ACTIVITIES			
(Loss) Profit before tax from continuing operations		(1,967)	1,423
(Loss) before tax from discontinued operations	16	(3,851)	(955)
(Loss) Profit for the year before income tax		(5,818)	468
Adjustments for:			
Depreciation of property and equipment	8	38,736	35,938
Share of profit of associates	11	(2,242)	(1,072)
Finance costs		16,238	14,482
Provision for expected credit losses	14	820	12
Provision for slow moving inventory	13	4,472	1,557
(Gain) loss from sale of property and equipment		(747)	37
Provision for voluntary termination	30	1,874	1,243
Provision for end of service indemnity	20	17	82
Amortization of deferred revenue – Jordan Flight Catering		(300)	(300)
Other provisions		294	-
Interest income		(2,850)	(2,449)
Working capital changes			
Accounts receivable		(7,786)	(1,717)
Spare parts and supplies		465	(1,742)
Other current assets		2,794	6,750
Deferred revenues		506	16,602
Accounts payable and other current liabilities		(26,563)	(37,338)
Accrued expenses		6,456	(9,814)
End of service indemnity paid	20	(46)	(438)
Voluntary termination program payments	30	(1,807)	(1,217)
Income tax paid	33	(73)	(63)
Net cash flows from operating activities		24,440	21,021
INVESTING ACTIVITIES			
Dividends received from associates	11	1,277	1,809
Purchase of property and equipment		(18,925)	(4,485)
Acquisition of a subsidiary – net cash acquired	7	-	411
Sale of financial assets at fair value through OCI		25	30
Proceeds from sale of property and equipment		815	12
Interest income received		1,565	1,830
Change in restricted cash against lease contracts		(4,412)	(3,226)
Proceeds from sale of property and equipment held for sale		426	426
Recoveries (advances) on purchase and modification of aircrafts		29,902	(8,376)
Short term deposits		2,648	20,626
Net cash flows from investing activities		13,321	9,057
FINANCING ACTIVITIES			
Repayment of term loans		(38,879)	(21,591)
Capital increase		22,000	-
Capital increase costs		-	(50)
Finance lease obligations		(10,844)	(14,898)
Interest paid		(15,764)	(13,494)
Net cash flows used in financing activities		(43,487)	(50,033)
Net decrease in cash and cash equivalents		(5,726)	(19,955)
Cash and cash equivalents, beginning of the year		72,919	92,874
Cash and cash equivalents, end of the year	15	67,193	72,919

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 2018
(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 consolidated financial statements were authorized for issue by the Board of Directors during their meeting held on 24 March 2019.

(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 2018:

	<u>Ownership Interest</u>	<u>Country</u>
Royal Wings Company-under liquidation (Note 16)	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.

Alia - The Royal Jordanian Airlines Company (Royal Jordanian) - Public Shareholding Company
Notes to The Consolidated Financial Statements
31 December 2018
(In Thousands of Dinars, except for amounts in US Dollars)

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 76.4%, 9.14% and 5.94% respectively of the Company's shares (2017: 60%, 15% and 10% respectively). As disclosed in note (17), capital increase procedures for part of the second tranche shares were completed during January 2019. Accordingly, the Government of the Hashemite Kingdome of Jordan presented by Governmental Investment Management Company ownership of the Company's shares became 78.8%.

(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 2017 except for the followings starting from 1 January 2018:

IFRS 15 Revenue from Contracts with Customers

IFRS 15 supersedes IAS 11 Construction Contracts, IAS 18 Revenue and related Interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards.

The new standard establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The standard requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract.

The Group adopted IFRS 15 using the modified retrospective approach. There was no impact of adopting IFRS 15 on the Retained Earnings. IFRS 15 impacted the Group's accounting policy for revenue recognition as detailed below:

Compared with IAS 18, the implementation of IFRS 15 also requires new judgements and assumptions, notably regarding the enforceable contract term and the expected total transaction price and the reference price of the transaction components. IFRS 15 changed the indicators used to determine whether an entity acts as a principal or an agent in a transaction. This did not, however modify the Group's previous judgements.

IFRS 9 Financial Instruments

IFRS 9 Financial Instruments replaces IAS 39 Financial Instruments: Recognition and Measurement for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting.

The Group had previously 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 standard has been applied retrospectively and, in line with IFRS 9, comparative amounts have not been restated.

The standard eliminates the use of the IAS 39 incurred loss impairment model approach, uses the revised hedge accounting framework, and the revised guidance on the classification and measurement requirements.

Impairment

The adoption of IFRS 9 has fundamentally changed the Group's accounting for impairment losses for financial assets by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach.

IFRS 9 requires the Group to record an allowance for ECL for all financial assets.

For all financial assets, the Group has applied the standard's simplified approach and has calculated ECL based on lifetime expected credit losses. The Group has established a provision matrix that is based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

The adoption of the ECL requirements of IFRS 9 had no material impact on the impairment allowances of the Group's financial assets.

FRIC Interpretation 22 Foreign Currency Transactions and Advance Considerations

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 recognizes the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration.

This Interpretation does not have any impact on the Group's consolidated financial statements.

Amendments to IAS 40 Transfers of Investment Property

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.

These amendments do not have any impact on the Group's consolidated financial statements.

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

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. On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and other criteria are met. If applicable - The Group's has no cash-settled share based payments. In addition, the Group has no share-based payment transaction with net settlement features for withholding tax obligations.

These amendments do not have any impact on the Group's consolidated financial statements.

Amendments to IAS 28 Investments in Associates and Joint Ventures - Clarification that measuring investees at fair value through profit or loss is an investment-by-investment choice

The amendments clarify that an entity that is a venture capital organisation, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss. If an entity, that is not itself an investment entity, has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which: (a) the investment entity associate or joint venture is initially recognised; (b) the associate or joint venture becomes an investment entity; and (c) the investment entity associate or joint venture first becomes a parent.

These amendments do not have any 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 2018, the estimated liability for unredeemed points was approximately JD 5,577 (2017: JD 5,953).

(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 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.

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 receivables are stated at original invoice amount less any provision for expected credit losses. For trade receivables and contract assets, the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognizes a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

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.

Impairment and uncollectibility of financial assets

The adoption of IFRS 9 has fundamentally changed the Company's accounting for impairment losses for financial assets by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss (ECL) approach.

IFRS 9 requires the Company to record an allowance for ECL for all debt instruments measured at amortized cost.

For all debt instruments, the Group has applied the standard's simplified approach and has calculated ECL based on lifetime expected credit losses. The Company has established a provision matrix that is based on the Company's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

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 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

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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 under IFRS 15 five step model approach which include determining the contract, price, performance obligation and revenue recognition based on satisfaction of performance obligation.

Passenger and cargo revenues are recognized when the transportation is provided. 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.

Group's revenue fall under IFRS 15 "revenue from contracts with customers". The Group provide services to its customers through passenger tickets. Revenue are recognized after deduction of taxes collected on behalf of Government.

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.

Finance costs

Finance costs are recognised as an expense when incurred. Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalized

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.

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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.

(7) ACQUISITION OF A SUBSIDIARY

2017

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>	

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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). A provision for the remaining amount was recorded during 2018.

	<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

2018

	Aircrafts under finance leases	Aircrafts	Spare engines	Capitalized maintenance on aircrafts' engines, and components	Aircrafts' main Components	Machinery and Equipment	Computers	Furniture and Fixtures	Vehicles	Land and buildings	Total
Cost:											
Balance as of 1 January 2018	185,380	118,587	40,268	49,930	47,880	69,128	18,533	9,334	10,774	42,804	592,618
Additions during the year	-	-	1,091	14,331	567	2,496	629	50	441	262	19,867
Disposals during the year	-	(5,474)	-	(2,190)	-	(233)	(40)	(37)	(295)	-	(8,269)
Assets classified as held for sale (Note 16)	-	(30,411)	-	(5,824)	-	(483)	-	(747)	(227)	-	(37,692)
Transfers*	(40,831)	40,831	-	-	-	-	-	-	-	-	-
Balance as of 31 December 2018	144,549	123,533	41,359	56,247	48,447	70,908	19,122	8,600	10,693	43,066	566,524
Accumulated depreciation:											
Balance as of 1 January 2018	23,931	94,199	4,151	33,539	44,484	54,624	16,466	8,026	10,164	10,784	300,368
Depreciation for the year	8,953	3,737	2,279	16,113	1,271	3,351	592	298	289	1,853	38,736
Disposals during the year	-	(5,474)	-	(2,190)	-	(223)	(12)	(18)	(284)	-	(8,201)
Assets classified as held for sale (Note 16)	-	(26,851)	-	(2,987)	-	(462)	-	(704)	(227)	-	(31,231)
Transfers	(20,821)	20,821	-	-	-	-	-	-	-	-	-
Balance as of 31 December 2018	12,063	86,432	6,430	44,475	45,755	57,290	17,046	7,602	9,942	12,637	299,672
Net book value as of											
31 December 2018	132,486	37,101	34,929	11,772	2,692	13,618	2,076	998	751	30,429	266,852

* During 2018, the Group has settled all lease balances related to two Embreair – E 175 aircrafts number 223 and number 232. 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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<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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(9) ADVANCES ON PURCHASE AND MODIFICATION OF AIRCRAFTS

	<u>2018</u>	<u>2017</u>
Advances for the purchase of Boeing 787 aircrafts	<u>5,254</u>	<u>35,993</u>

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

	<u>2018</u>	<u>2017</u>
Royal Jordanian Air Academy	5,386	5,386
SITA Investment Certificates	558	583
Others	23	23
	<u>5,967</u>	<u>5,992</u>

(11) INVESTMENTS IN ASSOCIATES

	Country of incorporation	Ownership		Balance	
		<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Jordan Flight Catering Company	Jordan	30%	30%	5,112	4,976
Jordan Aircraft Maintenance Company (JORAMCO)	Jordan	20%	20%	8,894	8,259
Jordan Aircraft Training and Simulation Company (JATS)	Jordan	20%	20%	3,674	3,480
				<u>17,680</u>	<u>16,715</u>

Movement on investments in associates was as follows:

	<u>2018</u>	<u>2017</u>
Beginning balance	16,715	17,452
Company's Share of profit for the year	2,242	1,072
Dividends	(1,277)	(1,809)
	<u>17,680</u>	<u>16,715</u>

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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	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
	Current assets	6,149	5,868	22,409	17,602	2,803	1,296	-	-	31,361
Non-current assets	1,128	1,331	19,255	18,530	17,773	21,702	-	-	38,156	41,563
Current liabilities	(3,241)	(3,499)	(13,082)	(9,293)	(1,725)	(2,363)	-	-	(18,048)	(15,155)
Non-current liabilities	-	-	(11,888)	(13,272)	(4,064)	(6,669)	-	-	(15,952)	(19,941)
Net assets	4,036	3,700	16,694	13,567	14,787	13,966	-	-	35,517	31,233
Group's ownerships percentage	30%	30%	20%	20%	20%	20%	100%	100%		
Investment in associate	1,211	1,110	3,339	2,713	2,957	2,793	-	-	7,507	6,616

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	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
	Revenues	19,081	19,770	47,954	33,929	4,642	5,175	-	267	71,677
Cost of sales	(14,082)	(13,942)	(30,323)	(25,860)	(3,214)	(3,578)	-	(446)	(47,619)	(43,826)
Other income and expenses	(293)	(1,329)	(14,450)	(9,808)	(458)	(1,249)	-	-	(15,201)	(12,386)
Income (loss) before tax	4,706	4,499	3,181	(1,739)	970	348	-	(179)	8,857	2,929
Income tax	-	-	-	-	-	-	-	-	-	-
Profit (loss) for the year	4,706	4,499	3,181	(1,739)	970	348	-	(179)	8,857	2,929
Group's Share of profit for the year	1,412	1,350	636	(348)	194	70	-	-	2,242	1,072

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(12) OTHER CURRENT ASSETS

	<u>2018</u>	<u>2017</u>
Prepaid expenses	9,812	10,292
Receivable from lessors – maintenance claims	7,439	8,831
Advances to suppliers	4,535	3,056
Refundable deposits	911	942
Employees' receivables	882	1,270
Derivatives*	327	-
Goodwill resulted from acquisition of a subsidiary (Note 7)	-	294
Others	1,669	2,363
	<u>25,575</u>	<u>27,048</u>

* During 2018, the Group signed aircraft fuel purchase options contracts to manage fuel price fluctuation risks and for the purpose of limiting the risk of fluctuations in fuel prices.

(13) SPARE PARTS AND OTHER SUPPLIES

	<u>2018</u>	<u>2017</u>
Spare parts and supplies	16,266	16,731
Provision for slow moving inventory	(10,010)	(5,538)
	<u>6,256</u>	<u>11,193</u>

Movement on provision for slow moving inventory was as follows:

	<u>2018</u>	<u>2017</u>
Beginning balance	5,538	3,981
Provision for the year	4,472	1,557
Ending balance	<u>10,010</u>	<u>5,538</u>

(14) ACCOUNTS RECEIVABLE

	<u>2018</u>	<u>2017</u>
Accounts receivable	54,325	50,381
Provision for expected credit losses	(12,986)	(14,764)
	<u>41,339</u>	<u>35,617</u>

As of 31 December 2018, provision for expected credit losses amounted to JD 12,986 (2017: JD 14,764)

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Movement on provision for expected credit losses was as follows:

	<u>2018</u>	<u>2017</u>
Beginning balance	14,764	14,761
Provision for the year	820	12
Bad debts written off	-	(9)
Assets held for sale (Note 16)	<u>(2,598)</u>	<u>-</u>
Ending balance	<u>12,986</u>	<u>14,764</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	
2018	19,826	10,689	2,374	1,411	4,152	2,887	41,339
2017	6,936	19,284	2,884	1,958	3,317	1,238	35,617

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>2018</u>	<u>2017</u>
Cash and bank balances	23,129	27,514
Short term deposits*	19,804	28,709
Cash in transit **	<u>23,253</u>	<u>16,696</u>
Cash and cash equivalents	66,186	72,919
Short term deposits mature after 3 months ***	<u>25,826</u>	<u>28,474</u>
	<u>92,012</u>	<u>101,393</u>

* This item represents deposits in Jordanian Dinar in Jordanian Banks as of 31 December 2018 with an interest rate ranging between 4.35% – 5.75% (2017: 4.5% –5%) 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 21,780) and Sudanese Pound (201,994 thousand Sudanese Pound which is equivalent to JD 2,858) in addition to Libyan Dinar and Syrian Lira equivalent to JD 1,180 as of 31 December 2018 (2017: 20,752 Jordanian Dinar and 215,302 Sudanese pounds which is equivalent to JD 3,799 in addition to Libyan Dinar and Syrian Lira equivalent to JD 3,923) with an average interest rate of 5.5% (2017: 5.13%) and are due within four months (2017: four months).

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For the purposes of the consolidated statement of cash flows, the following represents the details of the cash and cash equivalents:

	<u>2018</u>	<u>2017</u>
Cash and cash equivalents	66,186	72,919
Add: discontinued operations (Note 16)	1,007	-
	<u>67,193</u>	<u>72,919</u>

(16) DISCONTINUED OPERATIONS

The Company's Board of Directors resolved on 26 September 2018 to sell or liquidate Royal Wings Company (wholly owned subsidiary). Accordingly, Royal Wings Company was classified as assets held for sale in the consolidated statement of financial position as at 31 December 2018 in accordance with IFRS 5.

Royal Wings Company was classified as at 31 December 2018 as assets held for sale and discontinued operations for the year ended. The result of Royal Wings Company for the year is presented as follows:

	<u>2018</u>	<u>2017</u>
Revenues	10,216	17,450
Cost of revenues	(11,824)	(17,144)
Gross (loss) profit	(1,608)	306
Administrative expenses	(2,181)	(1,322)
Other income, net	(62)	61
(Loss) before tax from discontinued operations	(3,851)	(955)
Income tax	-	-
(Loss) from discontinued operations	(3,851)	(955)

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Major classes of Royal Wings Company's assets and liabilities classified as held for sale are as follows:

	<u>2018</u>
<u>ASSETS</u>	
Property and equipment	6,461
Accounts receivable and other debit balances	1,163
Cash and bank balances (Note 15)	<u>1,007</u>
Assets classified as held for sale	<u>8,631</u>
<u>LIABILITIES</u>	
Accounts payable and other credit balances	1,389
Accrued expenses	<u>2,314</u>
Liabilities associated with assets classified as held for sale	<u>3,703</u>
Net assets classified as held for sale	<u>4,928</u>

(17) SHAREHOLDERS' EQUITY

	<u>2018</u>	<u>2017</u>
- Paid in capital		
Authorized capital (Par value of one Jordanian Dinar per share)	<u>274,610</u>	<u>246,405</u>
Paid in capital	<u>246,405</u>	<u>146,405</u>

- Share discount

Share discount amounted to JD 61 million as at 31 December 2018. The accumulated balance in this account represents the difference between the issuing price and the par value of the shares issued.

Payments in respect of capital increase

The General Assembly approved in its extraordinary meeting held on 2 May 2015 to restructure the Company's Capital by reducing it through writing off part of the Company's accumulated losses and increasing the Company's capital by 200 million shares with a par value of JD 1 per share. Capital increase procedures were completed for the first tranche of JD 100 million of the Company's capital increase during 2016.

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The Prime Ministry resolved in its meeting held 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. 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 of JD 25 million. 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. Part of the second tranche was subscribed during February 2018. Accordingly, paid in capital amounted to JD 246,405, resulting in a share discount of JD 61 million as at 31 December 2018. The General Assembly resolved in its extra-ordinary meeting held on 26 April 2018 to increase the Company's authorized capital with 28,205,128 shares to become 274,610,470 shares to complete the first half of the second tranche of the capital increase of JD 50 million. Subscription was completed during January 2019 whereas the Company's authorized and paid in capital became 274,610 shares/ Dinar.

- 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.

(18) BANK LOANS

	2018		2017	
	Loan's Installments		Loan's Installments	
	Short term	Long term	Short term	Long term
Syndicated loan*	47,839	72,471	38,879	120,310
Less: directly attributable transaction costs	(780)	(845)	(780)	(1,625)
	<u>47,059</u>	<u>71,626</u>	<u>38,099</u>	<u>118,685</u>

* 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 2019 and after are as follows:

Year	JD
2019	47,839
2020	66,699
2021	5,772
	<u>120,310</u>

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(19) OBLIGATIONS UNDER FINANCE LEASES

	2018			2017		
	<u>E-175</u>	<u>B-787</u>	<u>Total</u>	<u>E-175</u>	<u>B-787</u>	<u>Total</u>
Long term obligations	-	105,281	105,281	-	114,534	114,534
Current obligations	-	9,253	9,253	1,975	8,869	10,844
	-	114,534	114,534	1,975	123,403	125,378

- **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 2018, the outstanding balance was JD 56,797 (31 December 2017: 61,291).

- **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 3.35%. The lease provides for 48 quarterly installments commencing on 15 April 2017. As of 31 December 2018, the outstanding balance was JD 57,737 (31 December 2017: 62,112).

The Company has mortgaged the Embraer aircrafts the Boeing B787 aircrafts for the finance lease agreements for those aircrafts.

During June 2018, the Group has completed the pledge release procedures for two Embraer-E-175 aircrafts number 232 and number 223, where the Group has also settled all lease balances related to the aircrafts.

Principal installments payable during 2019 and after relating to aircrafts delivered up to 31 December are as follows:

<u>Year</u>	<u>Amounts</u>
2019	9,253
2020	9,653
2021	10,071
2022	10,507
2023– and after	75,050
	<u>114,534</u>

Minimum lease payments under all finance leases are as follows:

	<u>2018</u>	<u>2017</u>
Total minimum lease payments	142,489	165,361
Interest	(27,955)	(39,983)
	<u>114,534</u>	<u>125,378</u>

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(20) OTHER LONG TERM LIABILITIES

	<u>2018</u>	<u>2017</u>
Provision for end of service indemnity	404	433

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

	<u>2018</u>	<u>2017</u>
Beginning balance	433	789
Provision for the year	17	82
Payments during the year	(46)	(438)
	<u>404</u>	<u>433</u>

(21) ACCRUED EXPENSES

	<u>2018</u>	<u>2017</u>
Accrual for flying operations expenses	53,358	48,345
Accrued operating lease payments	12,757	13,087
	<u>66,115</u>	<u>61,432</u>

(22) ACCOUNTS PAYABLE AND OTHER CURRENT LIABILITIES

	<u>2018</u>		<u>2017</u>	
	<u>Short Term</u>	<u>Long Term</u>	<u>Short Term</u>	<u>Long Term</u>
Fuel suppliers*	1,963	-	1,800	16,764
Government of the Hashemite Kingdom of Jordan **	-	-	9,706	-
Spare parts suppliers and accounts payable	7,888	-	12,099	-
Ministry of Finance	1,707	-	1,581	-
Employees Provident fund	4,144	-	4,473	-
Others	35,033	-	32,264	-
	<u>50,735</u>	<u>-</u>	<u>61,923</u>	<u>16,764</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. JD 1,349 was recognized as finance costs for the year ended 31 December 2018.

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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 last installment was paid during October 2018.

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 227 was recorded as finance costs for the year ended 31 December 2018 (31 December 2017: 2,847).

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. An amount of JD 25 million was paid to 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>2018</u>	<u>2017</u>
Unutilized passenger tickets, air way bills and other service sales	45,988	45,482
Deferred revenue – Jordan Flight Catering Company***	<u>725</u>	<u>1,025</u>
	<u>46,713</u>	<u>46,507</u>

*** Alia – The Royal Jordanian Airlines Company signed an 11 years and six months 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 years and six months, which will expire during 2021.

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(24) REVENUES

	2018	2017
Scheduled Services		
Passengers	528,164	487,351
Cargo	37,702	34,648
Excess baggage	5,257	4,374
Airmail	7,889	6,168
Total scheduled services (note 35)	579,012	532,541
Chartered flights (note 35)	8,406	11,585
Commercial revenues from arriving and departing aircrafts of other companies	11,469	11,235
Revenues from technical and maintenance services provided to other companies	3,948	3,983
Cargo warehouse revenues	16,275	14,360
First class services revenues	5,459	4,721
Revenues from NDC (Galileo)	3,599	3,335
Change and cancelation of reservation revenues	11,186	11,725
Other revenues	13,946	12,296
	653,300	605,781

(25) COST OF REVENUES

	2018	2017
Flying operations costs		
Aircraft Fuel	159,301	121,450
Other flying operations costs	64,484	61,785
Total flying operations costs	223,785	183,235
Repair and maintenance	72,238	72,430
Aircraft rental expenses	76,926	80,647
Depreciation of aircraft and engines and capitalized maintenance	33,236	30,556
Stations and ground services	62,032	63,536
Ground handling unit	22,281	22,085
Passenger services	72,411	73,841
	562,909	526,330

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

	<u>2018</u>	<u>2017</u>
Salaries and wages	42,140	42,461
Overtime	2,329	2,474
End of service indemnity	984	1,462
Social Security contribution	5,111	5,298
Provident fund contribution	3,168	3,152
Medical expenses	1,917	1,970
Other benefits	2,570	2,493
	<u>58,219</u>	<u>59,310</u>

(26) OTHER (EXPENSES) INCOME - NET

	<u>2018</u>	<u>2017</u>
Legal cases provision	(1,804)	(648)
Loss from termination of purchase contract - Boeing 787 aircraft (note 40)	(1,436)	-
Other (loss) income	(1,217)	1,159
	<u>(4,457)</u>	<u>511</u>

(27) GENERAL AND ADMINISTRATIVE EXPENSES

	<u>2018</u>	<u>2017</u>
Salaries and wages	7,067	6,687
Computer expenses	3,325	2,694
Depreciation	1,825	1,429
Professional and consultation expenses	1,260	1,534
Employees benefits	583	631
Overtime	239	246
Medical expenses	609	523
End of service indemnity	26	403
Social security contribution	736	755
Provident fund contribution	532	511
Life insurance	118	194
Rent	198	388
Maintenance and cleaning expenses	104	138
Water, electricity and heating	624	571
Communication expense	118	155
Legal expenses	303	527
Others	2,705	3,086
	<u>20,372</u>	<u>20,472</u>

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(28) SELLING AND MARKETING EXPENSES

	<u>2018</u>	<u>2017</u>
Commission	17,036	18,387
Salaries and wages	11,298	10,949
Marketing and advertisement	4,622	3,158
Other employee benefits	2,491	2,566
Rent	1,945	2,005
Social security contribution	1,749	1,805
Overtime	201	192
Medical expenses	696	765
End of service indemnity	177	165
Provident fund contribution	287	286
Life insurance	73	76
Maintenance and cleaning expenses	169	187
Water, electricity and heating	184	199
Computer expenses	658	650
Depreciation	197	231
Communication expenses	980	793
Legal expenses	259	238
Consulting expenses	68	70
Others	2,626	1,741
	<u>45,716</u>	<u>44,463</u>

(29) FINANCE COSTS

	<u>2018</u>	<u>2017</u>
Interest on loans	8,941	7,618
Interest on finance leases contracts	6,605	5,861
Other interest and bank charges	692	1,003
	<u>16,238</u>	<u>14,482</u>

(30) PROVISION FOR VOLUNTARY TERMINATION

During January 2018, 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 1 February 2018 to 31 March 2018. The Company extended the agreement from 1 November 2018 to 30 November 2018. Accordingly, the Company has recorded a provision amounted to JD 1,874 for the year ended 31 December 2018 which represents the accrued amounts for employees who applied to the plan and management approved their applications (31 December 2017: the Company has recorded a provision amounted to JD 1,243 against the labor collective contract covering the period from 15 March 2017 to 30 April 2017).

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(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, and five Boeing B-787 aircrafts.

Payments under the operating leases are detailed as follows:

Year	Amount
2019	65,180
2020	60,949
2021	57,894
2022	56,334
2023 and after	170,242

(32) EARNINGS PER SHARE

	2018	2017
(Loss) profit for the year attributed to the equity holders of the parent ('000)	(5,876)	246
Weighted average number of shares ('000)	234,625	146,405
Basic and diluted earnings per share (JD)	(0.0250)	0.0017
	2018	2017
(Loss) Profit for the year from continuing operations after tax attributable to equity holders of the parent ('000)	(2,025)	1,201
Weighted average number of shares ('000)	234,625	146,404
Basic and diluted earnings per share from continuing operations after tax attributable to equity holders of the parent (JD)	(0.0086)	0.0082

(33) INCOME TAX

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

	2018	2017
Current year's income tax charge	39	34
Deferred Tax Assets		
Related to temporary differences additions	-	160
Income tax expense	39	194

No provision for income tax was calculated for the Company for the years 2018 and 2017, as deductible expenses exceeded taxable income in accordance with Jordanian Income Tax Law No. (34) of 2014.

Provision for income tax charge during the years 2018 and 2017 with an amount of JD 39 and JD 34 represent the income tax expense incurred by Al Mashriq for Aviation Services and Royal Tours for Travel and Tourism Company (Subsidiaries) for the year ended 31 December 2018 and 2017, 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 Tax Court resolved on 14 March 2019 to fully repeal the claim noting that the prosecutor has the right to appeal the decision within one month from the date of the resolution.

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The Company filed its tax return for the years 2015 to 2017. The Income Tax Department has not reviewed the Company's accounting records up to the date of the consolidated financial statements.

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

Royal Wings Company filed its tax return for the year 2017. The Income Tax Department has not reviewed the Company's accounting records up to the date of the consolidated financial statements.

Royal Wings Company reached a final settlement with the Income Tax Department up to the year 2016.

Royal Tours Company filed its tax return for the year 2017. The Income Tax Department has not reviewed the Company's accounting records up to the date of the consolidated financial statements.

Royal Tours for Travel and Tourism Company reached a final settlement with the income tax department up to the year 2016.

Al-Mashriq for Aviation Services Company filed its tax return for the years 2017 and 2016. 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 2015.

Movement on provision for income tax was as follows:

	<u>2018</u>	<u>2017</u>
Beginning balance	34	63
Current year's income tax charge	39	34
Income tax paid	(73)	(63)
Ending balance	<u>-</u>	<u>34</u>

Movement on deferred tax assets was as follows:

	<u>2018</u>	<u>2017</u>
Beginning balance	14,920	15,080
Deferred tax assets for the year	-	(160)
Ending balance	<u>14,920</u>	<u>14,920</u>

Reconciliation between accounting profit and taxable profit

	<u>2018</u>	<u>2017</u>
Accounting (loss) profit	(5,818)	468
Non-taxable profits	(2,242)	(1,072)
Non-deductible expenses	14,500	1,545
Prior years tax losses	(128,347)	(129,288)
Accumulated tax losses	<u>(121,907)</u>	<u>(128,347)</u>
Relates to:		
Total loss – Parent Company	(121,346)	(128,036)
Total loss – Subsidiaries	(561)	(311)
Effective income tax rate for Subsidiaries	20%	20%
Statutory income tax rate	20%	20%
Current year income tax – Subsidiaries	39	34
Income tax expense	<u>39</u>	<u>34</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:

	2018		2017	
	Accounts receivable	Accounts payable	Accounts receivable	Accounts payable
Government of Jordan	3,910	1,707	3,830	11,287
Employees' Provident Fund	-	4,144	-	4,423
Jordan Aircraft Maintenance Company	1,177	-	3	14
Jordan Flight Catering Company	-	3,190	-	2,294
Jordan Aircraft Training and Simulation Company	-	60	-	269
Al Mashriq for Aviation Services	-	-	-	-
	<u>5,087</u>	<u>9,101</u>	<u>3,833</u>	<u>18,287</u>

	2018	2017
Payments in respect of capital increase – included in shareholders equity:		
Governmental Investment Management Company	<u>8,000</u>	<u>25,000</u>

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

	2018	2017
Jordan Aircraft Maintenance Company (JORAMCO):		
Scheduled services revenues	<u>281</u>	<u>168</u>
Repair and maintenance expenses	<u>(3,688)</u>	<u>(4,958)</u>

Jordan Flight Catering Company:

Passenger services expenses	<u>(14,642)</u>	<u>(16,162)</u>
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Jordan Aircraft Training and Simulation Company:

Scheduled services revenues	<u>22</u>	<u>11</u>
Pilots training expenses	<u>(728)</u>	<u>(721)</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 June 2019. Management will agree on contract renewal during 2019.

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 2020.

Alia – The Royal Jordanian Airlines Company signed a 11 years and six months 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>2018</u>	<u>2017</u>
Scheduled services revenues – passengers	3,844	3,860
Scheduled services revenues – cargo	1,352	1,520
Charter flights	1,276	1,777
	<u>6,472</u>	<u>7,157</u>

- The Company's contribution to the employees' saving fund amounted to JD 3,987 and JD 3,949 for the years 2018 and 2017, respectively.

Compensation of key management personnel

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

	<u>2018</u>	<u>2017</u>
Salaries and other benefits	702	555
Board of Directors remuneration	42	51

(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>2018</u>				<u>2017</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	69,838	599	1,046	71,483	71,880	1,278	2,499	75,657
Europe	165,637	235	1,657	167,529	139,375	1,943	1,462	142,780
Arab Gulf	135,764	-	102	135,866	129,891	908	490	131,289
America	138,842	-	3,647	142,489	123,002	-	2,412	125,414
Asia	52,108	278	842	53,228	53,363	190	298	53,851
Africa	16,823	-	-	16,823	15,030	105	-	15,135
Total Revenue	<u>579,012</u>	<u>1,112</u>	<u>7,294</u>	<u>587,418</u>	<u>532,541</u>	<u>4,424</u>	<u>7,161</u>	<u>544,126</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 2018

Financial assets:

Financial assets at fair value through other comprehensive income

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
	-	5,967	-	5,967

31 December 2017

Financial assets:

Financial assets at fair value through other comprehensive income

	-	5,992	-	5,992
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(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 2018.

The following table demonstrates the sensitivity of the consolidated income statement to reasonably possible changes in interest rates as of 31 December 2018, with all other variables held constant.

	<u>Increase in interest rate (points)</u>	<u>Effect on loss</u>
2018-		
Currency		
USD	50	1,166
JD	50	(208)
	<u>Decrease in interest rate (points)</u>	<u>Effect on loss</u>
Currency		
USD	(25)	(583)
JD	(25)	104

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

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 2018 and 2017.

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 2018 and 2017, based on contractual payment dates and current market interest rates.

31 December 2018	<u>Less than 3 months</u>	<u>3 to 12 months</u>	<u>1 to 5 years</u>	<u>More than 5 years</u>	<u>Total</u>
Accounts payables and other current liabilities	2,264	48,471	-	-	50,735
Bank loans	12,959	40,733	75,117	-	128,809
Obligations under finance leases	3,988	10,529	70,197	57,775	142,489
Other long term liabilities	-	-	-	404	404
Total	19,211	99,733	145,314	58,179	322,437
31 December 2017	<u>Less than 3 months</u>	<u>3 to 12 months</u>	<u>1 to 5 years</u>	<u>More than 5 years</u>	<u>Total</u>
Accounts payables and other current liabilities	2,473	59,525	16,688	-	78,686
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	219,417	73,421	416,886

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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.

2018 -

Currency	<i>Increase in foreign currency rate to the JD currency</i>	<i>Effect on loss</i>
	(%)	
Euro	1	(98)
GBP	1	(45)
SDG	1	(29)
	<i>Decrease in foreign currency rate to the JD currency</i>	
	(%)	
Currency		<i>Effect on loss</i>
Euro	(1)	98
GBP	(1)	45
SDG	(1)	29

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

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

Losses on foreign exchange differences amounted to JD 4,248 for the year ended 31 December 2018 (31 December 2017: foreign exchange gain of JD 206)

(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.

Capital comprises of share capital, payments in respect of capital increase, share discount, statutory reserve and accumulated losses and is measured at JD 112,431 as at 31 December 2018 (2017: JD 96,307).

(40) CONTINGENCIES AND COMMITMENTS

Bank guarantees

As of 31 December 2018, the Group had letters of guarantee amounting to JD 12,132 (2017: JD 15,034).

Claims against the Group

The Group is a defendant in a number of lawsuits amounting to 12,866 (2017: JD 17,038) 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 2018, the Group had capital commitments of USD 423,714,932 (2017: USD 508,539,929), equivalent to JD 300,507 (2017: JD 360,667) relating to finance lease agreements signed for three new aircrafts. The Group has the option not to purchase these 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.

During 2018, the Group terminated a contract to purchase one Boeing 787 aircraft with serial number 37982. Loss resulted from the termination amounted to JD 1,436 (note 26).

(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 consolidated financial statements are disclosed below. The Group intends to adopt these standards, if applicable, when they become effective.

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.

Transition to IFRS 16

The Group has the option to adopt IFRS 16 retrospectively and restate each prior reporting period presented or using the modified retrospective approach by applying the impact as an adjustment on the opening retained earnings. The Group will elect to apply the standard to contracts that were previously identified as leases applying IAS 17 and IFRIC 4.

The Group will adopt IFRS 16 using the modified retrospective approach. During 2018, the Group has performed a detailed impact assessment of IFRS 16.

The Group expect the effect of adopting IFRS 16 to be JD 366 Million on the total assets and JD 366 Million on the total liabilities.

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.

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. The IASB has deferred the effective date of these amendments indefinitely, but an entity that early adopts the amendments must apply them prospectively. The Group will apply these amendments when they become effective.

Amendments to IAS 19: Plan Amendment, Curtailment or Settlement

The amendments to IAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments also clarify that an entity first determines any past service cost, or a gain or loss on settlement, without considering the effect of the asset ceiling. This amount is recognised in profit or loss.

An entity then determines the effect of the asset ceiling after the plan amendment, curtailment or settlement. Any change in that effect, excluding amounts included in the net interest, is recognised in other comprehensive income.

The amendments apply to plan amendments, curtailments, or settlements occurring on or after the beginning of the first annual reporting period that begins on or after 1 January 2019, with early application permitted. These amendments will apply only to any future plan amendments, curtailments, or settlements of the Group.

Amendments to IAS 28: Long-term interests in associates and joint ventures

The amendments clarify that an entity applies IFRS 9 to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). This clarification is relevant because it implies that the expected credit loss model in IFRS 9 applies to such long-term interests.

The amendments also clarified that, in applying IFRS 9, an entity does not take account of any losses of the associate or joint venture, or any impairment losses on the net investment, recognised as adjustments to the net investment in the associate or joint venture that arise from applying IAS 28 Investments in Associates and Joint Ventures.

(42) COMPARATIVE FIGURES

Some of 2017 balances were reclassified to correspond with the consolidated financial statements figures for the year 2018 presentation, with no effect on profit and equity for the year 2017.