

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

A PUBLIC SHAREHOLDING COMPANY

CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2019



Ernst & Young Jordan
P.O.Box 1140
Amman 11118
Jordan
Tel : 00 962 6580 0777/00 962 6552 6111
Fax: 00 962 6553 8300
www.ey.com/me

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 2019, 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 financial position of the Group as at 31 December 2019, 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 Group in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (including International Independence Standards) (IESBA Code) together with the ethical requirements that are relevant to our audit of the consolidated 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 for the year ended 31 December 2019. 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.

<p>1. Passenger and cargo revenue recognition Refer to note (23) of the consolidated financial statements</p>	
<p>Key audit matter</p> <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>How the key audit matter was addressed in the audit</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. IFRS (16) - Leases

Refer to notes (4) and (18) of the consolidated financial statements

Key audit matter

IFRS (16) specifies how to recognize, measure, present and disclose leases. The standard requires the lessee to recognize assets and liabilities for all leases unless the lease term is short-term lease (i.e. 12 months or less) or the underlying asset has a low value. The application of IFRS (16) is considered a key audit matter due to judgments needed in establishing the underlying key assumptions that include identifying which contracts are in scope of IFRS (16), the lease term and the discount rate used in the calculation.

How the key audit matter was addressed in the audit

We have evaluated the application of IFRS (16) and tested the resulting impact on the Group's consolidated financial statements.

We have tested management's assumptions used in preparing the assessment, we also ensured the exemptions they used are acceptable in accordance with IFRS (16) (short term leases and leases for low value assets).

We have assessed whether the accounting treatment regarding leases is consistent with the definitions of IFRS (16) including factors such as lease term, discount rate and measurement principles.

We have checked the basis used by management in determining the interest rate to be used in calculating the net present value of future lease payments, we ensured that there are no implicit interest rate within the lease contracts, hence, we ensured that management rationale of calculation of the average incremental borrowing rate is appropriate. Furthermore, we have recalculated the incremental borrowing rate used in discounting the future lease payments.

3. Obsolete and slow moving spare parts and other supplies Refer to note (12) 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 Group's 2019 annual report

Other information consists of the information included in the Group's 2019 annual report, other than the consolidated financial statements and our auditor's report thereon. Management is responsible for the other information.

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 Group's financial reporting process.

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group'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 Group'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 Group'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 Group 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 Ali Hasan Samara; license number 503.

Amman – Jordan
15 March 2020



Alia - The Royal Jordanian Airlines Company (Royal Jordanian) - Public Shareholding Company
Consolidated Statement of Financial Position
At 31 December 2019
(In Thousands of Dinars)

	Notes	2019	2018
ASSETS			
Non- current assets			
Right-of-use assets	4,18	501,886	-
Property and equipment	7	106,845	266,852
Advances on purchase and modification of aircrafts	8	4,813	4,813
Financial assets at fair value through other comprehensive income	9	2,697	5,967
Investments in associates	10	18,760	17,680
Restricted cash against lease contracts		37,129	32,881
Deferred tax assets	31	12,322	14,920
		<u>684,452</u>	<u>343,113</u>
Current assets			
Other current assets	11	21,158	26,016
Spare parts and supplies, net	12	7,409	6,256
Accounts receivable, net	13	68,011	41,339
Cash and bank balances	14	79,462	92,012
		<u>176,040</u>	<u>165,623</u>
Assets classified as held for sale	15	-	8,631
TOTAL ASSETS		<u>860,492</u>	<u>517,367</u>
EQUITY AND LIABILITIES			
Shareholders' equity			
Paid in capital	16	274,610	246,405
Share discount	16	(78,205)	(61,000)
Advances in respect of capital increase	16	-	8,000
Statutory reserve	16	14,808	13,509
Fair value reserve	9	523	3,771
Cash flow hedges		119	-
Accumulated losses		(85,389)	(94,483)
		<u>126,466</u>	<u>116,202</u>
Non-controlling interests		266	276
Total shareholders' equity		<u>126,732</u>	<u>116,478</u>
LIABILITIES			
Non- current liabilities			
Long-term loans	17	72,598	71,626
Long-term lease obligations	4,18	399,177	105,281
Other long term liabilities	19	393	404
		<u>472,168</u>	<u>177,311</u>
Current liabilities			
Bank overdrafts	14	2,895	-
Current portion of long term loans	17	22,865	47,059
Accrued expenses	20	74,738	66,115
Accounts payable and other current liabilities	21	57,545	50,735
Deferred revenues	22	50,271	46,713
Short-term lease obligations	4,18	53,278	9,253
		<u>261,592</u>	<u>219,875</u>
Liabilities associated with assets classified as held for sale	15	-	3,703
Total liabilities		<u>733,760</u>	<u>400,889</u>
TOTAL EQUITY AND LIABILITIES		<u>860,492</u>	<u>517,367</u>

The attached notes from 1 to 41 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 2019
(In Thousands of Dinars)

	Notes	2019	2018
Revenues from contracts with customers	23	660,607	663,867
Cost of revenues	24	(547,188)	(576,323)
Gross Profit		113,419	87,544
Administrative expenses	26	(20,922)	(19,919)
Selling and marketing expenses	27	(46,150)	(45,716)
Other provisions	12,13	(855)	(5,292)
Net operating profit		45,492	16,617
Group's share of profits of associates	10	2,343	2,242
Other expenses	25	(2,025)	(5,897)
Gain on disposal of property and equipment		112	747
Provision for voluntary termination	29	-	(1,874)
Loss on foreign exchange differences	36	(1,772)	(4,248)
Finance costs	28	(33,087)	(16,256)
Interest income		1,918	2,851
Profit (loss) for the year before tax		12,981	(5,818)
Income tax expense	31	(2,598)	(39)
Profit (loss) for the year		10,383	(5,857)
Attributable to:			
Equity holders of the parent		10,393	(5,876)
Non-controlling interests		(10)	19
Profit (Loss) for the year		10,383	(5,857)
Earnings per share			
Basic and diluted earnings per share attributable to equity holders of the parent	30	JD 0.0381	JD (0.0250)

The attached notes from 1 to 41 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 2019
(In Thousands of Dinars)

	<u>Notes</u>	<u>2019</u>	<u>2018</u>
PROFIT (LOSS) FOR THE YEAR		10,383	(5,857)
Other comprehensive income			
Other comprehensive income that maybe reclassified to profit or loss in subsequent periods (net of tax):			
Net gain on cash flow hedges		119	-
Other comprehensive income that will not be reclassified to profit or loss in subsequent periods (net of tax):			
Change in fair value reserve of financial assets at fair value through other comprehensive income	9	(3,248)	-
Total comprehensive income for the year		<u>7,254</u>	<u>(5,857)</u>
Attributable to:			
Equity holders of the parent		7,264	(5,876)
Non controlling interests		(10)	19
		<u>7,254</u>	<u>(5,857)</u>

The attached notes from 1 to 41 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 2019
(In Thousands of Dinars)

	<i>Attributable to equity holders of the parent</i>									
	Paid in Capital	Share discount	Advances in respect of capital increase	Statutory reserve	Fair value reserve	Cash flow hedges	Accumulated losses	Total	Non – controlling interests	Total equity
2019-										
Balance as of 1 January 2019	246,405	(61,000)	8,000	13,509	3,771	-	(94,483)	116,202	276	116,478
Profit for the year	-	-	-	-	-	-	10,393	10,393	(10)	10,383
Other comprehensive income	-	-	-	-	(3,248)	119	-	(3,129)	-	(3,129)
Total comprehensive income	-	-	-	-	(3,248)	119	10,393	7,264	(10)	7,254
Transfer to statutory reserve	-	-	-	1,299	-	-	(1,299)	-	-	-
Payments in respect of capital increase (note 16)	-	-	3,000	-	-	-	-	3,000	-	3,000
Capital increase	28,205	(17,205)	(11,000)	-	-	-	-	-	-	-
Balance as of 31 December 2019	274,610	(78,205)	-	14,808	523	119	(85,389)	126,466	266	126,732
2018-										
Balance as of 1 January 2018	146,405	-	25,000	13,509	3,771	-	(88,607)	100,078	257	100,335
Loss for the year	-	-	-	-	-	-	(5,876)	(5,876)	19	(5,857)
Other comprehensive income	-	-	-	-	-	-	-	-	-	-
Total comprehensive income for the year	-	-	-	-	-	-	(5,876)	(5,876)	19	(5,857)
Payments in respect of capital increase (note 16)	-	-	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

The attached notes from 1 to 41 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 2019
(In Thousands of Dinars)

	Notes	2019	2018
OPERATING ACTIVITIES			
Profit (loss) before tax for the year		12,981	(5,818)
Adjustments for:			
Depreciation of property and equipment	7	21,670	38,736
Depreciation of right-of-use assets	4	67,351	-
Share of profit of associates	10	(2,343)	(2,242)
Finance costs	28	33,087	16,256
Provision for expected credit losses	13	632	820
Provision for slow moving inventory	12	223	4,472
Gain from sale of property and equipment		(112)	(747)
Provision for voluntary termination	29	-	1,874
Provision for end of service indemnity	19	37	17
Amortization of deferred revenue – Jordan Flight Catering		(300)	(300)
Other provisions		-	294
Interest income		(1,918)	(2,851)
Working capital changes			
Accounts receivable		(26,141)	(7,786)
Spare parts and supplies		(1,376)	465
Other current assets		509	2,776
Deferred revenues		3,858	507
Change in derivatives		130	-
Accounts payable and other current liabilities		5,421	(26,563)
Accrued expenses		4,795	6,456
End of service indemnity paid	19	(48)	(46)
Voluntary termination program payments		-	(1,807)
Income tax paid	31	-	(73)
Net cash flows from operating activities		<u>118,456</u>	<u>24,440</u>
INVESTING ACTIVITIES			
Dividends received from associates	10	1,263	1,277
Purchase of property and equipment		(20,010)	(18,925)
Sale of financial assets at fair value through OCI		22	25
Proceeds from sale of property and equipment		174	815
Interest income received		2,238	1,565
Change in restricted cash against lease contracts		(4,248)	(4,412)
Proceeds from sale of property and equipment held for sale		-	426
Recoveries on purchase and modification of aircrafts		-	29,902
Short term deposits		1,542	2,648
Net cash flows (used in) from investing activities		<u>(19,019)</u>	<u>13,321</u>
FINANCING ACTIVITIES			
Repayment of term loans		(22,664)	(38,879)
Capital increase		3,000	22,000
Payments of lease obligations	4	(87,185)	(10,844)
Interest paid		(7,498)	(15,764)
Net cash flows used in financing activities		<u>(114,347)</u>	<u>(43,487)</u>
Net decrease in cash and cash equivalents		(14,910)	(5,726)
Cash and cash equivalents, beginning of the year		67,193	72,919
Cash and cash equivalents, end of the year	14	<u>52,283</u>	<u>67,193</u>

The attached notes from 1 to 41 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 2019
(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 11 March 2020.

(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 derivative financial instruments and 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 2019:

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

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

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

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee, and
- The ability to use its power over the investee to affect its returns when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:
 - The contractual arrangement with the other vote holders of the investee
 - Rights arising from other contractual arrangements
 - The Group’s voting rights and potential voting rights

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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.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

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 Investment Management Company, Mint Trading Middle East Ltd. and Social Security Corporation own 82.03%, 4.99% and 5.33%, respectively from the Company's shares as at 31 December 2019 (31 December 2018: 76.4%, 9.14% and 5.94% respectively).

(4) CHANGES IN ACCOUNTING POLICIES

The accounting policies adopted in the preparation of the consolidated financial statements are consistent with those followed in the preparation of the consolidated financial statements for the year ended 31 December 2018, except for the adoption of the following new standards and interpretation starting from 1 January 2019:

IFRS (16) Leases

IFRS (16) supersedes IAS (17) Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise most leases on the balance sheet.

Lessor accounting under IFRS (16) is substantially unchanged from IAS (17). Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS (17). Therefore, IFRS (16) did not have an impact for leases where the Group is the lessor.

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

The Group adopted IFRS (16) at the date of initial application on 1 January 2019 using the expedient modified approach. Accordingly, prior year financial statements were not restated and opening balances were not adjusted. Also, the Group calculated right of use assets on lease contracts from the date of application. The Group elected to use the transition practical expedient to not reassess whether a contract is, or contains, a lease at 1 January 2019. Instead, the Group applied the standard only to contracts that were previously identified as leases applying IAS 17 and IFRIC 4 at the date of initial application. The Group also elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option (short-term leases), and lease contracts for which the underlying asset is of low value (low-value assets).

The effect of adoption IFRS (16) is as follows:

Impact on the consolidated statement of financial position (increase/(decrease)) as of 1 January 2019 is as follows:

Assets:

Non-current assets

Right of use assets	564,726
Property and equipment, net	(164,746)
Prepaid expenses	(4,601)
Total assets	395,379

Liabilities

Balance at 1 January	114,534
Impact of IFRS 16 adoption	395,379
Total liabilities	509,913

a) Nature of the effect of IFRS (16) adoption

The Group has lease contracts for various items including aircrafts and aircraft's engines and outstations' offices rent contracts. Before the adoption of IFRS (16), the Group classified each of its leases (as lessee) at the inception date as either a finance lease or an operating lease. A lease was classified as a finance lease if it transferred substantially all of the risks and rewards incidental to ownership of the leased asset to the Group; otherwise it was classified as an operating lease. Finance leases were capitalized at the commencement of the lease at the inception date at the fair value of the leased property or, if lower, at the present value of the minimum lease payments.

Lease payments were apportioned between interest (recognized as finance costs) and reduction of the lease liability. In an operating lease, the leased property was not capitalized and the lease payments were recognized as rent expense in the consolidated statement of comprehensive income on a straight-line basis over the lease term. Any prepaid rent and accrued rent were recognized under Prepayments and Trade and other payables, respectively.

Upon adoption of IFRS (16), the Group applied a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The standard provides specific transition requirements and practical expedients, which has been applied by the Group.

• Leases previously classified as finance leases

The Group did not change the initial carrying amounts of recognized assets and liabilities at the date of initial application for leases previously classified as finance leases (the right-of-use assets and lease liabilities equal the lease assets and liabilities recognized under IAS (17)). The requirements of IFRS (16) was applied to these leases from 1 January 2019.

Alia - The Royal Jordanian Airlines Company (Royal Jordanian) - Public Shareholding Company
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• **Leases previously accounted for as operating leases**

The Group recognized right-of-use assets and lease obligations for those leases previously classified as operating leases, except for short-term leases and leases of low-value assets. In some leases, the right-of-use assets were recognized based on the amount equal to the lease liabilities, adjusted for any related prepaid and accrued lease payments previously recognized. Lease liabilities were recognized based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.

The Group also applied the available practical expedients wherein it:

- Used a single discount rate to a portfolio of leases with reasonably similar characteristics
- Applied the short-term leases exemptions to leases with lease term that ends within 12 months at the date of initial application
- Excluded the initial direct costs from the measurement of the right-of-use asset at the date of initial application
- Used hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The reconciliation between lease obligations recognized at the date of adoption and the operating lease obligations as of 1 January 2019 is as follows:

Total operating lease obligation as of 31 December 2018	478,610
Weighted average incremental borrowing rate as at 1 January 2019	5.08%
Discounted total operating lease obligations at 1 January 2019	400,794
Less: Obligations related to short-term leases and leases of low value assets exempted from the adoption of the standard	(5,415)
Add: Obligations associated with finance leases (previously)	114,534
Lease obligations as of 1 January 2019	<u>509,913</u>

b) Amounts recognized in the consolidated statement of financial position and consolidated statement of comprehensive income:

The schedule below illustrates the book value of the Group's right-of-use assets and lease obligations along with the movement during the year ended 31 December 2019:

	<u>Right-of-use assets</u>			<u>Total</u>	<u>Lease obligations*</u>
	<u>Aircrafts</u>	<u>Aircraft's engines</u>	<u>offices</u>		
At 1 January 2019	493,235	42,369	29,122	564,726	509,913
Additions	4,511	-	-	4,511	4,511
Depreciation	(61,114)	(2,601)	(3,636)	(67,351)	-
Finance costs	-	-	-	-	25,216
Payments	-	-	-	-	(87,185)
At 31 December 2019	<u>436,632</u>	<u>39,768</u>	<u>25,486</u>	<u>501,886</u>	<u>452,455</u>

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* Lease obligations details as at 31 December 2019 are as follows:

<u>Short term</u>	<u>Long term</u>	<u>Total</u>
<u>53,278</u>	<u>399,177</u>	<u>452,455</u>

The Impact on the consolidated income statement (increase/(decrease)) for the year ended 31 December 2019 is as follows:

	<u>2019</u>
Depreciation expense of right-of-use assets	(67,351)
Finance cost on lease liabilities	(25,216)
Expense relating to short-term leases and low-value assets	(5,415)
	<u>(97,982)</u>

The Impact on the consolidated statement of cash flows (increase/(decrease)) for the year ended 31 December 2019 is as follows:

	<u>2019</u>
Operating activities	
Adjustments for	
Depreciation of right of use assets	67,351
Finance costs	25,216
Net cash flows from operating activities	<u>92,567</u>
Finance activities	
Payments of lease obligations	(87,185)
Net cash flows used in financing activities	<u>(87,185)</u>

Rent expense from short-term leases and lease of low-value assets which were recognized in the consolidated income statement for the year ended 31 December 2019 amounted to JD 5,415.

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.

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

Amendments to IFRS (9): Prepayment Features with Negative Compensation

Under IFRS (9), a debt instrument can be measured at amortized cost or at fair value through other comprehensive income, provided that the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding' (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to IFRS (9) clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract.

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

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 recognized in full. Any gain or loss resulting from the sale or contribution of assets that do not constitute a business, however, is recognized 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.

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

Amendments to IAS 19: Plan Amendment, Curtailment or Settlement

The amendments to IAS 19 clarify the accounting when a plan amendment, curtailment or settlement occurs during a fiscal year, 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 the consolidated statement of comprehensive income.

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 the consolidated statement of comprehensive income.

No significant impact resulted on the consolidated financial statement for 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, recognized as adjustments to the net investment in the associate or joint venture that arise from applying IAS (28) Investments in Associates and Joint Ventures.

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.

Provision for expected credit losses

The Group uses a provision matrix to calculate the expected credit loss (ECL) for trade receivables. The provision rates are based on days past due for groupings of various customers segments that have similar loss patterns.

The provision matrix is initially based on the Groups historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward looking information. For instance, if forecast economic conditions (i.e gross domestic product) are expected to deteriorate over the next year which can lead to an increase number of defaults, the historical default rates are adjusted.

The assessment of the correlation between historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Groups historical credit loss experience and forecast of economic conditions may also not be representative of the customers actual default in the future.

Provision for aircraft return conditions

The measurement of the provision for aircraft return conditions includes assumptions relating to expected costs, escalation rates, discount rates commensurate with the expected obligation maturity and long-term maintenance schedules. An estimate is therefore made at each reporting date to ensure that the provision corresponds to the present value of the expected costs to be borne by the Company. A significant level of judgement is exercised by management given the long-term nature and diversity of assumptions that go into the determination of the provision. A reasonably possible change in any single assumption will not result in a material change to the provision.

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 2019, the estimated liability for unredeemed points was approximately JD 6,688 (2018: JD 5,577).

Significant Judgments and estimates related to the application of IFRS 16

The application of IFRS 16 requires the Group to make judgments and estimates that affect the measurement of right of use assets and liabilities. In determining the lease term, we must consider all facts and circumstances that create an economic incentive to exercise renewal options. Assessing whether a contract includes a lease also requires judgment. Estimates are required to determine the appropriate discount rate used to measure lease liability.

(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.

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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 to their estimated residual values 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 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. Management used the value in use method for impairment testing of the aircrafts; as the management plans to utilize the aircrafts in their operations.

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.

Leases (Policy applicable before 1 January 2019)

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases:

1. The Group as a lessor

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and on a straight-line basis over the lease term.

2. The Group as a lessee:

Assets held under finance leases are initially recognized as assets of the Company at their fair value at the inception of the lease or, if lower, at the present value of the minimum future lease payments. The finance lease obligation is recorded at the same value. Lease payments are apportioned between finance costs and reduction of the lease liabilities so as to achieve a constant rate of interest on the remaining balance of the liability. Finance costs are charged directly to the consolidated statement of income.

Operating lease payments are recognized as an expense on a straight-line basis over the lease term.

Leases (Policy applicable after 1 January 2019)

The Group assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognizes lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

Right-of-use assets

The Group recognizes right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease obligations.

The cost of right-of-use assets includes the amount of lease obligations recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognized right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life or the lease term. Right-of-use assets are subject to impairment.

Lease obligations

At the commencement date of the lease, the Group recognizes lease obligations measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate.

The variable lease payments that do not depend on an index or a rate are recognized as expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease obligations is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to some of its short-term leases (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases that are considered of low value (less than 5,000 US dollars annually). Lease payments on short-term leases and leases of low-value assets are recognized as expense on a straight-line basis over the lease term.

Significant judgement in determining the lease term of contracts with renewal options

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Group has the option, under some of its leases to lease the assets for additional terms. The Group applies judgement in evaluating whether it is reasonably certain to exercise the option to renew.

That is, it considers all relevant factors that create an economic incentive for it to exercise the renewal. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew (e.g., a change in business strategy).

The Group included the renewal period as part of the lease term for leases of property and equipment due to the significance of these assets to its operations. These leases have a short non-cancellable period and there will be a significant negative effect on production if a replacement is not readily available.

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 associate is 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 after deducting bank overdraft balances.

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 35.

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.

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

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

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

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

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

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

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

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.

Provision for aircraft return conditions

Provision for aircraft return conditions represents the estimate of the cost to meet the contractual lease end obligations on certain aircraft and engines held under lease contracts. The present value of the expected cost is recognized over the lease term considering the existing fleet plan and long-term maintenance schedules.

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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 falls 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 or upon the redelivery of the aircraft to the lessor which is shorter.

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.

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.

Foreign currencies

1) Transactions and balances

Transactions in foreign currencies are initially recorded in the functional currency at the spot rate of exchange ruling at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are retranslated into the functional currency at the spot rate of exchange at the reporting date. All foreign exchange differences arising on non-trading activities are taken to other operating income/expense in the income statement.

Non-monetary items that are measured at historical cost in a foreign currency are translated using the spot exchange rates as at the date of recognition.

2) Group companies

On consolidation, the assets and liabilities in foreign operations are translated into dollars at the spot rate of exchange prevailing at the reporting date and their income statements are translated at spot exchange rates prevailing at the dates of the transactions. The exchange differences arising on translation for consolidation are recognised in OCI.

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(7) PROPERTY AND EQUIPMENT

	<i>Aircrafts under leases contracts</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 2019	144,338	123,750	38,869	54,463	48,139	71,268	19,128	8,625	10,708	43,065	562,353
Additions	-	-	-	14,163	1,833	1,853	943	118	243	857	20,010
Disposals	-	-	-	(27,547)	-	(979)	(28)	(112)	(796)	-	(29,462)
Transfers from assets classified as held for sale (Note 15)	-	30,411	-	5,826	-	470	-	758	227	-	37,692
Transfers to right of use assets (Note 4)	(144,338)	-	(37,778)	-	-	-	-	-	-	-	(182,116)
Balance as of 31 December 2019	-	154,161	1,091	46,905	49,972	72,612	20,043	9,389	10,382	43,922	408,477
Accumulated depreciation:											
Balance as of 1 January 2019	14,049	84,446	3,940	43,029	45,447	57,371	17,048	7,585	9,952	12,634	295,501
Depreciation expense for the year	-	4,280	309	9,800	644	3,548	676	265	307	1,841	21,670
Disposals	-	-	-	(27,511)	-	(976)	(28)	(90)	(795)	-	(29,400)
Transfers from assets classified as held for sale (Note 15)	-	26,851	-	2,987	-	462	-	704	227	-	31,231
Transfers to right of use assets (Note 4)	(14,049)	-	(3,321)	-	-	-	-	-	-	-	(17,370)
Balance as of 31 December 2019	-	115,577	928	28,305	46,091	60,405	17,696	8,464	9,691	14,475	301,632
Net book value as of											
31 December 2019	-	38,584	163	18,600	3,881	12,207	2,347	925	691	29,447	106,845

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	<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>Lands and buildings</i>	<i>Total</i>
Cost:											
Balance as of 1 January 2018	185,380	118,593	37,778	48,163	47,572	69,488	18,539	9,353	10,778	42,805	588,447
Additions	-	-	1,091	14,316	567	2,513	629	48	441	252	19,867
Disposals	-	(5,474)	-	(2,190)	-	(263)	(40)	(18)	(284)	-	(8,269)
Assets classified as held for sale (Note 15)	-	(30,411)	-	(5,826)	-	(470)	-	(758)	(227)	-	(37,692)
Transfers*	(41,042)	41,042	-	-	-	-	-	-	-	-	-
Balance as of 31 December 2018	144,338	123,750	38,869	54,463	48,139	71,268	19,128	8,625	10,708	43,055	562,353
Accumulated depreciation:											
Balance as of 1 January 2018	25,917	92,212	1,661	32,123	44,176	54,705	16,469	7,979	10,174	10,781	296,197
Depreciation expense for the year	8,953	3,738	2,279	16,083	1,271	3,351	591	328	289	1,853	38,736
Disposals	-	(5,474)	-	(2,190)	-	(223)	(12)	(18)	(284)	-	(8,201)
Assets classified as held for sale (Note 15)	-	(26,851)	-	(2,987)	-	(462)	-	(704)	(227)	-	(31,231)
Transfers	(20,821)	20,821	-	-	-	-	-	-	-	-	-
Balance as of 31 December 2018	14,049	84,446	3,940	43,029	45,447	57,371	17,048	7,585	9,952	12,634	295,501
Net book value as of											
31 December 2018	130,289	39,304	34,929	11,434	2,692	13,897	2,080	1,040	756	30,431	266,852

* During 2018, the Group has settled all lease balances related to two Embrear – 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 18).

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(8) ADVANCES ON PURCHASE AND MODIFICATION OF AIRCRAFTS

	<u>2019</u>	<u>2018</u>
Advances for the purchase of Boeing 787 aircrafts	4,813	4,813

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

This item includes investments in equity shares of non-listed companies. The Group holds non- controlling interests in these companies. These investments were irrevocably designated at fair value through other comprehensive income as the Group considers these investments to be strategic in nature:

	<u>2019</u>	<u>2018</u>
Royal Jordanian Air Academy, net	2,138	5,386
SITA Investment Certificates	536	558
Others	23	23
	<u>2,697</u>	<u>5,967</u>

Movement on fair value reserve is as follows:

	<u>2019</u>	<u>2018</u>
Balance at 1 January	3,771	3,771
Change during the year	<u>(3,248)</u>	<u>-</u>
Balance at 31 December	<u>523</u>	<u>3,771</u>

(10) INVESTMENTS IN ASSOCIATES

	Country of incorporation	Ownership		Balance	
		<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Jordan Flight Catering Company	Jordan	30%	30%	5,076	5,112
Jordan Aircraft Maintenance Company (Joramco)	Jordan	20%	20%	10,046	8,894
Jordan Aircraft Training and Simulation Company (JATS)	Jordan	20%	20%	3,638	3,674
				<u>18,760</u>	<u>17,680</u>

Movement on investments in associates was as follows:

	<u>2019</u>	<u>2018</u>
Beginning balance	17,680	16,715
Group's Share of profits for the year	2,343	2,242
Dividends received	<u>(1,263)</u>	<u>(1,277)</u>
	<u>18,760</u>	<u>17,680</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)		Total	
	2019	2018	2019	2018	2019	2018	2019	2018
Current assets	6,306	6,145	28,379	22,409	1,780	1,273	36,465	29,827
Non-current assets	5,112	1,278	23,986	19,255	16,166	17,773	45,264	38,306
Current liabilities	(4,212)	(3,258)	(16,986)	(13,082)	(1,303)	(2,195)	(22,501)	(18,535)
Non-current liabilities	(3,525)	-	(12,922)	(11,888)	(4,210)	(4,064)	(20,657)	(15,952)
Net assets	3,681	4,165	22,457	16,694	12,433	12,787	38,571	33,646
Group's ownerships percentage	30%	30%	20%	20%	20%	20%		
Investment in associate	1,104	1,250	4,491	3,339	2,487	2,557	8,082	7,146

Statement of comprehensive income	Jordan Flight Catering Company		Jordan Aircraft Maintenance Company (JORAMCO)		Jordan Aircraft Training & Simulation Company (JATS)		Total	
	2019	2018	2019	2018	2019	2018	2019	2018
Revenues	19,000	19,081	58,017	47,954	3,886	4,642	80,903	71,677
Cost of sales	(13,993)	(14,082)	(35,361)	(30,323)	(2,416)	(3,214)	(51,770)	(47,619)
Other income and expenses	(852)	(293)	(16,896)	(14,450)	(1,650)	(458)	(19,398)	(15,201)
Income (loss) before tax	4,155	4,706	5,760	3,181	(180)	970	9,735	8,857
Income tax	(65)	-	-	-	-	-	(65)	-
Profit (loss) for the year	4,090	4,706	5,760	3,181	(180)	970	9,670	8,857
Group's Share of profit for the year	1,227	1,412	1,152	636	(36)	194	2,343	2,242

As of 31 December 2019, the associate companies have contingent liabilities of JD 1,268 (2018: JD 716) in respect of guarantees and letter of credits.

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(11) OTHER CURRENT ASSETS

	2019	2018
Prepaid expenses	4,522	9,812
Receivable from lessors – maintenance claims	8,670	7,439
Advances to suppliers	4,612	4,535
Refundable deposits	1,032	911
Employees' receivables	551	882
Derivatives*	316	327
Others	1,455	2,110
	<u>21,158</u>	<u>26,016</u>

* 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.

(12) SPARE PARTS AND OTHER SUPPLIES, NET

	2019	2018
Spare parts and supplies	17,642	16,266
Provision for slow moving inventory	(10,233)	(10,010)
	<u>7,409</u>	<u>6,256</u>

Movement on provision for slow moving inventory was as follows:

	2019	2018
Beginning balance	10,010	5,538
Provision for the year	223	4,472
Ending balance	<u>10,233</u>	<u>10,010</u>

(13) ACCOUNTS RECEIVABLE, NET

	2019	2018
Accounts receivable*	84,532	54,630
Provision for expected credit losses	(16,521)	(13,291)
	<u>68,011</u>	<u>41,339</u>

As of 31 December 2019, provision for expected credit losses amounted to JD 16,521 (2018: JD 13,291).

* Included in accounts receivable fuel discount amounted to JD 38,709 (2018: 14,663).

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Movement on provision for expected credit losses was as follows:

	2019	2018
Beginning balance	13,291	15,069
Provision for the year	632	820
Transfers from (to) assets held for sale (Note 15)	2,598	(2,598)
Ending balance	16,521	13,291

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	
2019	49,706	9,938	3,010	984	3,318	1,055	68,011
2018	19,826	10,689	2,374	1,411	4,152	2,887	41,339

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.

(14) CASH AND BANK BALANCES

	2019	2018
Cash and bank balances	29,239	23,129
Short term deposits*	6,095	19,804
Cash in transit **	19,844	23,253
Cash and cash equivalents	55,178	66,186
Short term deposits mature after 3 months ***	24,284	25,826
Cash and bank balances	79,462	92,012

* This item represents deposits in Jordanian Dinar in Jordanian Banks as of 31 December 2019 with an interest rate ranging between 4.275% – 5% (2018: 4.35% – 5.75%) 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) with an average interest rate of 4.9% and Sudanese Pound (214,804 thousand Sudanese Pound which is equivalent to JD 1,324) in addition to Libyan Dinar and Syrian Lira equivalent to JD 1,180 as of 31 December 2019 (2018: 21,780 Jordanian Dinar and 201,994 Sudanese pounds which is equivalent to JD 2,858 in addition to Libyan Dinar and Syrian Lira equivalent to JD 1,188) with an average interest rate of 5.5% (2018: 5.5%) and are due after three months (2018: 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:

	2019	2018
Cash and cash equivalents	55,178	66,186
Add: discontinued operations (Note 15)	-	1,007
Less: Banks overdrafts****	(2,895)	-
	52,283	67,193

**** This item represents the utilized amount of the credit facilities granted from Arab Bank with a ceiling of JD 20 million and annual interest rate of 6%.

(15) 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 2018.

	2018
Revenues	10,216
Cost of revenues	(11,824)
Gross loss	(1,608)
Administrative expenses	(2,181)
Other income, net	(62)
Loss before tax from discontinued operations	(3,851)
Income tax	-
Loss from discontinued operations	(3,851)

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

	2018
<u>ASSETS</u>	
Property and equipment	6,461
Accounts receivable and other current assets	1,163
Cash and bank balances (Note 14)	1,007
Assets classified as held for sale	8,631
<u>LIABILITIES</u>	
Accounts payable and other credit balances	1,389
Accrued expenses	2,314
Liabilities associated with assets classified as held for sale	3,703
Net assets classified as held for sale	4,928

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On 16 June 2019, the Company's board of directors resolved to disregard the previous decision to sell or liquidate Royal Wings Company. Accordingly, the results of operations of the subsidiary previously presented in discontinued operation were reclassified and included in income from operation for all periods presented.

The amounts presented for assets classified as held for sale and liabilities associated with assets held for sale in comparative statement of financial position as of 31 December 2018 were not reclassified or re-presented in accordance with IFRS (5).

(16) SHAREHOLDERS' EQUITY

- Paid in capital	<u>2019</u>	<u>2018</u>
Authorized capital (Par value of one Jordanian Dinar per share)	<u>274,610</u>	<u>274,610</u>
Paid in capital	<u>274,610</u>	<u>246,405</u>

- Share discount

Share discount amounted to JD 78.2 million as at 31 December 2019 (2018: JD 61 million). The accumulated balance in this account represents the difference between the issuing price and the par value of the shares issued.

Advances 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.

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

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 by 28,205,128 shares to become 274,610,470 shares as a completion of the first half of the second tranche of the Company's capital increase process amounted to JD 50 million.

Subscription was completed during January 2019, whereas, the Company's authorized and paid in capital became JD 274,610 along with a share discount of JD 78,205 as at 31 December 2019.

- Statutory Reserve

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

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(17) BANK LOANS

	2019		2018	
	Loan's Installments		Loan's Installments	
	Short term	Long term	Short term	Long term
Syndicated loan*	23,400	74,246	47,839	72,471
Less: directly attributable transaction costs	(535)	(1,648)	(780)	(845)
	<u>22,865</u>	<u>72,598</u>	<u>47,059</u>	<u>71,626</u>

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

On 5 February 2019, the Company signed a loan restructuring agreement for the syndicated loan. The loan installments were extended until 2024. The first installment amounting to JD 1.9 million fell due on 5 March 2019 with an annual interest rate of one-month LIBOR plus 2.65% (minimum 4.5%).

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 2020 and after are as follows:

Year	JD
2020	23,400
2021	23,400
2022	23,453
2023	23,489
2024	3,904
	<u>97,646</u>

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(18) Leases

The Group has lease contracts for various items including aircrafts, aircraft's engines and offices rent.

Lease terms are as follows:

	<u>Years</u>
Aircrafts	3-7
Aircrafts' engines	8
Offices rent	2-13

There are several lease contracts that include extension and termination options and variable lease payments.

The Group also has certain leases of offices and other assets with lease terms of 12 months or less and leases for assets of low value. The Group applies the 'short-term lease' and 'lease of low-value assets' recognition exemptions for these leases.

Set out below are the carrying amounts of right-of-use assets recognised and the movements during the year:

	<u>Right-of-use assets</u>			
	<u>Aircrafts</u>	<u>Aircraft's engines</u>	<u>Offices</u>	<u>Total</u>
At 1 January 2019	493,235	42,369	29,122	564,726
Additions	4,511	-	-	4,511
Depreciation	(61,114)	(2,601)	(3,636)	(67,351)
At 31 December 2019	<u>436,632</u>	<u>39,768</u>	<u>25,486</u>	<u>501,886</u>

Set out below are the carrying amounts of lease obligations and the movements during the year:

	<u>2019</u>	<u>2018</u>
At 1 January	114,534	118,773
Impact of IFRS 16 adoption	395,379	-
Restated balances at 1 January	509,913	118,773
Additions	4,511	-
Finance costs (Note 28)	25,216	6,605
Payments	(87,185)	(10,844)
At 31 December 2019	<u>452,455</u>	<u>114,534</u>
Current portion	<u>53,278</u>	<u>9,253</u>
Non-Current portion	<u>399,177</u>	<u>105,281</u>

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The following are the amounts recognized in the consolidated income statement for the year ended 31 December 2019:

	2019
Depreciation expense of right-of-use assets	67,351
Finance costs on lease liabilities	25,216
Expense relating to short-term leases and low-value assets	5,415
	<u>97,982</u>

The Company has mortgaged the Embreair aircrafts and two Boeing 787 for the lease agreements of those aircrafts.

During 2018, the Group has completed the pledge release procedures for two Embreair E175 aircrafts number 223 and 232. Where the Group has also settled all lease obligations related to these aircrafts.

(19) OTHER LONG TERM LIABILITIES

	2019	2018
Provision for end of service indemnity	<u>393</u>	<u>404</u>

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

	2019	2018
Beginning balance	404	433
Provision for the year	37	17
Payments during the year	<u>(48)</u>	<u>(46)</u>
Ending balance	<u>393</u>	<u>404</u>

(20) ACCRUED EXPENSES

	2019	2018
Accrual for flying operations expenses	60,225	53,358
Accrued expenses related to lease contracts	<u>14,513</u>	<u>12,757</u>
	<u>74,738</u>	<u>66,115</u>

(21) ACCOUNTS PAYABLE AND OTHER CURRENT LIABILITIES

	2019	2018
Spare parts suppliers and accounts payable	11,731	7,888
Fuel suppliers	1,560	1,963
Ministry of Finance	1,460	1,707
Employees Provident fund	3,796	4,144
Others*	<u>38,998</u>	<u>35,033</u>
	<u>57,545</u>	<u>50,735</u>

* Included in this item international taxes, departure and airports usage taxes of JD 36,909 that are payable to international tax authorities and airports (2018: JD 31,811).

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(22) DEFERRED REVENUES

	2019	2018
Unutilized passenger tickets, air way bills and other service sales	49,846	45,988
Deferred revenue – Jordan Flight Catering Company*	425	725
	<u>50,271</u>	<u>46,713</u>

* Alia – The Royal Jordanian Airlines Company signed an 11 year and six month 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.

(23) REVENUES FROM CONTRACTS WITH CUSTOMERS

	2019	2018
Scheduled Services		
Passengers	529,788	529,024
Cargo	31,345	37,702
Excess baggage	6,906	5,257
Airmail	7,934	7,889
Total scheduled services (note 33)	<u>575,973</u>	<u>579,872</u>
Chartered flights (note 33)	10,066	17,747
Cargo warehouse revenues	16,555	16,275
Commercial revenues from arriving and departing aircrafts of other companies	12,731	12,892
Change and cancelation of reservation revenues	10,430	10,327
Royal tours revenues (Tours operating revenues)	7,786	4,744
First class services revenues	5,988	5,459
Frequent flyer revenues	5,112	3,504
Ancillary revenue	4,804	3,439
Revenues from technical and maintenance services provided to other companies	4,592	3,903
Revenues from NDC (Galileo)	3,373	3,599
Other revenues	3,197	2,106
	<u>660,607</u>	<u>663,867</u>

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(24) COST OF REVENUES

	2019	2018
Flying operations costs		
Aircraft Fuel	145,915	159,301
Other flying operations costs	68,905	74,376
Total flying operations costs	214,820	233,677
Repair and maintenance	78,983	72,309
Aircraft rental expenses	4,654	76,926
Depreciation of aircraft and engines and capitalized maintenance	81,256	35,097
Stations and ground services	66,096	62,383
Ground handling unit	23,398	22,281
Passenger services	77,981	73,650
	547,188	576,323

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

	2019	2018
Salaries and wages	42,905	42,140
Overtime	2,542	2,329
End of service indemnity	722	984
Social Security contribution	5,229	5,111
Provident fund contribution	3,157	3,168
Medical expenses	2,183	1,917
Other benefits	2,128	2,570
	58,866	58,219

(25) OTHER EXPENSE

	2019	2018
Legal cases provision	1,860	1,804
Loss from termination of purchase contract - Boeing 787 aircraft (note 38)	-	1,436
Other expenses	165	2,657
	2,025	5,897

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(26) ADMINISTRATIVE EXPENSES

	2019	2018
Salaries and wages	6,966	6,566
Computer expenses	3,312	3,185
Depreciation	2,003	1,855
Professional and consultation expenses	881	1,289
Employees benefits	784	650
Overtime	252	239
Medical expenses	697	600
End of service indemnity	42	26
Social security contribution	791	709
Provident fund contribution	500	454
Life insurance	141	202
Rent	8	183
Maintenance and cleaning expenses	107	113
Water, electricity and heating	576	636
Communication expense	102	122
Legal expenses	1,029	301
Others	2,731	2,789
	<u>20,922</u>	<u>19,919</u>

(27) SELLING AND MARKETING EXPENSES

	2019	2018
Commission	18,837	17,036
Salaries and wages	10,859	11,298
Marketing and advertisement	3,950	4,622
Other employee benefits	2,377	2,491
Rent	955	1,945
Social security contribution	1,720	1,749
Overtime	201	201
Medical expenses	771	696
End of service indemnity	288	177
Provident fund contribution	287	287
Life insurance	100	73
Maintenance and cleaning expenses	164	169
Water, electricity and heating	157	184
Computer expenses	834	658
Depreciation	990	197
Communication expenses	874	980
Legal expenses	282	68
Consulting expenses	186	259
Others	2,318	2,626
	<u>46,150</u>	<u>45,716</u>

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(28) FINANCE COSTS

	2019	2018
Interest on loans	6,999	8,941
Leases contracts – finance cost (Note 18)	25,216	6,605
Other interest and bank charges	872	710
	<u>33,087</u>	<u>16,256</u>

(29) 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.

(30) EARNINGS PER SHARE

	2019	2018
Profit (loss) for the year attributed to the equity holders of the parent ('000)	10,393	(5,876)
Weighted average number of shares ('000)	<u>272,910</u>	<u>234,625</u>
Basic and diluted earnings per share (JD)	<u>0.0381</u>	<u>(0.0250)</u>

(31) INCOME TAX

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

	2019	2018
Current year's income tax charge	-	39
Deferred Tax Assets		
Related to temporary differences	<u>2,598</u>	<u>-</u>
Income tax expense	<u>2,598</u>	<u>39</u>

Provision for income tax was calculated for the Company for the year 2019 by an amount of JD 2,598 (2018:nil) in accordance with the Jordanian Income Tax Law No. (38) of 2018 and income tax law No. (34) of 2014.

Provision for income tax charge during 2018 with an amount of JD 39 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.

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.

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The Company filed its tax return for the years 2015 to 2018. 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 years of 2018 and 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 years of 2018 and 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 from 2016 to 2018. 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:

	2019	2018
Beginning balance	-	34
Current year's income tax charge	-	39
Income tax paid	-	(73)
Ending balance	-	-

Movement on deferred tax assets was as follows:

	2019	2018
Beginning balance	14,920	14,920
Amount released from deferred tax assets	(2,598)	-
Ending balance	12,322	14,920

Reconciliation between accounting profit and taxable profit

	2019	2018
Accounting (loss) profit	12,981	(5,818)
Non-taxable profits	(2,332)	(2,242)
Non-deductible expenses	2,350	14,500
Prior years tax losses	(121,905)	(128,347)
Accumulated tax losses	(108,906)	(121,907)
Relates to:		
Total loss – Parent Company	(108,345)	(121,346)
Total loss – Subsidiaries	(561)	(561)
Effective income tax rate for subsidiaries	20%	20%
Statutory income tax rate	20%	20%
Current year income tax – subsidiaries	-	39
Income tax expense	-	39

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(32) 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:

	2019		2018	
	Accounts receivable	Accounts payable	Accounts receivable	Accounts payable
Government of Jordan	3,545	1,460	3,910	1,707
Employees' Provident Fund	-	3,796	-	4,144
Jordan Aircraft Maintenance Company	-	164	1,177	-
Jordan Flight Catering Company	-	3,135	-	3,190
Jordan Aircraft Training and Simulation Company	-	163	-	60
	<u>3,545</u>	<u>8,718</u>	<u>5,087</u>	<u>9,101</u>

Advances in respect of capital increase – included in shareholders equity:

	2019	2018
Investment Management Company	<u>-</u>	<u>8,000</u>

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

	2019	2018
Jordan Aircraft Maintenance Company (JORAMCO):		
Scheduled services revenues	<u>257</u>	<u>281</u>
Repair and maintenance expenses	<u>(4,303)</u>	<u>(3,688)</u>
Jordan Flight Catering Company:		
Passenger services expenses	<u>(13,656)</u>	<u>(14,642)</u>
Jordan Aircraft Training and Simulation Company:		
Scheduled services revenues	<u>10</u>	<u>22</u>
Pilots training expenses	<u>(866)</u>	<u>(728)</u>

The Company signed a 4 years maintenance contract with Jordan Aircraft Maintenance Company (JORAMCO) during January 2005, and in return the Company was granted a 20% share in Jordan Aircraft Maintenance Company. The contract was extended for 7 years up to the end of October 2016. The contract was renewed up to the end of January 2021.

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 2021.

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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%.

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

	2019	2018
Scheduled services revenues – passengers	3,888	3,844
Scheduled services revenues – cargo	1,064	1,352
Charter flights	4,040	1,276
	<u>8,992</u>	<u>6,472</u>

- The Company’s contribution to the employees’ saving fund amounted to JD 3,944 and JD 3,909 for the years 2019 and 2018, respectively.

Compensation of key management personnel

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

	2019	2018
Salaries and other benefits	1,042	702
Board of Directors remuneration	43	42

(33) 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:

	2019				2018			
	Scheduled services	Chartered Flights		Total	Scheduled services	Chartered Flights		Total
		Passengers	Cargo			Passengers	Cargo	
Levant	71,127	230	3,345	74,702	69,946	8,978	1,046	79,970
Europe	160,055	1,544	1,818	163,417	165,874	1,051	1,657	168,582
Arab Gulf	137,370	-	-	137,370	135,973	-	102	136,075
America	145,265	-	2,376	147,641	139,045	-	3,647	142,692
Asia	50,629	554	-	51,183	52,183	424	842	53,449
Africa	11,527	199	-	11,726	16,851	-	-	16,851
Total Revenue	<u>575,973</u>	<u>2,527</u>	<u>7,539</u>	<u>586,039</u>	<u>579,872</u>	<u>10,453</u>	<u>7,294</u>	<u>597,619</u>

(34) 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, bank overdrafts, lease obligation and some other current liabilities.

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

(35) 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 2019	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Financial assets:				
Financial assets at fair value through other comprehensive income	-	-	2,697	2,697
Derivative financial instruments (within other current assets)	316	-	-	316
	<u>316</u>	<u>-</u>	<u>2,697</u>	<u>3,013</u>
31 December 2018				
Financial assets:				
Financial assets at fair value through other comprehensive income	-	-	5,967	5,967
Derivative financial instruments (within other current assets)	327	-	-	327
	<u>327</u>	<u>-</u>	<u>5,967</u>	<u>6,294</u>

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(36) 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 leases, bank loans and bank overdrafts).

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 2019.

The following table demonstrates the sensitivity of the consolidated income statement to reasonably possible changes in interest rates as of 31 December 2019, with all other variables held constant.

	<u>Increase in interest rate (points)</u>	<u>Effect on profit</u>
2019-		
Currency		
USD	50	(1,004)
JD	50	139
	<u>Decrease in interest rate (points)</u>	<u>Effect on profit</u>
Currency		
USD	25	502
JD	25	(70)
	<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

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 2019 and 2018.

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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 2019 and 2018, based on contractual payment dates and current market interest rates.

31 December 2019	Less than 3 months	3 to 12 months	1 to 5 years	More than 5 years	Total
Accounts payables and other current liabilities	57,545	-	-	-	57,545
Bank loans	4,319	23,058	79,754	-	107,131
Lease obligations	20,580	61,014	353,734	86,713	522,041
Other long term liabilities	-	-	-	393	393
Total	82,444	84,072	433,488	87,106	687,110

31 December 2018	Less than 3 months	3 to 12 months	1 to 5 years	More than 5 years	Total
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

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.

2019 -

Currency	Increase in foreign currency rate to the JD currency (%)	Effect on profit
Euro	1	69
GBP	1	33
SDG	1	15
Currency	Decrease in foreign currency rate to the JD currency (%)	Effect on profit
Euro	(1)	(69)
GBP	(1)	(33)
SDG	(1)	(15)

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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>	<i>Effect on loss</i>
	(%)	
Euro	(1)	98
GBP	(1)	45
SDG	(1)	29

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 1,772 for the year ended 31 December 2019 of which JD 969 resulted from the fluctuation in the Sudanese Pound (31 December 2018: foreign exchange loss of JD 4,248 of which JD 2,076 resulted from the fluctuation in the Sudanese Pound).

(37) 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, share discount, advances in respect of capital increase, statutory reserve and accumulated losses and is measured at JD 125,824 as at 31 December 2019 (2018: JD 112,431).

(38) CONTINGENCIES AND COMMITMENTS

Bank guarantees

As of 31 December 2019, the Group had letters of guarantee amounting to JD 9,279 (2018: JD 12,132).

Claims against the Group

The Group is a defendant in a number of lawsuits amounting to JD 7,992 (2018: JD 12,866) 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. In the opinion of the Group and their legal counsels, the provision recognized as of 31 December 2019 is sufficient to cover any contingent liabilities and claims that may arise from these lawsuits.

Capital commitments

As of 31 December 2019, the Group had capital commitments of USD 453,013,157 (2018: USD 453,013,157), equivalent to JD 321,286 (2018: JD 321,286) 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 25).

(39) 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 17 Insurance Contracts

In May 2017, the IASB issued IFRS 17 Insurance Contracts (IFRS 17), a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 Insurance Contracts (IFRS 4) that was issued in 2005. IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features.

A few scope exceptions will apply. The overall objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies, IFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of IFRS 17 is the general model, supplemented by:

- A specific adaptation for contracts with direct participation features (the variable fee approach)
- A simplified approach (the premium allocation approach) mainly for short-duration contracts

IFRS 17 is effective for reporting periods beginning on or after 1 January 2021, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17. This standard is not applicable to the Group.

Amendments to IFRS 3: Definition of a Business

In October 2018, the IASB issued amendments to the definition of a business in IFRS 3 Business Combinations to help entities determine whether an acquired set of activities and assets is a business or not. They clarify the minimum requirements for a business, remove the assessment of whether market participants are capable of replacing any missing elements, add guidance to help entities assess whether an acquired process is substantive, narrow the definitions of a business and of outputs, and introduce an optional fair value concentration test. New illustrative examples were provided along with the amendments.

Since the amendments apply prospectively to transactions or other events that occur on or after the date of first application, the Group will not be affected by these amendments on the date of transition.

Amendments to IAS 1 and IAS 8: Definition of Material

In October 2018, the IASB issued amendments to IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors to align the definition of 'material' across the standards and to clarify certain aspects of the definition. The new definition states that, 'Information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.'

The amendments to the definition of material is not expected to have a significant impact on the Group's consolidated financial statements.

(40) COMPARATIVE FIGURES

Some of 2018 balances were reclassified to correspond with the consolidated financial statements figures for the year 2019 presentation, with no effect on profit and equity for the year 2018.

(41) SUBSEQUENT EVENTS

Subsequent to year-end, the coronavirus outbreak has impacted the global macroeconomy and caused significant disruption in the global supply chain and customers' demand. Accordingly, the Airlines industry has been affected by the travel restrictions, large-scale quarantines, conference cancellations and lower passenger demand. The Prime Ministry of Jordan resolved to suspend all incoming and outgoing passenger flights into the country starting from 17 March 2020 until further notice, as it will tighten border controls in order to combat the spread of coronavirus. Management is in the process of completing its assessment of the coronavirus on their operations in order to take the necessary actions and properly address the situation.