

Annual Report 2016




الملكية الأردنية
ROYAL JORDANIAN

World of stories

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His Majesty
King Abdullah Bin Al Hussein



His Royal Highness
Prince Hussein bin Abdullah



Sketching our Dreams

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Our Vision, Mission and Values

Vision:

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

Mission:

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

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

To ensure our team is motivated and work productively, because we offer:

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

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

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

To ensure Jordan remains proud of us because we:

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

Values:

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

Objective:

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

Reliable:

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

Committed

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

Caring

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

Trustworthy

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

Board of Directors

H.E. Said Sameeh Darwazeh

Chairman of the Board, representing Government Shareholdings' Management Company (from 20 June 2016).

H.E. Suleiman al-Hafez

Former Chairman of the Board, representing Government Shareholdings' Management Company (Until 19 June 2016)

H.E. Akel Biltaji

Vice Chairman, representing Government Shareholdings' Management Company (from 26 February 2017).

H.E. Dr. Nofan Mansour Al-Akeel

Former Vice Chairman, representing Government Shareholdings' Management Company (from 17 April 2016 until 22 January 2017).

H.E. Marwan Mahmoud Awad

Former Vice Chairman (until 14 April 2016)

H.E. Eng. Basem Khalil al-Salem

Member, representing Government Shareholdings' Management Company (from 17 April 2016)

H.E. Dr. Izzidin Muihyieddin Kanakriya

Member, representing Government Shareholdings' Management Company (from 17 April 2016)

H.E. Captain Suleiman Reda Obaidat

Member, Acting General Manager/CEO representing Government shareholdings' Management Company.

H.E. Eng. Alaa Aref Batayneh

Member, representing Government Shareholdings' Management Company (Until 14 April 2016)

H.E. Eng. Samer Abdul Salam Al-Majali

Member, representing Mint Trading Middle East Ltd. (from 23 November 2016)

H.E. Mohammad Sharif Ali Al-Zubi

Member, representing Mint Trading Middle East Ltd. (Until 23 October 2016)

H.E. Maher Najib Mikati

Member, representing Mint Trading Middle East Ltd (Until 14 April 2016)

H.E. Imad Jamal Al-Qudat

Member, representing Social Security Corporation.

H.E. "Mohammad Ali" Issam Bdair

Member

H.E. Michael Nabeeh Nazzal

Member (from 14 April 2016)

H.E. Samer Anis Muasher

Member (Until 14 April 2016)

Auditors

Ernst & young

Legal Advisor

Ahmad Abu Arkoub & Partners – Law Office

Hani Al-Kordi – Law Office

Chairman of the Board of Directors Speech



Chairman of the Board of Directors Speech

Dear shareholders,

On behalf of my colleagues on the Board of Directors, I would like to extend to every shareholder in the national carrier Alia – the Royal Jordanian Public Shareholding Company – my thanks and best wishes.

This national organization has a key strategic role in our country's economy, connecting Jordan to the world with pride and professionalism while competing with global peers.

Dear shareholders,

As the national carrier of Jordan, Royal Jordanian contributes to the Kingdom's progress as one of the economic pillars of the nation.

Royal Jordanian has been the cornerstone of Jordan's air transport industry, enjoying regional and international reputation due to its dependable air operations, competent and well-trained manpower, and modern fleet which serves an extensive network of destinations spanning four continents.

Royal Jordanian directly contributes about 23%- to the Gross Domestic Product of the Kingdom, exceeding the contributions of other well-established economic sectors.

A keen observer of RJ's journey and the challenges it has been facing over the past few years will recognize that RJ is not alone in facing hurdles; these situations are shared by all self-reliant companies in the world due to the sensitivity of the air transport industry and its vulnerability to economic, political, security, societal, and even health and environmental variables.

A few giant air carriers in our region are an exception; they are immune, financially, to the consequences of events and variables because they are financed almost entirely by their governments.

This pushes smaller airlines like RJ to work hard and compete, a tough mission, no doubt.

Dear shareholders,

Over the past few years, several circumstances and challenges affected RJ's resources and results, as well as its ability to attain the profitability desired by the shareholders and its management.

During these past years, fuel prices grew at an unprecedentedly high rate. Additionally, the global economic recession of 2008, 2009, the Arab Spring and their consequences on the region that are felt until today, played a major role in the profitability of the airline.

In parallel, new challenges appeared in 2016, like the currency exchange rates, whose effects of the end year results I will explain later. Simultaneously, the steep and unfair competition presented by larger carriers in the region continue to affect smaller airlines.

The 2016 results did not conform to those sought by the Royal Jordanian management, its employees and shareholders.

The main reason that led to incurring a net loss of JD24.6 million is the provisions for currency devaluation of the Sudanese Pound and the Egyptian Pound of JD19.5 million, due to decisions taken by the Sudanese government to impose incentive fees on currency transfers outside Sudan and the decision of the Egyptian government to float the Egyptian Pound during 2016, in addition to the provision of JD3.5 million in compensation of voluntary staff release.

These two factors alone resulted in the loss of JD23 million. The second reason for net loss in 2016 was the decrease in revenues from the drop of ticket fares by 11%.

The operating revenues declined to JD598.3 million from JD658.1 million in 2015, because of the growing competition RJ faced in 2016 from full-service airlines and low-cost carriers; since several such regional carriers now have a hub in Amman.

Dear shareholders,

RJ does not wish to justify the losses, but we care about transparency and explaining the facts and figures already published by air transport industry associations, like the International Air Transport Association (IATA).

Although RJ's operating revenues fell by 9%, Royal Jordanian decreased its operating costs by 6%, from JD559.1 million in 2015 to JD527.7 million in 2016, helping it attain a JD5 million net operating profit, compared to JD30 million in 2015.

The gross profit reached JD70.6 million in 2016 compared to JD98.9 million in 2015, a decline of 29%.

Despite the decline in revenues, the net operating profit recorded by the company in 2016 is a clear indication of RJ's ability to maintain its competitive position and its share in the local, regional and global markets.

RJ offers high-level services to passengers, boasts a modern and young fleet of aircraft, and a wide network that the company works to strengthen to boost connectivity.

Network connectivity improved by 8% in 2016, an incentive with the potential to attract more customers.

Dear shareholders,

We take pride in our company's competitive position. RJ operates a modern and young fleet of aircrafts -- with an average age of five years, young by any standard.

The entry of seven newly manufactured 787 Dreamliners is an important factor that helps RJ offer even more competitive services. At the end of 2016 and the beginning of 2017, the sixth and seventh aircrafts of this type entered on a capital lease basis ending with ownership of these aircraft. The first five aircraft of the same model were added on an operational lease basis.

This mixed acquisition approach is followed by all international airlines, even by the rich companies that have huge budgets.

Aircraft purchase strengthens the assets of companies and enhance its negotiating capacity, while operational lease offers airlines flexibility to renew fleets, since the airline can phase out aircrafts when needed and return them to the leasing companies in a timely manner, regardless of the market price at the time of return.

Royal Jordanian is pursuing both approaches at a time the airline seeks to gradually increase the proportion of owned aircraft, according to financial resources and operational needs.

Dear shareholders,

In 2016, RJ implemented its general assembly's decision, taken in May 2015, stipulating a restructuring of the RJ capital, reducing it from JD84.4 million to JD46.4 million, after which the capital will be increased by JD200 million shares/dinars, making the authorized share capital JD246.4 million shares/dinars. As a result, the capital was reduced and the authorized share capital was increased. The company increased the subscribed and paid capital over two phases.

The first phase involved an increase of JD100 million shares/dinars that were offered to the main shareholders. In 2015 the public offering of the first half of this increase- JD50 million- took place at a cost of 1 Jordanian dinar per share, whereas the public offering of the second half of this increase -JD50 million- took place in 2016. Thus the paid share capital has reached 146.4 million shares/ dinars.

The second phase includes increasing the capital by JD100 million shares/dinars. It is expected to start the public offering of this phase in the second half of 2017 and conclude it in 2018.

Dear shareholders,

The commercial strategy followed by RJ is to increase revenues through various means. Through continued review of the route network, RJ aims to offer further flexibility to passengers, while balancing out aircraft capacity and flight frequencies to destinations in a manner that fits all seasons and changing passenger loads. This stems from RJ's vision of "being the airline of choice that connects Jordan and the Levant to the world".

RJ flies to 52 destinations over four continents. A few destinations were shut due to commercial reasons, and eight destinations are suspended due to security reasons; Damascus, Aleppo, Mosul, Tripoli, Benghazi, Misrata, Sana'a and Aden.

Royal Jordanian constantly studies the possibility of entering new markets while revisiting its existing network, studying the feasibility of routes in order to guarantee profitable operations that help the company achieve its commercial goals.

Dear shareholders,

Royal Jordanian is a long-established company that enjoys a prominent position in Jordan. Its strategic role is to connect Jordan to the world and service our national economy, trade and tourism.

RJ has a good reputation among Jordanians, due to its qualified human resources, modern technology and fleet, wide route network and significant economic impact on the Jordanian aviation sector.

The success of Royal Jordanian is the bedrock of the success of the Jordanian aviation and tourism sectors. RJ plays a key role in supporting other companies with large amounts of money on annual basis.

RJ's annual revenues exceed \$1 billion, which is one of the highest in Jordan. RJ operations take the lion's share of the work of other companies in this sector, including Airport International Group (AIG), Jordan Aircraft Maintenance Company (JORAMCo), DNATA for aircraft catering and the Jordan Airline Training and Simulation (JATS).

Moreover, RJ generates revenues for the Jordan Petroleum Refinery, local travel agents, the Treasury (through taxes and fees), the Social Security Corporation, Amman Airport Hotel, local insurance companies, in addition to the Jordanian Royal Medical Services and land transportation companies.

Dear shareholders,

I would like to thank you all on behalf of my colleagues the board members and the executive management, wishing RJ all the best.

I would also like to take this opportunity to thank and express gratitude to His Majesty King Abdullah for his wise guidance and leadership.

I wish to extend my thanks and appreciation to the government of the Hashemite Kingdom of Jordan as well, for the support it lends this national company, and I also want to thank RJ's loyal employees and passengers for their trust and support.

Thank you

Chairman of the Board of Directors
Eng. Said Darwazeh



Present and Future

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Board of Directors Report

Company's Objectives and Main Activities

RJ Groups work towards achieving the objectives behind its foundation, most importantly: carrying out regular and chartered air transportation of passengers, mail and freight within the Kingdom and abroad, in addition to providing aircraft handling services.

RJ's Geographical Locations and Number of Employees:

Royal Jordanian headquarters (General Administration) are located in Amman. Operations and flights take off from Queen Alia International Airport (QAIA). There are sales offices in 35 cities around the world and general sales agents in 46 other cities.

The company operates through its employees who numbered 4,299 as recorded on 31.12.2016; 333 of these employees work at the outstations abroad and 93 in Royal Wings and 21 in the subsidiary company Royal Tours.

Capital

RJ's capital is JD 146,405,000 divided into 146,405,000 shares with a par value of JD 1 per share. In January 2016, the company's capital was increased by JD 60.1 m to become JD 106.5 m. The sum of JD 13.7m was received in March 2016 as part of the first phase. The remaining of the first phase, amounting to JD 26.2m was received during the first quarter of 2016. The capital will be increased by the second phase of JD 100 million during 2017 and 2018.

Subsidiaries:

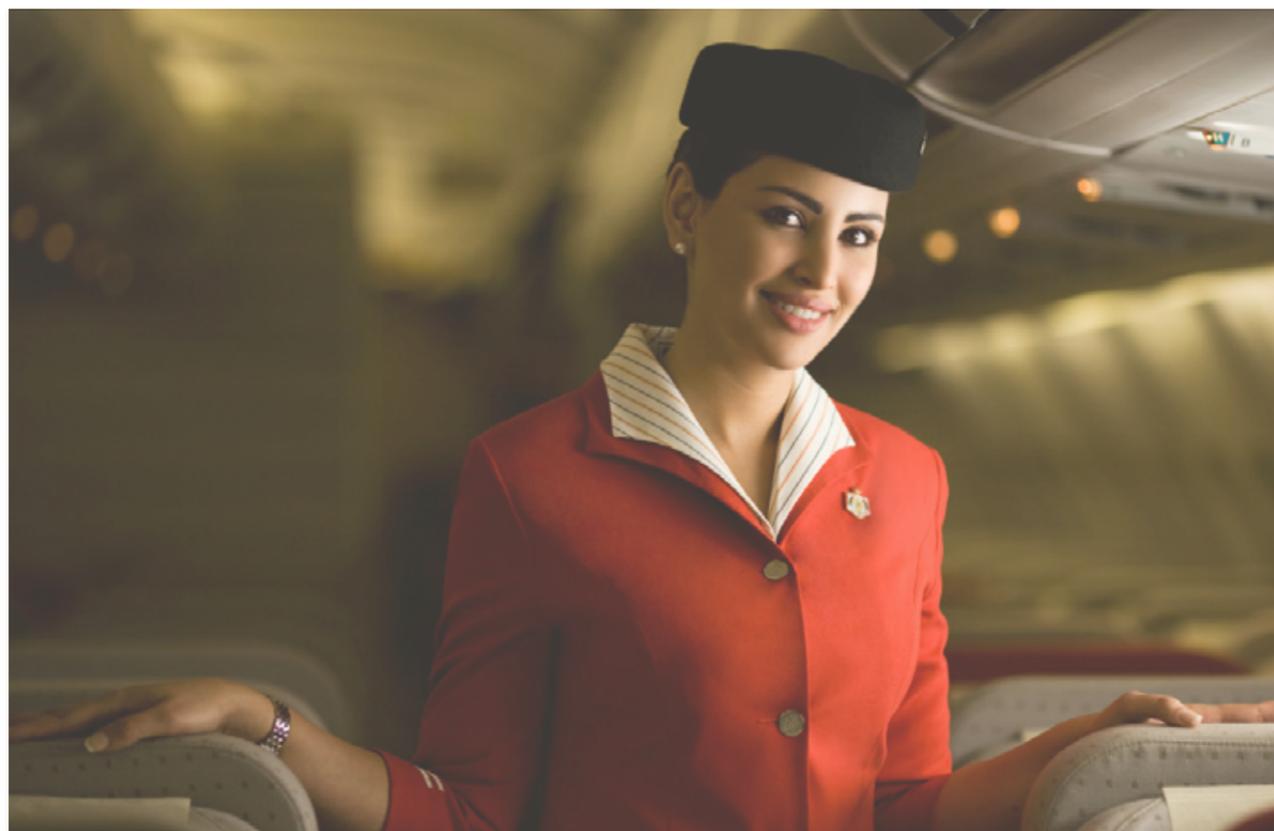
Royal Wings (RW) and its subsidiary Royal Tours

Royal Wings was established in Jordan in 1975 as a limited liability company. It has no branches and is wholly owned by RJ. With the implementation of the company strategy in November 2005, regional services operated by RW have been transferred to RJ, the parent company. Royal Wings became the main operator of chartered flights. It also acts as an agent for chartered flights (i.e. it arranges alternative chartered aircraft when its aircraft is not available).

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

Royal Wings headquarters are located on the first floor of the City Terminal, 7th Circle. It employs 93 staff members. Its capital amounts to JD 5 million and it owns one Airbus A320.

In October 2009, Royal Wings acquired 80% of Royal Jordanian Tourism and Travel Company (Royal Tours) shares. Royal Tours was established in 1979 with the aim of providing complementary services to RJ's services, to help RJ market its flights to tourism attractions around the world. RT books tickets and arranges trips to tourist groups to various tourism sites and countries in the region and worldwide, always on the look out for new options for tourists.



Board of Directors

Board Member	Position	Board Member Since	Date of Birth	Qualifications	Graduation
H.E. Eng. Said Sameeh Darwazeh	Chairman, Rep Government Shareholdings' Management Co	20.6.2016	25.5.1957	MA Business Administration	1984
H.E. Suleiman Al-Hafez	Former chairman, Rep Government Shareholdings' Management Co	2.11.2014	1.1.1941	BA Commerce	1968
H.E. Akel Biltaji	Vice Chairman, Rep Government Shareholdings' Management Co	26.2.2017	10.2.1941	Diploma in Education	1962
H.E. Nofan Mansour Al-Akeel	Former vice Chairman, Rep Government Shareholdings' Management Co	17.4.2016	1.1.1971	PhD in Law	2004
H.E. Marwan Mahmoud Awad	Former Vice Chairman, Rep Government Shareholdings' Management Co	26.4.2012	11.3.1951	MA Economics	1980
H.E. Basem Khalil Al-Salem	Member, Rep Government Shareholdings' Management Co	17.4.2016	19.6.1956	BSc. Chemical Engineering	1978
H.E. Izzidin Muhieddin Kanakriyah	Member, Rep Government Shareholdings' Management Co	17.4.2016	13.9.1960	PhD Finance	2010
H.E. Capt. Suleiman Obeidat	Member, GM/CEO Rep Government Shareholdings' Management Co	27.10.2015	6.6.1947	BA Military Sciences	1978
H.E. Alaa Aref Batayneh	Member, Rep Government shareholdings' Management Co	9.10.2013	6.6.1969	MA Information systems, BA Electrical Engineering	1993
H.E. Samer Abdul Salam Al-Majali	Member, Rep Mint Trading Middle East Ltd	23.11.2016	14.9.1957	MA Air Transport Management	1983
H.E. "Mohammad Sharif" Ali Al-Zu'bi	Member, Rep Mint Trading Middle East Ltd	27.3.2008	16.5.1963	MA Commercial Law	1985
H.E. Maher Najib Mikati	Member, Rep Mint Trading Middle East Ltd	27.3.2008	11.6.1980	MA Business	2006
H.E. Imad Jamal Al-Qudah	Member, Rep Social Security corporation	27.12.2015	3.5.1961	MA Business	1985
H.E. "Mohammad Ali" Issam Bdair	Member	27.3.2008	18.10.1976	MA Engineering Management	2001
H.E. Michael Nabeeh Nazzal	Member	14.4.2016	31.7.1956	BSc. Hotel Management	1978
H.E. Samer Anees Muasher	Member	5.9.2006	19.7.1971	BA Political Sciences	1992

Following is biographical information on the board members' business experiences:

H.E. Eng. Said Sameeh Darwazeh

- Eng. Said Darwazeh became Chairman of RJ on 20.6.2016, representing Government shareholdings' Management Company on RJ's Board of Directors on 19.6.2016.
- Eng. Darwazeh is Chairman/CEO of Hikma Pharmaceuticals Co.
- Eng. Darwazeh was appointed Minister of Health 2003 – 2006.
- Eng. Darwazeh was chairman of Queen Rania Institution which develops youth capabilities and provides them with tools for success through focusing on using technology in remote educations.
- Eng. Darwazeh was board member of Central Bank of Jordan.
- Eng. Darwazeh was member of the Board of Trustees of the American Babson College, and of the American University in Beirut where he established Sameeh Darwazeh Center for Creativity and Entrepreneurship.
- Eng. Darwazeh established the Health Care Approval council in Amman as a non-profit institution that approves health care providers and improves health care standards.
- Eng. Darwazeh holds a BSc. In Industrial Engineering from Bordeau University in the USA, and an MA in Business Administration from INSEAD University in France.

H.E. Suleiman Al-Hafez:

- Mr. Suleiman Al-Hafez was elected by the Board of Directors as Chairman on 2.11.2014. He represented the government on the Board.
- Mr. Suleiman has more than 45 years of experience in business, both government and private.
- Mr. Suleiman held the position of Undersecretary of the Ministry of Finance when the government started to apply the Economic Correction Program in 1990.
- Mr. Suleiman held the positions of Minister of Finance and Minister of Communications respectively. Afterwards he became Minister of Energy and later Minister of Finance for the second time. H.E Suleiman Al-Hafez was also Chairman of the Ministerial Development Committee in three governments.
- Mr. Suleiman was the Chairman of the board of several companies and official bodies, such as Chief Commissioner of the Electricity Regulating board, Chairman of Jordan Telecommunications Company, Arab Potash Company, "Chemabco" for production of fertilizers, Jordan Bromine, Free Zones Board and Jordan Investment Board.
- Mr. Suleiman was board member of a number of boards; RJ for 8 years, Jordan Electricity Authority, Social Security Corporation, Orphans Fund Development Corporation, Arab African Bank, Arab Council for Agricultural Development, Governor at the International Monetary Fund, Deputy Governor at the Arab Monetary fund, and Head of Jordan's Delegation to Paris Club.
- Mr. Suleiman held the position of Head of Costs Division in Jordan Tanning Company, also the position of Financial Director and Assistant GM in Jordan Cement Co. Telecommunications Board and Advisor to Petra Bank Committee (Under Liquidation).
- Mr. Suleiman held the position of Member of the Ministerial Development Committee and Member of the Royal committee on Modernization and Development.
- Mr. Suleiman held the position of Chairman of Social Security Corporation Investment Fund. Previously he held the position of Chairman of Social Security corporation companies, Electricity Company, Al-Daman for energy Investments Co., and Al-Daman Development Areas Co.

H.E. Akel Biltaji

- H.E. (Akel) Biltaji is currently vice chairman of Royal Jordanian Airline.
- H.E. (Akel) Biltaji has served as Mayor of Greater Amman Municipality since his appointment by the cabinet in September 2013 up until the completion of his term on March 12th, 2017.
- H.E. (Akel) Biltaji was a member of the Senate for the period between 2005-2013.
- H.E. (Akel) Biltaji was an advisor to HM the King from 2004 until 2005.
- H.E. (Akel) Biltaji was a chairman of Commissioners council – Aqaba Special Economic Zone Authority 2001 – 2004.
- Minister of Tourism and Antiquities 1997.
- H.E. (Akel) Biltaji held several positions at RJ and was a liaison officer of government – Airports Development Projects/Ministry of Defense of Saudi Arabia, 1967 – 1969.
- H.E. (Akel) Biltaji was an Executive Assistant – Aramco Schools for Saudis and joined the Arabian American Oil Company (ARAMCO), 1962 – 1967.
- H.E. (Akel) Biltaji obtained his high school diploma and the London General Certificate Examination at the Ramallah American Friends Schools in 1959. Mr. Biltaji graduated in the summer of 1962 with a Degree in Education.
- H.E. (Akel) Biltaji was honored with the Highest Orders here at home and by France, Spain, Austria, Norway, Germany, Japan, Chile and Ukraine

H.E. Dr. Nofan Mansour Al-Akeel

- H.E. Dr. Nofan Mansour Al-Akeel is Head of Legislation and Opinion Diwan 302013/6/ until now.
- H.E. Dr. Nofan Mansour Al-Akeel Deputy Head of Grievances Diwan 31.12.2014 – 18.10.2015.
- H.E. Dr. Nofan Mansour Al-Akeel was Minister of State for Cabinet Affairs 2012 – 2013.
- H.E. Dr. Nofan Mansour Al-Akeel was Minister of Political Development 2012.
- H.E. Dr. Nofan Mansour Al-Akeel was Associate Professor of public law - School of Law.
- H.E. Dr. Nofan Mansour Al-Akeel was an advocate and legal consultant.
- H.E. Dr. Nofan Mansour Al-Akeel holds a PhD. In public Law/Ein Shams University, Egypt with honours in 2004.
- H.E. Dr. Nofan Mansour Al-Akeel holds an MA in public Law from Ahl Al-Bait University in 1997.
- H.E. Dr. Nofan Mansour Al-Akeel holds a BA in Law from Muta University in 1990.

Mr. Marwan Mahmoud Awad

- Mr. Awad was appointed Vice Chairman in April 2012.
- Mr. Awad is currently the General Manager of First International for Consultations and Arbitration.
- Mr. Awad held the position of Minister of Finance.
- Mr. Awad held the position of Undersecretary of the Ministry of Industry and Trade.
- Mr. Awad held positions at Islamic, Commercial, investment development and Islamic banks as well as in Jordan's Central Bank.
- Mr. Awad held the position of CEO of Al-Ahli Bank, Industrial Development Bank, Qatar Islamic Bank and Middle East Investment Bank (Now Societe Generale).
- Mr. Awad was Chairman and board member of several boards in national and regional companies and institutions.
- Mr. Awad authored a number of books and articles on banking and finance.
- Mr. Awad holds a BSc. In Business Administration from the University of Jordan (1973), a Higher Diploma in Economic Development, and an MA in Economics from Vanderbilt University, USA (1980).

H.E. Eng. Basem Khalil Al-Salem

- H.E. Eng. Basem Khalil Al-Salem held several government positions, he was a board member of the Central Bank, and then he held the position of Minister of Labor. He chaired the boards of Social Security Corporation, General Institute for Vocational Training, Work, Training, vocational and Technical Education Fund.
- In his capacity as member, H.E. Eng. Basem Khalil Al-Salem participated in some government economic and educational committees, and then he was appointed Minister of Finance.
- H.E. Eng. Basem Khalil Al-Salem was the founder and board member of several industrial and mining companies.
- H.E. Eng. Basem Khalil Al-Salem was appointed senator on 25.11.2011.
- H.E. Eng. Basem Khalil Al-Salem holds a BSc. In Chemical Engineering from Imperial College, University of London.
- H.E. Dr. Izzidin M. Kanakriya H.E. Dr. Izzidin M. Kanakriya was appointed Undersecretary of the Ministry of Finance on 5.6.2014 for the second time as he held the same position during the period 2007 – 2012.
- H.E. Dr. Izzidin M. Kanakriya headed the Income Tax and Sales Tax Department in March 2012.
- H.E. Dr. Izzidin M. Kanakriya appointed commissioner in Jordan's Securities Commission from 2012 – 2014.
- H.E. Dr. Izzidin M. Kanakriya held various positions in the Ministry of Finance, Undersecretary, Head of Monetary Section in the Ministry.
- H.E. Dr. Izzidin M. Kanakriya holds a PhD. In Finance from Amman Arab University for higher studies in 2010, an MA in Finance and Accounting from the Arab Academy of Finance and Banking in 1997, and a BA in Economics from Yarmouk University in 1984.
- H.E. Dr. Izzidin M. Kanakriya was decorated by the Royal order of Independence (2nd Class) in appreciation of his public service and for excellence in business in 2007.

H.E. Captain Suleiman Reda Obaidat

- H.E. Captain Suleiman Obaidat was appointed President/CEO of RJ in October 2015.
- H.E. Captain Suleiman Obaidat was appointed Head of Civil Aviation Regulatory Commission in 2007.
- H.E. Captain Suleiman Obaidat was appointed Head of Civil Aviation Authority in 2004.
- H.E. Captain Suleiman Obaidat held the positions of Vice President of Flight Operations and Chief Technical Officer.
- H.E. Captain Suleiman Obaidat was commander of the Royal Squadron and the Air Transport Squadron in Jordan's Royal Air Force.

H.E. Ala'a Batayneh

- H.E. Ala'a Batayneh is a member of Jordan's 26th Senate.
- H.E. Ala'a Batayneh held the position of Minister of Energy and Mineral Resources.
- H.E. Ala'a Batayneh held the position of Minister of Transport.
- H.E. Ala'a Batayneh held the position of Minister of Public Works and Housing.
- H.E. Ala'a Batayneh held the position of GM of Jordan's Customs between 2005 and 2007.
- H.E. Ala'a Batayneh held the position of Undersecretary of the Ministry of Transport between 2000 and 2005.
- H.E. Ala'a Batayneh was active in the private sector for eight years in the USA, UK and Jordan.
- H.E. Ala'a Batayneh was decorated with the First Class of the Jordanian Order of Independence, and with the Grand Cross of the Order of the Netherlands. Eng. Al Bataynah was awarded King Abdullah II Award for Government Excellence and Transparency three times.
- H.E. Ala'a Batayneh holds an MA degree in Information Systems Management from George Washington University, USA.
- H.E. Ala'a Batayneh holds a BA degree in Electrical Engineering from George Washington University, USA.

H.E. Eng. Samer Abdul Salam Al-Majali

- H.E. Eng. Samer Abdul Salam Al-Majali has been CEO Saudi Gulf Airlines, Chairman Qahtani Aviation, Abdul Hadi Qahtani Group – Saudi Arabia since 2013.
- 2009 – 2012 CEO Gulf Airlines, Manama, Bahrain.
- 2001 – 2009 President/CEO of Royal Jordanian Airlines.
- 1989 – 2001 several executive positions in RJ – Flight Operations, Commercial Planning, Information Technology, Passenger Services.
- H.E. Eng. Samer Abdul Salam Al-Majali was a fellow at the Royal Aviation Society/Britain.
- H.E. Eng. Samer Abdul Salam Al-Majali is licensed by the British Engineers Association.
- H.E. Eng. Samer Abdul Salam Al-Majali is a member of the Jordanian Engineers Association.
- H.E. Eng. Samer Abdul Salam Al-Majali is a board member at the Central Bank of Jordan.
- H.E. Eng. Samer Abdul Salam Al-Majali Board Member of Royal Jordanian Airlines.
- H.E. Eng. Samer Abdul Salam Al-Majali is a former Chairman of IATA's Board of Governors (May 2008 – May 2009).
- H.E. Eng. Samer Abdul Salam Al-Majali is a former Deputy Chairman of Gulf Hotel Group, Bahrain.
- H.E. Eng. Samer Abdul Salam Al-Majali is a former Member of IATA's Board of Governors (2005 – 2012).
- H.E. Eng. Samer Abdul Salam Al-Majali is a former Chairman of Arab Air Carriers Organization – 2004.
- H.E. Eng. Samer Abdul Salam Al-Majali is a former Manager of International Flight Catering Association – 2001.
- H.E. Eng. Samer Abdul Salam Al-Majali is a former Executive Committee member, Arab Air Carriers Organization.
- H.E. Eng. Samer Abdul Salam Al-Majali holds an MA in Management of Air Transport.
- H.E. Eng. Samer Abdul Salam Al-Majali holds Lloyds Aviation Economics Prize from Cranfield Institute of Technology, UK.
- H.E. Eng. Samer Abdul Salam Al-Majali attained a BSc. Degree in Aeronautical Engineering and Design, Diploma in Industrial Studies from Loughborough University of Technology in the UK.
- In 1975, H.E. Eng. Samer Abdul Salam Al-Majali graduated from Dean Close School in the UK.

Mr. “Mohammad Sharif” Ali Zu’bi:

- Mr. Mohammad Sharif Al-Zu'bi was appointed board member at Royal Jordanian in March 2008, he was also a board member from August 2003 until April 2005.
- Mr. Mohammad Sharif Al-Zu'bi is the General Manager of Ali Sharif Al-Zu'bi Law Firm.
- Mr. Mohammad Sharif Al-Zu'bi is the former Minister of Justice in 2006 and 2007, and Minister of Industry and Trade during the period 2005 – 2006.
- Mr. Mohammad Sharif Al-Zu'bi is a board member in a number of Jordanian companies and commissions: Al-Hussein Cancer Centre, King Abdullah II for Excellence – Yarmouk University.
- Currently Mr. Mohammad Sharif Al-Zu'bi is a member of Jordan Bar Association, the International Lawyers Union, and the Jordan's Senate.
- Mr. Mohammad Sharif Al-Zu'bi is a former board member of a number of commissions and institutions such as Jordan's Central Bank, Arab Regional Forum, and the Economic Social Council.
- Mr. Mohammad Sharif Al-Zu'bi holds a BA Degree in Law and MA in Commercial Law from Bristol University, Great Britain.

H.E. Mr. Maher Mikati

- H.E. Mr. Maher Mikati was appointed board member in March 2008.
- H.E. Mr. Maher Mikati is currently the CEO of M1 Holding Group, CEO of M1 Travel, and a member in the Investment Committee of M1 Holding Group.
- H.E. Mr. Maher Mikati is the former general manager of ARIBA Communications, Cyprus, from 2003 until 2005, and general manager of Investcom Holding Co. – Lebanon, for the period 2002 – 2003.
- H.E. Mr. Maher Mikati holds a BA Degree in Business and MBA from INSEAD/France.

H.E. Imad J. Al-Qudat

- H.E. Imad J. Al-Qudat was appointed board member in December 2015.
- H.E. Imad J. Al-Qudat currently heads the Shares Investment Department/Social Security Investment Fund.
- H.E. Imad J. Al-Qudat held the position of Head of Treasury/social Security Investment Fund (20022008-).
- H.E. Imad J. Al-Qudat held the position of Acting Head of Social Security Investment Fund (20052006-).
- H.E. Imad J. Al-Qudat was head of Portfolio/External Investment Department/Jordan's Central Bank (20002002-).
- H.E. Imad J. Al-Qudat was Chief Dealer/Jordan's Central Bank (1996 – 2000).
- H.E. Imad J. Al-Qudat was Dealer/External Investment Dept/Jordan's Central Bank (19911996-).
- H.E. Imad J. Al-Qudat was Assistant Head of Central Accounts Division/Jordan's Central Bank (1989 – 1991).
- H.E. Imad J. Al-Qudat served in the military /General Security Governorate (19861988-).
- H.E. Imad J. Al-Qudat holds an MA degree in Business Management/Saul Ross State University, USA 1985.

Mr. “Mohammad Ali” I. Bdair

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

H.E. Michael N. Nazzal

- H.E. Michael N. Nazzal was a member of the 25th Senate.
- H.E. Michael N. Nazzal was executive director in RJ (1980 – 1982)
- H.E. Michael N. Nazzal was chairman of Dead Sea Hotels Co. (1990 – now)
- H.E. Michael N. Nazzal was chairman of Mina Hotel Co. (2004 – now)
- H.E. Michael N. Nazzal was chairman of Jordan Hotels Association (1988 – now)
- H.E. Michael N. Nazzal was chairman of Union of Tourist Societies (2004 – now)
- H.E. Michael N. Nazzal was deputy chairman, Jordan Tourism Board (2004 – now)
- H.E. Michael N. Nazzal was the founder and trustee of Jordan Community College (1988 – now)
- H.E. Michael N. Nazzal holds a BA in hotel management from Switzerland 1978.

Mr. Samer A. Muasher

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

Senior Executive Management

Brief Resumes of Members of the Senior Executive Management Team:

Name	Position	Date Ap-pointed	Date of Birth	Qualifications	Specialty	Graduation
Capt. Suleiman Obaidat	President/CEO	27.10.2015	6.6.1947	BA	Military Sciences	1978
Mr. Firas Al-Qaraeen	CFO	18.10.2015	14.11.1969	BA	Accounting	1991
Mr. Server Aydin	CCO	5.6.2016	4.7.1975	BA	Management & Marketing	1997
Dr. Majdi Sabri	CCO	1.2.2016	27.5.1949	PhD	Aviation Economy & Planning	1980

Senior Management business experiences in brief:

Captain Suleiman Obaidat

- Capt. Suleiman Obaidat was appointed President/CEO of RJ in October 2015.
- Captain Suleiman Obaidat was appointed Chief Commissioner of Civil Aviation Regulatory Commission in 2007.
- Captain Suleiman Obaidat was GM of the Civil Aviation Authority in 2004.
- Captain Suleiman Obaidat was Vice President of Flight Operations, also was Chief Technical Officer.
- Captain Suleiman Obaidat was Commander of the Royal Squadron and the Air Transport Squadron in the Royal Air Force.

Mr. Firas Qareen

- Mr. Firas Qareen was appointed Chief Financial Officer in October 2015
- Mr. Firas Qareen was former GM in Al-Rajih Cement Co.
- Mr. Firas Qareen was former Deputy GM for Finance and Business Support in Al-Rajih Cement Co.
- Mr. Firas Qareen was former Chief Consultant in Karma consultation and Development Company for three years.
- Mr. Firas Qareen was former Chief Auditor in Ernst & Young and in Arthur Anderson.
- Mr. Firas Qareen was former 'director of finance in Zara Holding Co., and held the same position in Arab Jordanian Engineering Co. (2K).
- Mr. Firas Qareen holds a BA in Accountancy from the University of Jordan
- Mr. Firas Qareen is a CPA (Certified Public Accountant)

Mr. Server Aydin

- Mr. Server Aydin was appointed Head of Commercial Section in May 2016
- Mr. Server Aydin was head of commercial section in Sun Express airline. Before that he was executive director of HR and finance in the same airline.
- Mr. Server Aydin was head of commercial section in Sabiha Gokcen Airport, Istanbul, for four years.
- Mr. Server Aydin held several positions in Turkish Airlines during 6 years during which he was executive director/Sales and marketing for West Europe and Africa, before that he was sales executive for Scandinavia, deputy GM commercial affairs and ground operations in the company
- Mr. Server Aydin started as marketing executive in the German Fraport Co. which manages and operates airports.
- Mr. Server Aydin holds a BA in Management and Marketing from Deacon University in Australia, and a diploma in Management from Kent University in London.

Dr. Majdi Sabri

- Dr. Majdi Sabri held the position of Head of Commercial Section in RJ from February till April 2016.
- Dr. Majdi Sabri was Advisor to the Chairman on Commercial and Strategic affairs in 2015
- Dr. Majdi Sabri was Deputy Chairman of IATA for MENA countries for 11 years.
- Dr. Majdi Sabri spent 17 years (1984 - 2001) in RJ, during which he held the position of deputy head of Commercial Section.
- Dr. Majdi Sabri worked as Executive Director for planning and development in the Aviation Regulatory Commission for 4 years.
- Dr. Majdi Sabri holds a BA in Economics and Statistics from University of Jordan, an MA in Transport Planning and Management from Birmingham University, UK, and a PhD. In Aviation Economics and Planning from Westminster University, UK.

Major Shareholders

No	Shareholder	No. of Shares at 31.12.2016	%	No. of shares at 31.12.2015	%
1	Governmental Shareholding Management Co.	88,243,117	60.3	12,065,388	26
2	Mint Trading Middle East Ltd.	22,518,838	15.4	8,817,015	19
3	Social Security Corporation	14,640,534	10.0	4,673,534	10.07

RJ Competitive Position

RJ is the first and biggest national carrier in Jordan. It operates regular flights from Jordan to (52) destinations around the world in 2016 as follows:

Levant: Beirut, Cairo, Aqaba, Suleimaniya, Baghdad, Basra, Erbil, Tel Aviv, Najaf, with a commitment to restart operating to Damascus, Aleppo and Mosul as soon security conditions allow.

Arabian Gulf: Abu Dhabi, Dammam, Doha, Dubai, Jeddah, Kuwait, Riyadh, Madina-Tabouk route stopped on 22.9.2016. RJ will resume operation to Sanaa and Aden as soon as conditions allow.

Africa: Khartoum, Tunis, Algiers – The company is committed to resume operation to Maserata, Tripoli and Benghazi as soon as security conditions allow.

Europe: Amsterdam, Athens, Barcelona, Frankfurt, Istanbul, Geneva, Larnaca, London, Madrid, Moscow, Munich, Paris, Vienna, Zurich, Rome, Berlin – Kiev route was stopped on 27.3.2016 Ankara route was stopped on 9.9.2016.

Far East and India: Bangkok, Hong Kong, Kuala Lumpur – Guangzhou and Jakarta routes were stopped on 12.1.2017.

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

RJ faces direct competition from other airlines in (26) out of (52) destinations. The company continues with conducting studies to add some routes or amend the numbers of weekly departures according to need, also to discontinue some routes according to feasibility studies.

On 1.4.2007 Royal Jordanian joined (oneworld) alliance which includes a group of the best and largest airlines in the world. RJ was chosen to join this alliance because of the excellent reputation it enjoys and because of the competitive services it provides for its passengers on all its trips. RJ is the first Arab airline to join this international airline alliance providing RJ's passengers with easy access to around 1000 cities around the world served by alliance member airlines. In addition to RJ, members of the alliance are: Air Berlin, American Airlines, British Airways, Cathay Pacific, Iberia, Finnair, Japan airlines, QANTAS, Malaysian Airlines, Siberia Airlines, Qatar Airways, LANTAM in South America, and Sri Lanka Airlines.

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

Government protection or privileges enjoyed by the company or any of its products in accordance with laws and regulations

- There is no government protection or privileges enjoyed by RJ or any of its products in accordance with laws and regulations.
- There are no patents or privileges earned by RJ.

Suppliers and Customers

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

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

Effect of Decisions taken by the government or the international organizations or others which have material effect on the work or the products of the company or its competitive power

Comprehensive Agreement with the EU

The Jordanian Government has signed a Comprehensive Agreement with the EU on 15.12.2010. It includes mainly unlimited open skies between the Kingdom and the EU pursuant to the Third and Fourth Freedoms. The Kingdom also adopted legislations similar to the European legislation in the field of civil aviation and air freight. This agreement shall expose RJ to unbalanced competition with European airlines that enjoy flexibility in operating from any point in Europe to Jordan. RJ cannot do this since there is no suitable time slots in major European cities, most important of which is London's Heathrow Airport.

In its session held on 13.11.2016 the Cabinet agreed to exempt contracts of buying, selling, leasing and financing aircrafts, their engines and contracts related thereto which were contracted or are being contracted by RJ and the special purpose companies founded with the aim that RJ can acquire and lease such aircraft and engines, by virtue of finance lease contracts before 31.12.2018 – from general sales tax, the due income tax by virtue of Article (12/B/1) of the Income Tax Law No. (34) of 2014 which amounts to 10% and of due stamp duty.

Application of International Quality Standards

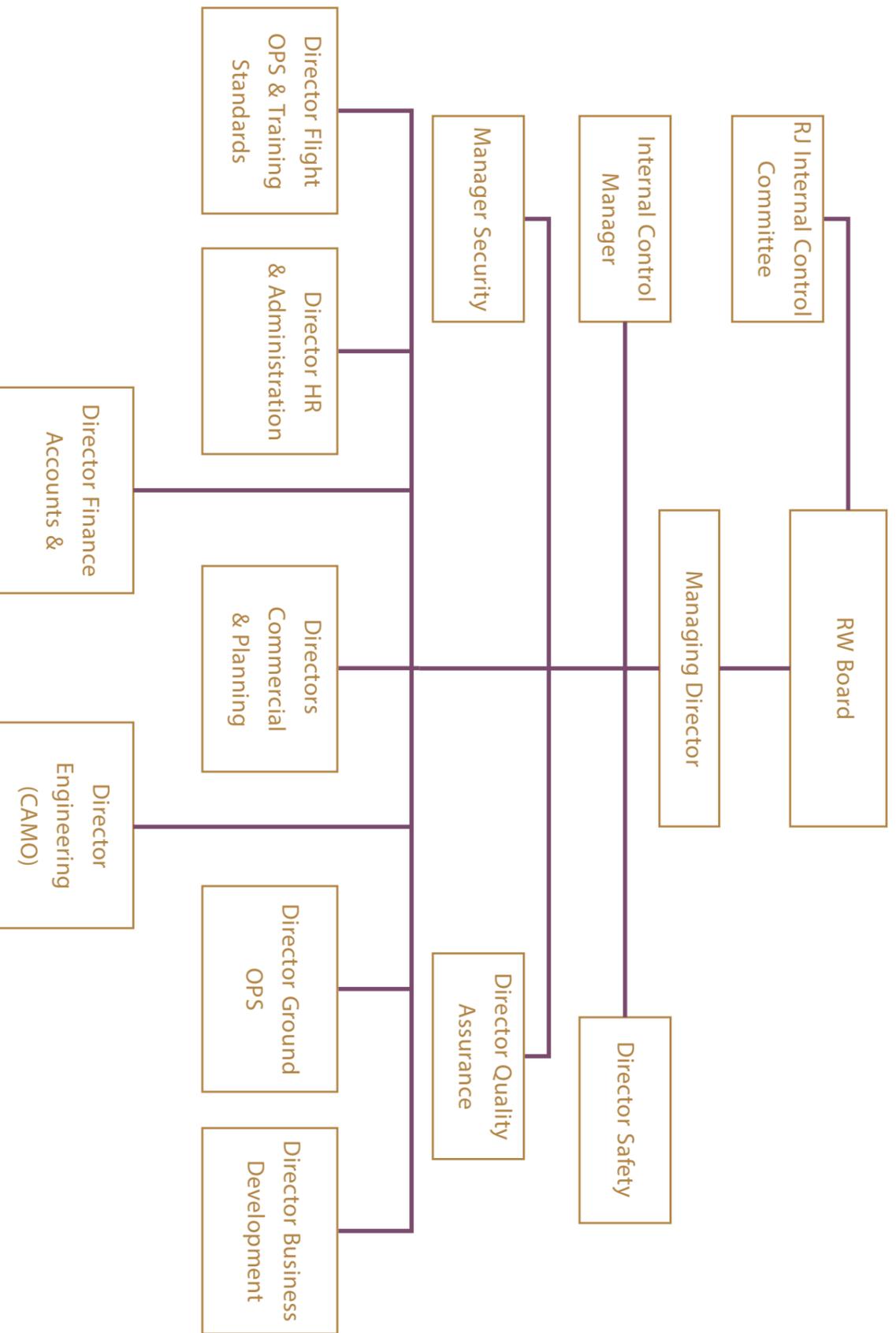
Among the basic responsibilities of the Corporate Quality Management Department in RJ, is to supervise the work during various stages to make sure that it conforms with the specifications of the company, which inevitably should conform to the standard specifications of CARC, and to the international specifications and instructions issued by:

Civil Aviation Regulatory Commission	CARC
IATA Operational Safety Audit	IOSA
IOSA Safety audit for Ground Operations	ISAGO
European Aviation Safety Agency	EASA
International Air Transport Association	IATA
Safety Assessment of Foreign Aircraft	SAFA
International Standards Organization	ISO 9001
An International alliance of airlines	oneworld

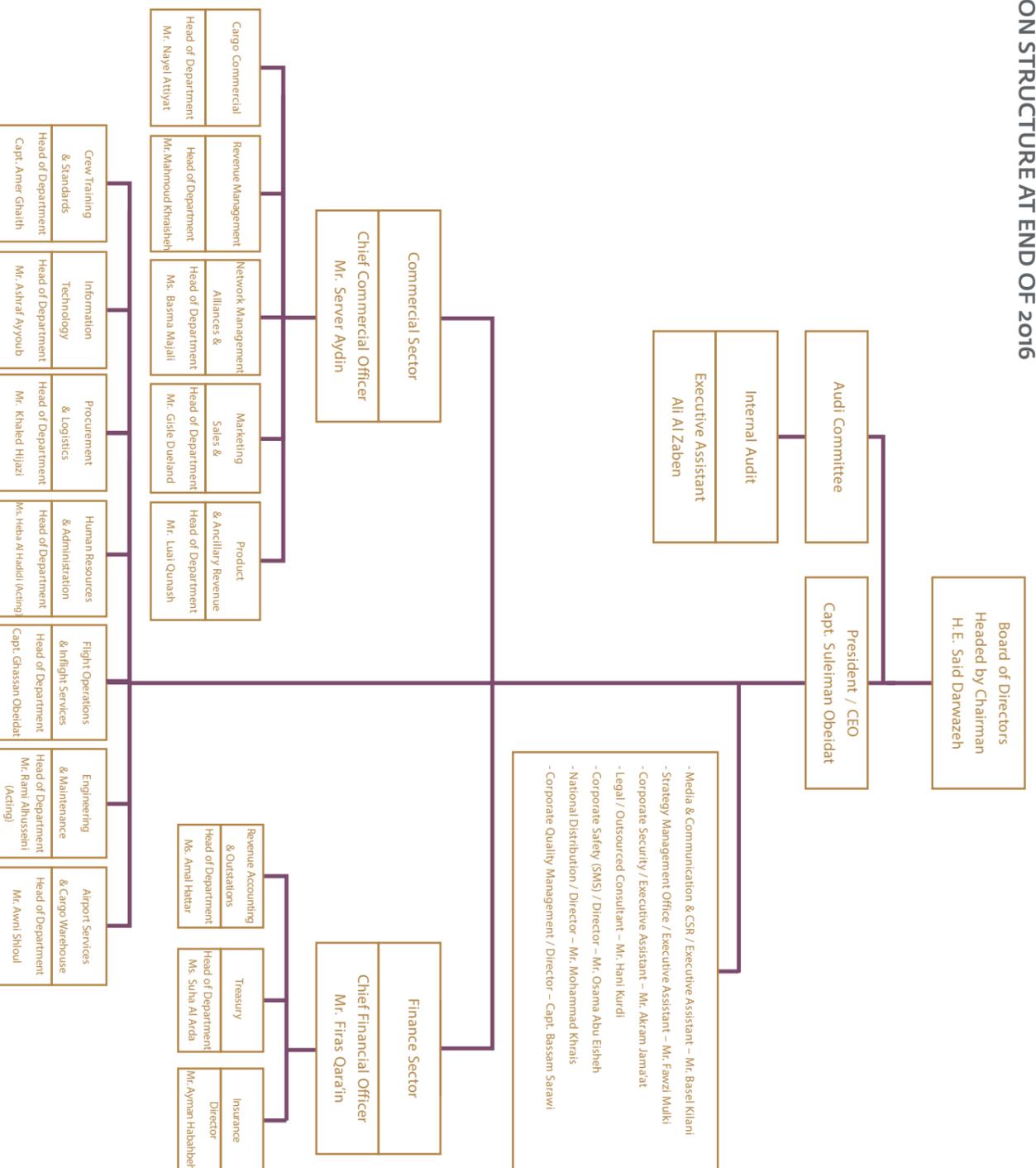
As such, the CQM Department shall follow up quality bases requirements and measure the extent of application by the company, whether from production or services point of view. After studying general requirements and general safety, we prepare forms for use by quality controller during scheduled and non-scheduled checking operations, so as to make sure that the business is running according to the requirements and the specifications.

In addition to checking and following up on operations, our trained and qualified teams do the followings:

- Plan to improve the quality at the company through designing an annual, monthly and daily program for checking the work in accordance with accredited specifications.
- Control the daily field work, especially in operational departments.
- Ensure practicality of the quality and safety of work, workers and equipment.
- Supervise staff training courses, making sure they comply with approved quality.
- Follow up on the proposed amendments, help in proposing solutions for the problems through analyzing root causes and follow up on the corrective measures with relevant departments.
- Enforce the Q-Pulse system in order to eliminate bureaucracy and enforce automatic documentation.
- Coordinate training courses in internal and external audits.
- Prepare to hold periodic meetings with all those concerned in all RJ's departments for discussing recommendations and assignments, before and after internal and external audits.
- Prepare periodic reports on the section's tasks and submit results to the senior management.



RJ - ORGANIZATION STRUCTURE AT END OF 2016



Analysis of the Company Financial Position and 2016 Financial Year Business Results

Analysis of the Financial Position

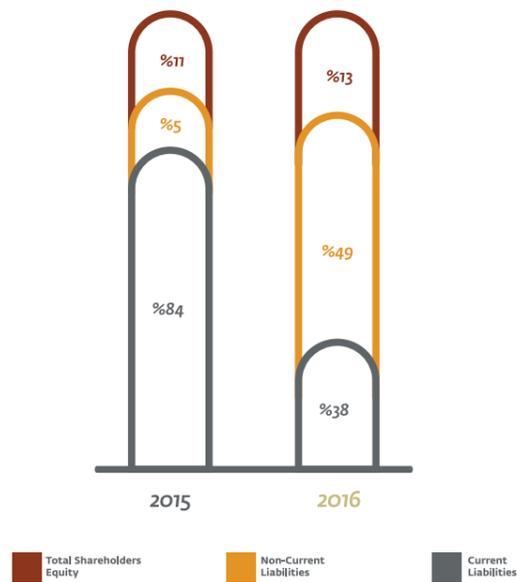
Assets

Assets increased by 27% over 2015 (JD122.7m) because of the rise in the value of property and equipment as a result of the introduction of a B787 aircraft with a value of JD 85.7m, on the basis of capital lease. Current assets rose significantly as a result of a rise of JD 70m in cash and bank balances over 2015.



Equity

Total shareholders' equity increased by 51% over 2015. It has amounted to JD 75.1m at the end of 2016, compared with JD 49.7m at the end of 2015. In 2016 the first phase of JD 100m increase in the capital was fully subscribed.



Liabilities

Non-current liabilities increased by JD 255.7m over 2015. This is due to the rescheduling of Airport International Group and Jordan Petroleum Refinery debts, signing the syndicate loan agreement and the introduction of a new loan to finance the B787 aircraft acquired under finance lease basis. Current liabilities dropped as a result of rescheduling the debt.

Analysis of Business Results

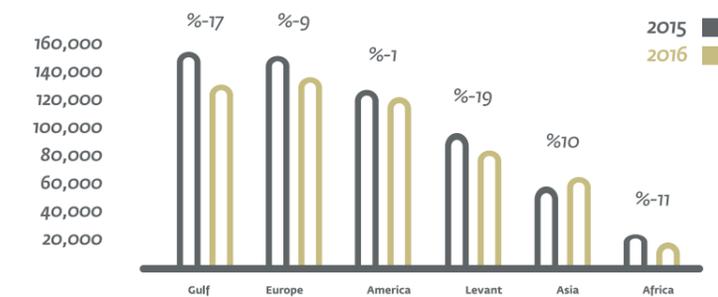
Revenues:

In 2016 revenues amounted to JD 598.3m against JD 658.1m in 2015, a drop of 9%. The main reason behind the drop in revenues is the decrease in average ticket fares by 11%, due to competition, mainly because of low cost carriers, despite the number of passengers going up by 2% over 2015. The following diagram shows the distribution of revenues in 2015 and 2016 as a percentage of total revenues. Passenger revenue constitutes 80% of the total revenue.

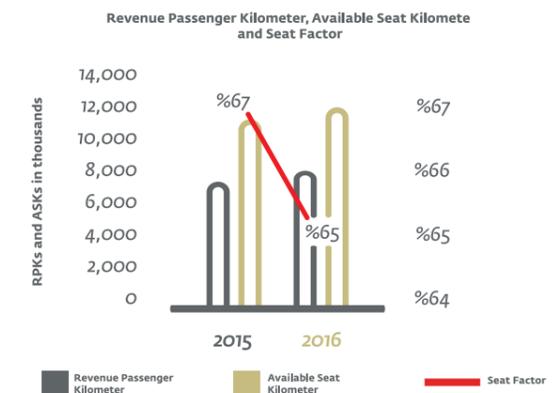


The following diagram shows the geographical distribution of revenues and the variation between 2015 and 2016. Company revenues went down in all areas compared to 2015, with the exception of revenues from Asia which rose by 10%. This was due to launching Guangzhou and Jakarta as new destinations. The biggest drop in revenues was in the Levant and Arabian Gulf area; 19% and 17% successively. This was the result of tough competition by low cost carriers operating these routes.

Change in Geographical Distribution between 2015-2016



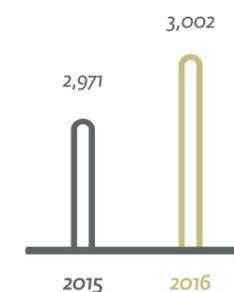
Revenue Passenger Kilometer, Available Seat Kilometer and Seat Factor



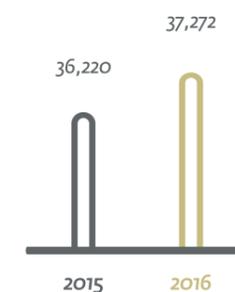
Flying Hours



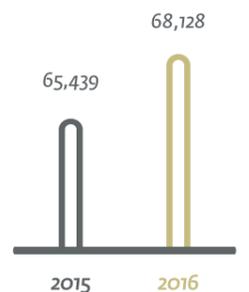
Number of Passengers ('000)



Departures

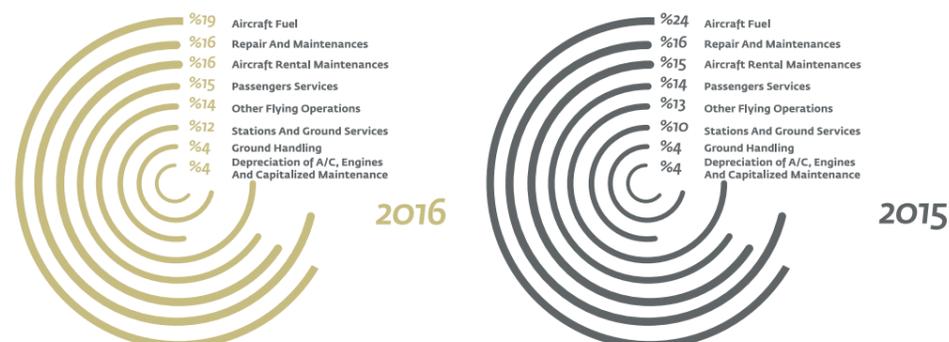


Aircraft Kilometers ('000)



Cost of Revenues

In 2016 operating cost went down by 6% compared to 2015 as a result of a drop in the cost of fuel by 25% below 2015. The continued drop in oil prices in world markets in addition to the efficient operation of the Boeing 787 contributed to reducing the proportion of fuel cost from the total operating cost to 19% in 2016 compared to 24% in 2015.



Gross profit and net operational profit

Gross profit margin dropped from 15% in 2015 to 12% in 2016 because of a drop of 9% in revenues. The company realized in 2016 a net operating profit of JD 5m compared to a net operating profit of JD 30m in 2015.

Net Loss

Net loss in 2016 reached JD 24.6m compared to a net profit after tax of JD 16.0m in 2015. The main reason for the loss is a provision of JD 19.5m for currency valuation since the Sudanese government imposed incentive fees on currency transfers outside Sudan and floating of exchange rate for Egyptian pound. Moreover, the company took a provision of JD 3.5m for voluntary staff release.

Cash and Liquidity

Cash and cash equivalent including short term deposits amounted to JD 141.974 million in 2016, compared to JD 71.985 in 2015, an increase of 97%. The main reason for this increase is due to raising the capital by JD 100 million. The rise in cash contributed to improving liquidity ratios, as illustrated below.



Below is a summary of the most important financial indicators and ratios for 2015-2016:

	2016	2015	Variance %
Revenues	598,271	658,055	(9)
Net Operating Profit	4,835	29,633	(84)
(Net Profit (loss	(24,571)	16,033	(253)
Non Current Assets	350,722	231,163	52
Current Assets	219,030	216,983	1
Total Shareholders' Equity	75,111	49,708	51
Paid in Capital	146,405	46,405	215
Net cash flow from operating activities	(30,271)	113,510	(127)
Return on paid in capital	(%16.8)	%34.6	(148.6)
Return on assets	%(4.3)	%3.6	(220.5)
Current Ratio	1.01	0.58	74.7
Debt to total assets ratio	%86.8	%88.9	(2.1)
Share price (JD) at end of year	0.44	1.14	(61.4)
Earnings per share	(0.17)	0.35	(148.6)
(ooo') Number of shares	146,405	46,405	215.5

Staff numbers and academic qualifications

Below is a table of staff numbers and qualifications in the parent and subsidiaries at end of 2016:

Academic Qualifications	RJ	RW & Subsidiary	Total
PhD	2	1	3
MA	81	2	83
BA	1738	44	1782
Diploma	695	17	712
High School	660	16	676
Below High School	1009	34	1043
Total	4185	114	4299

333 of the above work in outstations

Staff Training Programs

The company is committed to various training programs required by different aviation bodies, in addition to courses held for pilots, flight attendants and engineering and maintenance staff. These courses aim at improving staff level of efficiency and maintain standards of safety for RJ's passengers and aircraft. In 2016 the Company provided training for the staff of 653 courses in which 7,670 staff members from different departments took part to improve their managerial, technical and computer skills. There were also courses in marketing, sales and passenger services.

Details of Courses and numbers of staff who attended

Course Title	No. of Courses	No. of Participants
Marketing, Sales, passenger Services	88	913
Technical Courses	512	6282
Managerial Courses	30	341
Computer, IT Courses	23	134
Total	653	7670

Risks

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

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

External Risks:

Geographical Location Risks

Most of RJ's operations take place within the borders of Jordan. All of its flights depart from Amman. As such the geographical location of the Kingdom constitutes a big challenge to the company, especially nowadays when political and economic tensions are taking place in neighboring Arab countries. The company has to adapt its operations within these difficult challenges which burden the company and its business.

Market Risks

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

The world still suffers from the effect of the global economic crisis which has directly affected the performance of the air transport industry and reduced the volume of air traffic. In this context, the Company initiated certain procedures such as entering new and promising markets, intensifying marketing activities on various routes, in addition to controlling expenses without affecting the quality of services provided to passengers.

Credit Risks

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

Fluctuation of Fuel Prices

The cost of fuel constitutes a large and escalating part of the company's operations expenses. It amounted to 19% of the total operational expenses for the year ending on 31.12.2016. As such, any material change in the price of crude oil and subsequently the price of jet fuel, could affect the operational results of the company substantially. In this field, RJ has taken big steps to deal with the rising fuel prices through imposing fuel surcharge on tickets, focusing on increasing passenger numbers and manage revenue and maximize the yield. This is in addition to entering into fuel hedging contracts as an international best practice for air carriers in this field.

Fluctuations of Interest Rates

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

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

Fluctuations of Exchange Rate

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

Internal Risks

Electronic Systems Risks

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

Purchasing Risks

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

Connecting you across **52** destinations around the world

North America

New York
Chicago
Detroit
Montreal

Europe

Frankfurt	Paris
Istanbul	Vienna
Geneva	Zurich
Larnaca	Rome
London	Berlin
Madrid	Amsterdam
Moscow	Athens
Munich	Barcelona

Levant and the Gulf

Abu Dhabi	Basra
Dammam	Erbil
Doha	Tel Aviv
Dubai	Najaf
Beirut	Damascus
Cairo	*Aleppo
Aqaba	*Connector
Sulaymaniyah	*Sana'a
Baghdad	*Aden

The Far East

Bangkok
Hong Kong
Kuala Lumpur

Africa

Khartoum
Tunisia
Algeria*
Misurata*
Tripoli
Benghazi

Amman

* Currently suspended flights

RJ: Achievements 2016

2016 was not an exceptional year, compared to the past few years experienced by the Middle East, for the air transport industry.

Since 2011, the instability caused by the political and security developments in several Arab countries resulted in considerable regression in travel and tourism to and from this region.

However, Royal Jordanian — the national carrier of Jordan and a leading airline in the region — is used to facing all sorts of challenges; it works with all its resources and capabilities to attain achievements that enable it to compete and boost its strategic role, while serving Jordan.

In 2016, RJ can boast of the following achievements at operational and services levels:

• RJ secures \$275 million loan

In 2016, RJ secured a \$275 million dual conventional and Islamic syndicated loan from seven banks based in Jordan, UAE and Qatar: Mashreq, Arab Bank plc, Al Khalij Commercial Bank (Al Khaliji) Q.S.C, Dubai Islamic Bank, The Commercial Bank/Qatar, acting as mandated lead arranger, Arab Jordan Investment Bank, lead arranger, and Bank al-Etihad, arranger.

Mashreq Bank acts as the sole book-runner for the loan.

This loan will contribute to the airline's ongoing strategic capital-raising program, to support its plans of the route network and fleet modernization.

The loan carries a tenor of five years and will be primarily utilized to consolidate and refinance RJ's existing debt and further support the company's ongoing strategic growth and turnaround plans in short and medium terms.

It exceeded the initial target amount, which is proof of the trust and confidence the partner banks and other financial institutions put in RJ as the national carrier of Jordan and its clear future vision.

• Seven new Boeing 787s in RJ fleet

At the end of 2016 and the beginning of 2017, RJ added the sixth and seventh 787s to the currently operating five aircraft of the same type, which RJ introduced at the end of 2014 as part of the plan to modernize its long-haul fleet.

The 787s contributed in lowering the fleet's average age to almost five years, which raises RJ's competitiveness.

This wide-body, revolutionary aircraft is capable of flying nonstop long distances with full load, making it a suitable choice for RJ to run to North America, the Far East and Europe.

The last two aircraft are on capital lease, while the first five are operationally leased.

The 787s, which replace Airbus 340s and 330s, has improved fuel efficiency and consume 20 % less fuel than today's similarly sized airplanes.

They also feature higher levels of comfort and luxury that RJ customers can now enjoy.

• The route network

The commercial strategy implemented by RJ seeks to increase revenues through various means.

In order to meet seasonal demands, RJ periodically revises its route network in order to offer further flexibility, while matching aircraft capacity and flight frequency to destinations.

RJ always works to boost its network connectivity by securing more connections with other carriers.

Today RJ has 15 codeshare agreements; the latest was RJ-Alitalia codeshare agreement that enables RJ passengers to fly to 16 Italian destinations on board Alitalia. The airline also has an agreement with Qatar Airways which added six destinations to RJ's route. This expansion, started in August 2015, opened up to 18 weekly flights between Doha and Amman and offered RJ passengers access to more destinations on Qatar Airways global network, such as, Dhaka in Bangladesh, Muscat in Oman, Karachi in Pakistan, Colombo in Sri Lanka, Perth in Australia, and Singapore.

RJ flies to 52 regional and international destinations spread over four continents.

It can also reach more than 1,000 destinations worldwide through its membership in the oneworld alliance's 14 partner carriers.

• RJ's agreement with AccesRail

Through RJ's partnership agreement with AccesRail, the airline passengers are now able to travel to more than 100 cities using AccesRail trains and buses. AccesRail network is spread over Canada, Spain, Austria, Sweden, UK, Belgium and, via buses, in Detroit, the US.

Royal Jordanian is the first airline to sign an agreement with AccesRail, recognized by IATA with B9 code, covering all railways it serves all over the world.

• Duty-free sales onboard

As of August 15, 2016, Royal Jordanian started duty-free sales onboard, which enables passengers to shop from a vast array of prestigious brands on most RJ aircraft, particularly those on long- and medium-haul routes.

The service is offered in partnership with DFASS Group, the world's largest global in-flight duty-free specialty retailer. Passengers can pay for their purchased items by credit cards or cash using different currencies: Jordanian dinars, US dollars, euros and British pounds.

• New accomplishments in Royal Plus program

Through Royal Plus frequent flyer program, RJ aims to offer its passengers a seamless travel experience by offering them special services in exchange for their collected miles.

Passengers who join this program can accumulate miles when they travel with RJ or any of its oneworld partners or its code share partners, according to the destination, ticket price and travel class. Members can exchange these miles for different RJ services.

Miles can also be collected through RJ's partnership agreements with different business sectors inside and outside Jordan, as follows:

- RJ's partnership agreement with InterContinental Hotels Group

Royal Jordanian and InterContinental Hotels Group (IHG) in Jordan, owned by the Social Security Corporation, signed a partnership agreement whereby Royal Jordanian's frequent flyers – Royal Plus members – get the chance to obtain free miles against the money they spend at IHG hotels, which are InterContinental Resort Aqaba, Crowne Plaza Hotel Amman, Crowne Plaza Resort Dead Sea, Holiday Inn Resort Dead Sea and Holiday Inn Amman.

According to the agreement, Royal Jordanian's Royal Plus members get three miles for each Jordanian dinar spent at IHG hotels.

To get the free miles, RJ's frequent flyers should show their Royal Plus cards at the reception counter upon checking in at the hotel, upon ordering at any of these hotels' restaurants or cafés, or at the spas, gyms and other facilities of the hotels in Jordan.

- Partnership with Akruu.com

Akruu is the new, smart way for Royal Plus members all over the world to earn more miles by aligning Royal Plus award miles accrual with consumer lifestyle.

RJ is the first Middle Eastern airline to sign with Loylogic on its portal Akruu, a partnership that aims at giving customers the chance to accrue Royal Plus miles against each dollar spent when they shop online, donate to charities and fill out surveys from the comfort of their home.

Frequent flyers can also purchase miles to benefit from the privileges of the Royal Plus program.

- Agreement with Bank of Palestine to issue co-branded 'My Miles' MasterCard

Royal Jordanian and the Bank of Palestine launched a co-branded MasterCard called "My Miles" as part of RJ's endeavor to enhance its market share and commercial existence in the Palestinian market and to encourage bank customers to use credit cards.

The agreement grants MasterCard holders miles for purchases through the "My Miles" card, where they earn one Royal Plus mile against each dollar spent using the card locally or abroad, irrespective of whether the purchase is performed in the market or online.

• In Information Technology

- PCI DSS Compliance Certification

RJ successfully obtained the PCI Data Security Standard (PCI DSS) Compliance Certification and Attestation of Compliance.

This accreditation was granted to RJ in recognition of its strict adherence to guidelines that safeguard consumers' credit and debit card transactions through added reliability and security measures.

This comprehensive standard is intended to reduce the risk of data breaches by guiding merchants with specific requirements to protect customer account data.

• **In Corporate Safety**

- **Enhanced IOSA certificate and ISAGO renewed**

Maintaining the safety of passengers, aircraft and employees has always been Royal Jordanian's priority. This RJ commitment is reflected in its renewal of the Enhanced IOSA certificate and ISAGO.

- Enhanced IOSA: IATA renewed Royal Jordanian's IATA Operational Safety Audit (Enhanced IOSA) for the 7th time in a row since the airline first acquired it in 2004. It is effective until the end of 2018.

The renewal, which came with zero findings, reflects the company's operational effectiveness, its functioning with the highest degree of air safety, utmost accuracy and professionalism, and its adherence to international practices, which ensure that it offers a distinguished level of air and ground safety.

- ISAGO: In 2016, Royal Jordanian successfully accomplished the requirements for renewing the IATA Safety Audit for Ground Operation (ISAGO) certificate for the fourth year.

The audit process at the airport involved the sections that deal with ground handling: the station management system, passenger and baggage handling, load control, aircraft handling and loading, aircraft ground movement, and cargo and mail handling.

The airline constantly makes sure that safety functions are performed in conformity with the latest industry operational practices.

- **Crown Lounge -- winner of a prestigious award**

Royal Jordanian's Crown Lounge at Queen Alia International Airport was named the winner of the Africa and Middle East Lounge of the Year Award 2015 by Priority Pass, part of the Collinson Group.

This is the 11th year the prestigious Lounge of the Year Award was granted to our lounge. Priority Pass named just 17 winners from over 850 international lounges in the Priority Pass program, based on the voting of Priority Pass members.

It recognizes the individual excellence and investment in customer experience within the Priority Pass program.

Members voted on a set of criteria covering overall lounge quality, including refreshments, staff, business facilities and ambience.

Over 100,000 votes were cast by Priority Pass members for the Lounge of the Year Award, the highest number since the award's inception.

• **Sponsorship of C.D. Leganés**

RJ is now sponsoring Club Deportivo Leganés football team, which plays in "La Liga" alongside giants in the Spanish football league.

RJ is now the main sponsor and the "Official airline partner" of C.D. Leganés for the remainder of the 2016/2017/ La Liga football season that will end on May 21, 2017.

This sponsorship is bound to boost its visibility in the European and international markets. It will draw global attention to Jordan and Royal Jordanian that is leading air transportation in the Levant. Sports' marketing is one of the most effective tools that yield positive returns for the companies in terms of quick and efficient brand promotion.

The logo "Fly Royal Jordanian" and the Royal crown appear on the front shirts of C.D. Leganés team members.

The partnership grants RJ a number of advertising and hospitality rights: its logo appears on screens at stadiums, on the team's buses and in publications addressed to members and fans.

It can also use images of the team players and its link will be placed on the club's social media channels and official website.

Royal Jordanian was granted four scholarships by the C.D. Leganes for four outstanding young footballers. The scholarships include travel to Madrid and accommodation for three months at the C.D. Leganes academy, at the club's expense.

The athletes will have the chance to play with C.D. Leganes team members and attend Spanish football games at the stadium.

After the training, C.D. Leganes club will elect one candidate to sign with the club to play in La Liga, the first ever chance a Jordanian football player will have to play in the Spanish La Liga, an achievement for which RJ takes the credit.

RJ is looking at this step with great hope to develop the skills of four Jordanian football players, who will play a key role in imparting their expertise to their colleagues in Jordan.

Strategic Plans

In 2015 the company prepared an ambitious plan for the coming five years. This includes a number of strategic plans which aim at enhancing the value of the company and giving it more chances to develop and grow. Foremost among these is the intention of the company to raise its capital and support it with ancillary revenues, other than the revenue from transporting passengers and freight. This comes from concentrating on new methods that will benefit the company and strengthen its competitiveness, like providing ground handling services in Arab airports in addition to QAIA. Also to provide aircraft maintenance service for aircraft of other airlines. At the same time RJ will continue to look for new methods for raising share price and the return on the share for the coming ten years.

Financial Effect of Non Recurring Operations

RJ's operations are recurring operations. There is no financial effect to operations of non recurring nature which happened during the financial year and is not included in the company's main activity.

Timetable of Realized Profit or Loss

Description	2016	2015	2014	2013	2012
Realized Profit/Loss (JD 000')	(24,571)	16,033	(39,638)	(38,858)	1,114
Dividends	-	-	-	-	-
Shareholders' Equity (JD 000')	75,111	49,708	(15,835)	19,566	59,424
Share Price at year end	0.44	1.14	0.68	0.58	0.63

Company Future Developments in 2017

Network Future Plan

Company policy is based on reviewing its network depending on economic feasibility studies of operation; such studies are ongoing and periodical all year round. Their results are published when a decision is taken.

Moreover, RJ will follow up its plans in amending the number of departures to current destinations, in addition to increasing the effectiveness of links in its flights from and to Amman, and to bring closer the times of arrival and departure of flights based on the real needs of transit passengers. Some routes had to be suspended for safety reasons, these are: Misurata, Tripoli, Benghazi in Libya, Mosul in Iraq, Sana'a and Aden in Yemen. Suspension continues on flight to Damascus and Aleppo in Syria for political circumstances.

RJ will continue to serve most of its current routes in 2017. These routes cover 52 destinations worldwide, served by 365 weekly departures: 87 departures to Europe, 14 to Asia, 129 to Arabian Gulf region, 103 to Levant, 18 departures to North America, and 12 departures to North Africa.

Fleet Future Plans

As part of its policy and strategic plans to continuously modernize its fleet, the company introduced a number of modern aircraft: Boeing, Airbus, Embraer. In 2016 the company witnessed the introduction of the 6th Boeing 787. The seventh aircraft of the same model arrived in January 2017. These two planes replaced two Airbus 330 to operate on long- and medium- haul routes: North America, East Asia and London. Up till the end of January 2017 seven fuel – efficient Boeing 787 (Dreamliner) aircraft have been received.

With the introduction of the new Boeings, the company phased out the Airbus 330s. This quality addition reduced the average age of RJ's fleet, giving a competitive advantage to the airline. The company acts continuously on introducing new aircraft, as part of its policy in maintaining adequacy and efficiency of fleet operations through continuous modernization and maintaining a young fleet, thus reducing the cost of maintenance.

As such the company fleet in 2017 will consist of:

Type of Aircraft	No. of Aircraft in December 2017
787 Boeing	7
321 Airbus	2
*Airbus A320	7
319 Airbus	4
195 Embraer	2
175 Embraer	3
(cargo) Airbus A310	1
Total	26

* One of these aircraft is for the use of Royal Wings.

Future Plans: oneworld Alliance and Code Sharing

Since joining oneworld alliance in 2007, RJ has been working to strengthen its relations with companies in this alliance. RJ will also cooperate and coordinate with companies who are alliance members and who have code sharing agreements with RJ. The company will also contribute to the success of joint projects with the aim of reducing cost and exchanging experiences among the companies of the alliance which provides more than 1,000 extra destinations that RJ passenger can have access to from Amman.

At the same time RJ worked in 2016 to enhance the benefits derived from some code sharing agreements with a number of companies in the alliance, through increasing the number of destinations included in the agreements with: American Airlines, Siberian Airlines (S7), Air Berlin, Malaysian Airlines, and Qatar airways. These will join the company's previous agreements with Tarom Airways, Syrian Airlines (currently not operating because of events in Syria), Gulf Air, Oman Air, Middle East Airlines and Turkish Airlines.

In 2016, the company increased the number of cities included in the codeshare agreements, and so, RJ will add the number of destinations in 2017 reached through codeshare agreements with the oneworld carriers.



Important Future Developments

Currently studies are underway to develop medium- and short- haul fleet. Fleet modernization shall enhance the company's competitiveness in the region as these modern aircraft provide compelling services to passengers since they save fuel and maintenance costs.

In 2017 the company plans to apply new technical systems and solutions to improve the quality and accuracy of the overall performance of the company, such as management of strategic planning and the development of the network in an endeavor to develop the company performance in medium and long terms.

Audit Fees

Audit fees for RJ and its subsidiary Royal Wings for 2016 were as follows:

- Royal Jordanian audit fee JD 81,200 inclusive of tax.
- Royal wings and subsidiary audit fee JD 13,920 inclusive of tax.

Shares Owned by the Board of Directors

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

Name	Title	Nationality	Number of shares as of 31.12.2016	Number of shares as of 31.12.2015
			-	-
HE Said S. Darwazeh (As from 20.6.2016)	Chairman	Jordanian	-	-
HE Suleiman Al-Hafez (Until 19.6.2016)	Former Chairman	Jordanian	-	-
HE Akel Biltaji (As from 26.2.2017)	Vice Chairman	Jordanian	-	-
HE Dr. Nafa M. Al-Akeel (22.1.2017-17.4.2016)	Former Vice Chairman	Jordanian	-	-
HE Marwan Awad ((Until 14.4.2016)	Former Vice Chairman	Jordanian	3,000	5,499
HE Basem K. Al-Salem (As 17.4.2016 from	Member	Jordanian	-	-
HE Izzidin M. Kanakriya (As 17.4.2016 from	Member	Jordanian	-	-
Capt. "Suleiman R. Obaidat	Member	Jordanian	3,406	3,406
HE Alaa Batayneh (Until 14.4.2016	Member	Jordanian	-	-
Eng. Samer A. Majali (As from 23.11.2016	Member	Jordanian	54,999	54,999
HE "Mohammad Sharif" Zubi (23.10.2016 (Until	Member	Jordanian	4,149	4,149
Mr. Maher Mikati (Until 14.4.2016	Member	Lebanese	-	-
Mr. Imad J. Al-Qudat	Member	Jordanian	-	-
Mr. "Mohammad Ai" Bdair	Member	Jordanian	7,699	7,699
Mr. Michael N. Nazzal (As 14.4.2016 from	Member	Jordanian	5,000	-
Mr. Samer Muasher (Until 14.4.2016	Member	Jordanian	3,649	3,649

There are no securities owned by relatives of members of the Board of Directors by the end of 2016.

Shares Owned by Senior Executive Management

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

Name	Title	Nationality	Number of shares as of 31.12.2016	Number of shares as of 31.12.2015
Capt. Suleiman Obaidat	President/CEO	Jordanian	3,406	3,406
Mr. Firas Qaraeen	CFO	Jordanian	-	-
Mr. Server Aydin (As from 5.6.2016)	CCO	Turkish	-	-
Dr. Majdi Sabri (Until 15.4.2016)	CCO	Jordanian	-	-

There are no securities owned by relatives of members of the Senior Executive Management during 2016.

Board of Directors Benefits and Remunerations

Below is a table of remunerations and benefits received by the Chairman and Board members in 2016 in JD:

Name	Title	Date start/end membership (changes)	Rep. Allowance Transport Allowance (Annual)	Annual Remunerations	Travel Allowance	Total Annual Benefits
HE Said Darwazeh	Chairman	20.6.2016 From	-	-	-	-
HE Suleiman Al-Hafez	Former Chairman	19.6.2016 Until	2,833	25,000	-	28,333
HE Akel Biltaji	Vice Chairman	As from 26.2.2017	-	-	-	-
HE Dr. Nofan Al-Akeel	Former Vice Chairman	until 17.4.2016 22.1.2017	4,233	-	-	4,233
HE Marwan Awad	Former Vice Chairman	14.4.2016 Until	1,767	-	-	1,767
H.E. Basem Al-Salem	Member	17.4.2016 From	4,233	-	-	4,233
Eng. Izziddin Kanakriya	Member	17.4.2016 As from	4,233	-	-	4,232
Capt. Suleiman Obaidat	Member	-	-	-	-	-
Eng. Alaa Batayneh	Member	16.4.2016 Until	1,767	-	-	1,767
Eng. Samer Majali	Member	As from 23.11.2016	633	-	-	633
H.E. Mohammad Sharif Zubi	Member	23.10.2016 Until	4,856	-	-	4,856
Mr. Maher Mikati	Member	16.4.2016 Until	1,767	-	-	1,767
Mr. Imad Al-Qudat	Member	-	6,000	-	-	6,000
Mr. Mohammad Ali Bdair	Member	-	6,000	-	-	6,000
Mr. Michael N. Nazzal	Member	17.4.2016 As from	4,233	-	-	4,233
Mr. Samer Muasher	Member	16.4.2016 Until	1,767	-	-	1,767

Senior Executive Management Benefits and Remunerations

Below is a table of remunerations and benefits received by Senior Executive management during 2016 in JD:

Name	Title	Date of Start/ End Memberships (Changes)	Annual Salaries	Annual Remuneration	Travel Allowance (JD)	Total Annual Benefits
Capt. Suleiman Obaidat	President/CEO	-	198,160	-	2,500	200,660
Mr. Firas Qaraeen	CFO	-	117,120	-	2,000	119,120
Mr. Surver Aydin	CCO	5.6.2016 As from	84,765	-	1,375	86,140
Dr. Majdi Sabri	CCO	15.4.2016 Until	24,666	-	-	24,666

Donations and Grants made by the company in 2016

Recipient	Amount (JD)
Royal Jordanian Staff Club	19,292
Scholarships	128,104
Royal Jordanian Gliding Club	15,000
Mother's Day Celebration – Charitable Clothes Bank	3,000
Ideal Driver Initiative – National forum for Awareness and Development	1,000
Environment Day (Campaign to clean the area surrounding the Airport)	450
Ramadan Annual Campaign – Charities	22,000
Others	17,501
Total	206,347

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

- Consultation Service Agreement with Royal Wings
- Staff Commissioning Agreement with RW
- Pilots Commissioning Agreement with RW
- Maintenance Agreement with RW
- Fit to Fly Agreement with RW
- Engine Leasing Agreement with RW
- Dispatch Agreement at QAIA with RW
- Agreement with RW to include it in the maintenance agreement between RJ and Air France.
- Leasing Aircraft Capacity with RW
- Agreement to supply RW with fuel and include it in fuel buying agreements concluded by RJ.
- Service Agreement with Royal Tours.
- Agreement to lease Royal Wings aircraft (A320 JY-AYI) to RJ on ACMI basis.
- Memorandum of Understanding regarding the provision of ground handling service to Royal wings aircraft at QAIA.
- To supply Royal Wings with fuel in stations abroad since Royal Wings operates using RJ call.

Corporate Social Responsibility report for 2016

Ever since its establishment, RJ has been playing a role in serving the Jordanian society. Proud of its Jordanian identity, it carries and displays it all over the world in the form of the Royal Crown on its aircraft.

Throughout the years, besides its main mission, RJ got involved in and adopted programs and plans that support the local community, and has offered sponsorships to different activities in the field of education, youth, health, environment and helping the underprivileged.

Corporate social responsibility is a national duty that our company efficiently carries out in order to boost its social involvement.

While discharging itself of this duty, RJ takes into consideration the following:

Social dimension: Alongside its responsibility towards the society at large, RJ is first and foremost, responsible to its employees (the internal community), by improving the work environment in a manner that positively affects their productivity and skills.

Environmental dimension: RJ takes into consideration the environmental impact of its activities, working to reduce emissions and waste, and achieve maximum productivity by using available resources, and by minimizing practices that may negatively affect the environment.

Economic dimension: RJ prides itself on always using business ethics and transparency when dealing with customers; it scrupulously complies with rules and regulations while also exerting efforts to make profit. Through its Media and Communication Department and CSR, RJ regularly takes part in many social initiatives, often in partnership with non-profit and charitable organizations.

RJ focuses on programs that positively affect society; its social responsibility role is often highlighted by traditional and social media.

Below is a summary of activities and initiatives RJ carried out in 2016 as part of its CSR and belief in its role as the national carrier of Jordan:

• Environment and road safety

A modern, environment friendly fleet: Royal Jordanian continually modernizes its fleet and introduces new aircraft, directly contributing to limiting pollution and noise. The move comes to fulfill the airline's goals of protecting the environment and mitigating CO2 emissions.

RJ took several measures to control pollution produced by fuel consumption through its participation in the EU Emissions Trading System (EU ETS) launched since 2009, which aims at improving the environmental aspect of the operations, and controlling and monitoring the negative impact of operations in line with the international legislation.

Royal Jordanian lately introduced the Boeing 787 aircraft into its fleet, a notable fuel-efficient aircraft of our times, which led to less fuel consumption and reduced noise levels, due to this airliner's high-tech features.

The age of RJ's fleet is a young five years, which positions it very high internationally, where most airlines aircraft are between 11 and 12 years old.

Royal Jordanian was a leader in banning smoking onboard all its aircraft, starting 15 years ago, as well as in all its offices and facilities.

Environment day to clean airport road: RJ held an environment day to clean the areas surrounding Queen Alia International Airport, in cooperation with the Greater Amman Municipality. Employees volunteered to participate in this activity where they cleaned part of Ghamadan Park and other places near the airport road.

Support for the best driver's initiative: RJ donated JD1,000 to support the best driver initiative launched by the National Initiative Commission and adopted by the PM as part of the national strategy for road safety. It is designed to educate the cadres of governments and private organizations to implement the initiative axes to exert national efforts that promote safe road environments.

Supporting Queen Alia for Social Responsibility 2017: this contest is part of the Jordanian Hashemite Fund for Human Development and will be launched in 2017 under the title "Road Safety". Royal Jordanian donated two free tickets as prizes for the winners.

Support to Rosary College environment initiative: RJ believes in the need to preserve and ration energy and water consumption. The company supported the college's club to enable students to carry out field activities.

• **Continuous support to the Charity Clothing Bank, for which RJ was honored by the Crown Prince**
His Royal Highness Prince Hussein bin Abdullah honored RJ as one of the main companies supporting the Charity Clothing Bank, one of Jordan Hashemite Charity Organization's projects.

HRH commended the company's contributions in the field of charitable work and solidarity with the community. RJ has offered continuous support to the Charity Clothing Bank since 2014 by placing donation boxes at the company's different facilities to enable the staff donate garments, shoes and toys to the beneficiaries of the clothing bank. In 2016, RJ employees donated around 4,000 kgs of clothes; 970 persons benefitted from the staff contribution.

Besides clothes donated by the employees, the airline donated 9,000 pieces of discarded uniforms to needy families, for both men and women, in addition to shoes and bags.

In cooperation with the Charity Clothing Bank, RJ honored 100 mothers who look after their families on the occasion of Mother's Day, offering them a collection of new clothes, shoes, toys and other supplies.

• **Ramadan Charity Campaign**

Among RJ's most notable social duties is the annual Ramadan campaign, a practice of the airline's corporate social responsibility, which allows it to interact with and help local communities. The 2016 campaign was conducted in cooperation with the directorates of the Social Development Ministry. It included several goodwill initiatives meant to meet certain needs of underprivileged people in the society and involved giving out food parcels, clothes and medical equipment to inhabitants of remote villages and areas.

Goodwill parcels: RJ distributed food parcels to hundreds of families in underprivileged areas all over the Kingdom. The RJ team responsible for distribution visited the governorates of Maan, Karak, Zarqa, Madaba, Balqa, Ajloun, and the Jordan Valley.

Iftar banquets for 400 orphans: Further exercising its social responsibility, RJ held iftars for orphans, hoping to offer them happy moments, in addition to offering them gifts and clothes for Eid Al Fiter. Tens of RJ employees attended these iftars hosting 400 children. Two such iftars were given at RJ's head office and one at the Children's Museum-Jordan.

• **Continuous support to King Hussein Cancer Foundation, commended by Princess Dina Mired**

The King Hussein Cancer Foundation's former Director General, Princess Dina Mired, expressed appreciation for RJ's ongoing support for the foundation and center in their fight against cancer. This support took the following manifestations in 2016:

A trip to Aqaba organized for the children of King Hussein Cancer Center: RJ took children who receive medical treatment at King Hussein Cancer Center to Aqaba on the occasion of the airline's 53rd anniversary.

The trip was organized in cooperation with King Hussein Cancer Foundation and Center and the InterContinental Aqaba Resort. It aimed at spreading joy among the children who expressed interest in being flown to Aqaba and enjoying the entertaining program prepared by RJ.

Donations boxes for cancer patients: RJ passengers and employees may contribute to the fight against cancer by donating through coin boxes. The boxes are distributed at all RJ sales offices and VIP lounge and the donations will go towards completing the center's expansion and offering the best medical services to the patients.

RJ's contribution to King Hussein Cancer Foundation's coin box collection program helped collect JD34, 600 during 2016 and JD114, 500 since they were distributed, in 2013.

Donating travel miles: RJ's Royal plus members can also contribute to the fight against cancer by donating their collected travel miles to King Hussein Cancer Center, to be used by the center's doctors and employees who travel and get necessary trainings and attend medical conferences.

Shipping 350 kg free of charge: RJ carried 350 kgs free of charge to help King Hussein Cancer Foundation participate in Ataya exhibition in Abu Dhabi.

Sponsoring the trip to Italy for the children at the center: the company donated 35 RJ-branded travel bags and other equipment to child patients at the King Hussein Cancer Center to use on their journey to Rome during their participation in the Dynamo Camp in Italy 2016.

Mother's Day booth: RJ placed a booth at its head office and city terminal in Amman, where volunteers from the foundation sold RJ employees and passengers different customized gifts in support for King Hussein Cancer Foundation's fight against cancer.

Awareness pages in Royal Wings magazine: RJ offered King Hussein Cancer Foundation free advertising pages in its inflight magazine "Royal Wings". The pages also included different topics that raise awareness about cancer and present the foundation's programs offering advanced medical treatment.

• **Participation in the Great Arab Revolt centennial**

Royal Jordanian was greatly involved in the Kingdom's celebrations of the centennial of the Great Arab Revolt, held on June 3, 2016. RJ's 787 carried the logo of the centennial of the Great Arab Revolt on the bottom of its fuselage and performed two air show tours flying at low altitude, one flying beside the Royal Jordanian Falcons fleet and the other beside F16s.

Around 70 employees, captains, first officers, flight attendants and ground staff, wearing their uniforms, took part in the parade that was organized for this occasion. They were preceded by a float replicating an RJ aircraft, carrying RJ's colors and logo.

At the beginning of 2016, RJ raised the flag of the Great Arab Revolt in front of its headquarters. It also carried out a broad promotional campaign in preparation for the celebrations in honor of this event. The logo of the Great Arab Revolt was printed on all RJ correspondence, magazines and publications throughout 2016.

Giveaways were produced to celebrate this national occasion and were distributed to all RJ staff members.

RJ-branded float given to Children's Museum: RJ donated to the Children's Museum/Jordan an aircraft-shaped float that it used during its participation in the parade marking the centennial of the Great Arab Revolt. The float is now displayed in the "Around the World" area at the museum, giving children the opportunity to get acquainted with RJ's history and its vital role in connecting Jordan with the world.

• **Sustainable development**

RJ focuses on the implementation of several community-based initiatives that are sustainable, especially in the area of educational support programs and assistance for needy students, and the establishment of small businesses.

University Scholarships program: RJ is paying the university fees of 50 bachelor degree students who started their university studies in the scholastic year 2013/2014; 2014/2015 scholarships went to outstanding achievers from the Jordanian community, 15 to the children of RJ employees and five to children of retired RJ employees.

The undergraduate fields of study relate to RJ's fields of work, ensuring a flow of manpower for the airline's future needs. Scholarships are distributed towards the following majors: engineering (industrial, mechanical, electrical and mechatronics), IT, finance, accounting, business administration and MIS.

Granting 20 sewing machines: Women living in the south of the Kingdom were given 20 sewing machines to help them support to their families. The women, whose families often include members with special needs, begin small projects that bring them financial profits.

Recruitment of employees with special needs: RJ is keen on providing Jordanian job seekers with equal and fair opportunities. That includes individuals with special needs, some of whom are employed by RJ based on their qualifications. This way, the airline is consistent with the Convention on the Rights of Persons with Disabilities. Jordan was one of the first countries that ratified this convention in 2009; it centers on the rights of individuals with disabilities to gain access to education, health, sports, employment and others.

• Sport and youth sponsorships

RJ sponsored Jordanian Olympic gold medalist Ahmad Abu Ghoush: Taekwondo gold medal winner at the Rio Olympics Ahmad Abu Ghoush and his coach Fares Assaf were given two free Crown Class tickets on the Paris-Amman flight.

On this occasion, RJ also organized a reception at Charles de Gaulle Airport, in Paris, to celebrate Abu Ghoush's achievement; his coach and the Jordanian Olympic delegation were present at the reception. The crew received Abu Ghoush and distributed sweets to passengers, and a reception was also held at Queen Alia International Airport upon his arrival.

Sponsoring Jordanian kickboxing champion: RJ offered two free tickets on the Amman-Tunis-Amman flight to Jordanian kickboxer Fares Asha and his coach Musab Dawaymeh to participate in the Arabian Kickboxing Championship held in Tunisia. Asha won the silver medal in the under-67 kg category in this tournament.

Honoring Rakan Bani Doumi body-building champion: RJ honored its flight attendant Rakan Bani Doumi, who was the champion in the "most muscular" category at the 2016 Midwest Gladiator Body Building Championship in Chicago. Bani Doumi ranked first in the master of weights --70kgs -- the second Arab to achieve this result at international level.

Supporting "Amman Riders" and "Jordan Camels" teams to participate in the Allgäu-Orient Rally: RJ offered a 50% discount on 12 tickets for the members of the Amman Riders and Jordan Camels teams, which helped them participate in the Allgäu-Orient Rally that started from Germany, passed through 10 European countries and ended in Turkey. The sponsorship came in support of the rally's humanitarian goal of helping disabled children undergo surgeries.

Sponsoring the Arab Volleyball Championship: RJ offered discounted tickets to a group of players from Wadi Mousa Club to participate in the Arab Volleyball Championship in Tunis.

Supporting the Arab Youth Congress: RJ offered continuous support to the Arab Youth Congress since its establishment 36 years ago, in 2016, RJ offered a 25% discount on the tickets for participants on the routes it serves.

Sponsoring Abu Nusair Sports Club: RJ enabled 13 players from Abu Nusair Sports club to participate in the International Karate Championship for the Disabled, held in Spain, by offering a 40% discount to the participating players on the Amman-Madrid-Amman route.

• Cargo sponsorships

As part of its role in supporting charity organizations, RJ helped transport many items on board its aircraft to support humanitarian and social causes:

- 25 copies of the Holy Quran printed in Braille, weighing 600 kg, were shipped on board an RJ aircraft from Amman to Kuwait, as a gift from Ma'a Alsama'a charity organization in Jordan to one of the care homes for visually impaired children in Kuwait. RJ also shipped a Braille printing machine from Dubai to Amman for free to be used for the visually impaired children of Ma'a Alsama'a charity organization.

- 400 kg were shipped free of charge from Amman to Geneva for United Nations Women's Guild/Geneva. The shipment contained Jordanian products that were sold at a bazaar held in Geneva that would support of charitable work in Jordan.

- 19 bicycles were shipped for free from Amman to Vienna to enable the Jordanian Rum Team to participate in the Europe tour 2016. The proceeds of this activity went to the protection of the Victims of Domestic Violence Association.

• Initiatives to develop employees' capabilities

RJ focuses on the human element as a key factor of success and as one of the most important pillars of social responsibility. In 2016, the company carried out programs that aimed at developing its human resources and promoting effective communication by setting up events and meetings to improve the work environment and train employees to harness their skills. This will reflect positively on their performance and give them an incentive to work harder.

The company also continuously organizes ceremonies to honor the employees who leave the company and with years of service certificates receive certificates in recognition of their efforts.

Following is a summary of the most important initiatives, besides the university scholarships, offered to children of RJ employees:

Leadership program: RJ launched the leadership program to improve employees' skills and to tap into RJ's expertise in the regional and global airline industry. It aims at enhancing efficiency and productivity, control costs, increase revenues and improve the skills of employees who are the future leaders of the company.

The teams that worked on the projects issued recommendations and solutions that departments can make use of.

Partnership with Oasis500 for innovation: Royal Jordanian and Oasis500 continued their partnership in 2016, where RJ employees generated innovative business ideas across the airline's entire value chain and Oasis500 invested and accelerated their growth as startup companies.

Oasis500 invests in innovative ideas and enhances research and development methodologies that aim at enabling RJ to drive superior performance. By facilitating the creation of startups, they will eventually contribute to improving operational performance, driving efficiencies that achieve high return on investments, and deliver increased customer expectations.

Team building: Through RJ's Human Resources and Administration Department, the company continuously organizes events designed to enhance communication among the company employees, such as team building activities. This fosters strong ties among the staff outside the scope of work, which positively effects the development of labor relations.

• Onboard safety instructions in Braille for the visually impaired travelers

In cooperation with the Friendship Society for the Visually Impaired in Jordan, RJ provides onboard safety instructions in Braille to serve the travelers with special visual needs. RJ is one of the first airlines to offer such a service, which aims at finding solutions to the obstacles travelers with visual disabilities may face through a range of integrated services which include training flight attendants on facilitating their movement and helping individuals with visual disabilities have smoother travel experiences.

• Training staff to deal with passengers with special needs

Royal Jordanian held training sessions for a number of employees whose work requires them to deal with travelers with special needs. This kind of training qualifies the staff to provide better services for these passengers and facilitate their travel experience, in addition to providing logistics services that enable travelers to complete travel procedures at the highest levels of comfort and safety, and in line with international rules.

• Disabled Palestinian children transported to Malaysia for treatment

RJ granted discounts on a number of tickets on the Amman-Kuala Lumpur-Amman route for Palestinian children who had lost their limbs and their care takers. The children were treated in Malaysia by a joint initiative between the University of Malaya Medical Center and Tesco Malaysia.

• 'Assisting Doctors' initiative

RJ came up with a new initiative to express RJ's appreciation of the efforts exerted by doctors who assist passengers in need of medical attention while in the air.

The initiative, named "Assisting Doctors", awards physicians who respond to their moral duty to help passengers in need.

Assisting doctors are given a Silver Frequent Flyer card, the second tier in the Royal Plus program, in addition to adding 5,000 miles to their new account or to previous existing accounts.

• Blood donation days

Blood donation has become a tradition at RJ. The airline continuously organizes such events in collaboration with the National Blood Bank. This aims at increasing the inventory of the bank and increase awareness about blood donation and its health benefits.

• RJ as official carrier of different exhibitions and conferences

RJ continuously supports different national efforts as part of its social responsibility. The airline was partner and official carrier of several festivals, local and international conferences. RJ carries Jordan's cultural and touristic message all over the world, including: The World Economic Forum (WEF), SOFEX exhibition and conference for the 11th time, The Jordanian Tourism Day, Jerash Festival for the 31st time, Jordan Festivals, Dead Sea Live Nights, Arab Youth Media Forum, and Jordanian Universities exhibition in Kurdistan.

RJ also sponsored the open day of the Jordanian community in Kuwait, Jordan Business Council in Dubai on tolerance, "Women on the Frontlines" conference in Amman and a charity concert.

• Sponsoring other activities

During 2016, RJ sponsored different charity activities and events that aim at boosting development and participation in public work, as RJ believes in its role towards society. Sponsorships take the form of free or discounted tickets, or facilitating booking and travel processes.

The main sponsoring activities were:

- The social activity organized by the Society of Friends of Liver Disease Patients, which aimed at helping liver patients, by offering two free tickets on Amman-Istanbul-Amman route as prizes for the participants.

- A free ticket on Amman-Beirut-Amman route for Mabarrat Um Al Hussein, to be offered as a prize through its charity lottery.

- One free ticket for Families and Friends Society of Persons with Disabilities.

- One free Crown class ticket for American autism expert Frank Renaud on the Chicago-Amman-Bangkok route to train Jordanian staff who work on autism and registered in the Gifted Autistic Children association.

- A 50% discounted ticket from Amman to the U.S. for a talented Jubilee School student to enable her to participate in the Stanford conference.

- Two 50% discounted tickets on Amman-Kuwait-Amman route for Ma'a Alsama'a charity organization for the visually impaired to enable two members of the organization to participate in a conference about families and people with special needs.

- Facilitated the travel of 14 students from Jubilee School to participate in the 9th Arabic Robotic Championship held in the German University in Lebanon.

- A 25% discount on the tickets of four photographers who participated in the 5th Amman Image Festival 2016. RJ's gesture is part of its endeavor to support culture and tourism in the Kingdom.

- Discounted tickets to the Dabkeh team members from Zaha Cultural Center (15 children with their supervisors), to take part in 23rd Sfax exhibition, Tunisia.

- Free Amman-Beirut-Amman ticket to the Young Women's Christian Association as a prize of an event organized by the association to help empower women and families economically and socially.

- Free Amman-Beirut-Amman ticket to Friends of Jordan Society as a prize drawn during the bazaar held by the association to display Jordanian products, the proceeds of which went to support the less privileged people in the Jordan Valley.

- A 50 % discount on Amman-Tunis-Amman tickets for a number of musicians with visual disabilities to enable them take part in the International Festival for Musicians with Visual Impairment.

- Free Amman-New York-Amman ticket to Jordanian engineer Huda Husseini to enable her take part in 2016 Stevie Award Winners. Husseini won the silver medal in the category of the Employee of the Year.

Board of Directors and Audit Committee Meetings during 2016:

- Board of directors held 17 meetings.

- Audit committee held 20 meetings.

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of **Alla – 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 **Alla – The Royal Jordanian Airlines Company (Royal Jordanian)** and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2016, the consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2016, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards, are further described in the Auditor's Responsibilities for the Audit of the consolidated Financial Statements section of our report. We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code) together with the ethical requirements that are relevant to our audit of the 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.

Material uncertainty related to going concern

As disclosed in Notes 17 and 39 to the consolidated financial statements, the Group's losses amounted to JD 24.6 million for the year ended 31 December 2016, which include losses from exchange rate differences of JD 20.5 million for the year ended 31 December 2016 (Note 38). The Group's accumulated losses amounted to JD 88.7 million as at 31 December 2016 which represents 60.6% of the Company's capital. These events and conditions, indicate that a material uncertainty exists that may cast significant doubt about the Group's ability to continue as a going concern. The General Assembly approved to increase the Company's capital by the first tranche of JD 100 million during 2016. The Company's capital will be increased by the second tranche of JD 100 million during 2017 and 2018. Our opinion is not modified in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter provided in that context. In addition to the matter described in the material uncertainty related to Going Concern section, we have determined the matters described below to be the key audit matters to be communicated in our report.

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.

Passenger and cargo revenue recognition

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 not expected to be 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.

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.

Our audit procedures included considering the appropriateness of the Group's revenue recognition policies and assessing compliance with the policies in terms of applicable accounting standards. We also tested the Group's controls around revenue recognition and key controls in the revenue cycle. We selected a sample before and after the cutoff period to assess whether the revenue was recognized in the correct period.

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.

Disclosure of the revenues are detailed in note (24) to the consolidated financial statements.

Lease Classification

Due to the significance of the new lease agreements signed by the Group and due to the nature of the airlines business, this considered a key audit matter.

Our audit procedures included obtaining the finance and operating lease agreements. For new lease agreements signed during the year under audit, we inspected the lease agreements to ensure proper classification, recognition and presentation.

Disclosure of leases are detailed in note (19) and note (31) to the consolidated financial statements.

Obsolete and slow moving spare parts and other supplies

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

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.

Disclosure of spare parts are detailed in note (13) to the consolidated financial statements.

Other information included in Alia – The Royal Jordanian Airlines Company (Royal Jordanian 2016) annual report.

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

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 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 Group's financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 exists, 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 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 reasonably be expected to outweigh the public interest benefits of such communication.

Report on Other Legal and Regulatory Requirements

The Company maintains proper books of accounts and the accompanying financial statements and financial information presented in the Board of Directors' report are in agreement therewith.

Ernst & Young/ Jordan

ERNST & YOUNG
Amman - Jordan

Waddah Isam Barkawi
License No. 591

Amman – Jordan
28 March 2017

Consolidated Statement of Financial Position at 31 December 2016 (In Thousands of Dinars)

	Notes	2016	2015
ASSETS			
Non-current assets			
Property and equipment	7	226,520	122,689
Projects under construction	8	674	256
Advances on purchase and modification of aircrafts	9	59,731	49,948
Financial assets at fair value through other comprehensive income	10	6,022	6,020
Investments in associates	11	17,452	16,849
Restricted cash against operating lease contracts		25,243	20,321
Deferred tax assets	33	15,080	15,080
		<u>350,722</u>	<u>231,163</u>
Current assets			
Restricted cash	17	-	50,000
Other current assets	12	32,815	46,904
Spare parts and supplies, net	13	11,008	11,474
Accounts receivable, net	14	33,233	36,620
Cash and bank balances	15	141,974	71,985
		<u>219,030</u>	<u>216,983</u>
Property and equipment held for sale	16	1,064	-
TOTAL ASSETS		<u>570,816</u>	<u>448,146</u>
EQUITY AND LIABILITIES			
Shareholders' equity			
Paid in capital	17	146,405	46,405
Payments in respect of capital increase	17	-	50,154
Statutory reserve	17	13,455	13,455
Fair value reserve		3,771	3,771
Cash flow hedges		-	(178)
Accumulated losses		(88,749)	(64,094)
		<u>74,882</u>	<u>49,513</u>
Non-controlling interests		229	195
Total shareholders' equity		<u>75,111</u>	<u>49,708</u>
LIABILITIES			
Non-current liabilities			
Long term loans	18	143,308	12,672
Long term obligations under finance leases	19	63,266	9,403
Accounts payable	22	71,445	-
Other long term liabilities	20	789	1,065
		<u>278,808</u>	<u>23,140</u>
Current liabilities			
Bank overdrafts	18	-	17,896
Current portion of long term loans	18	35,067	46,233
Accrued expenses	21	70,232	68,418
Accounts payable and other current liabilities	22	69,590	206,707
Income tax provision	33	63	232
Deferred revenues	23	30,205	28,328
Short term obligations under finance leases	19	11,740	7,484
		<u>216,897</u>	<u>375,298</u>
Total liabilities		<u>495,705</u>	<u>398,438</u>
TOTAL EQUITY AND LIABILITIES		<u>570,816</u>	<u>448,146</u>

Consolidated Income Statement for the Year Ended 31 December 2016 (In Thousands of Dinars)

	Notes	2016	2015
Revenues	24	598,271	658,055
Cost of revenues	25	(527,668)	(559,146)
Gross Profit		<u>70,603</u>	<u>98,909</u>
Administrative expenses	27	(20,590)	(21,119)
Selling and marketing expenses	28	(45,045)	(46,881)
Other provisions		(133)	(1,276)
Net operating income		<u>4,835</u>	<u>29,633</u>
Share of profit of associates	11	2,397	2,438
Other income, net	26	7,274	3,006
Loss on property and equipment held for sale	16	(395)	-
Loss on disposal of property and equipment		(12)	(385)
Ineffective portion of fuel options contracts		-	(3)
Ineffective portion of interest rate swaps		-	(161)
Provision for voluntary termination	30	(3,501)	-
Loss on foreign exchange differences		(20,468)	(4,552)
Finance costs	29	(14,621)	(8,949)
(Loss) profit for the year before income tax		<u>(24,491)</u>	<u>21,027</u>
Income tax expense	33	(80)	(4,994)
(Loss) profit for the year		<u>(24,571)</u>	<u>16,033</u>
Attributable to:			
Equity holders of the parent		(24,605)	16,008
Non-controlling interests		34	25
		<u>(24,571)</u>	<u>16,033</u>
Basic and diluted (losses) earnings per share attributable to equity holders of the parent	32	JD (0.1681)	JD 0.345

Consolidated Statement of Comprehensive Income for the Year Ended 31 December 2016 (In Thousands of Dinars)

	2016	2015
(LOSS) PROFIT FOR THE YEAR	<u>(24,571)</u>	<u>16,033</u>
Add: Other comprehensive income items after tax:		
Other comprehensive income items that will be transferred to profit and loss in subsequent periods:		
Net gain on cash flow hedges	178	356
Total loss and comprehensive income for the year	<u>(24,393)</u>	<u>16,389</u>
Attributable to:		
Equity holders of the parent	(24,427)	16,364
Non controlling interests	34	25
	<u>(24,393)</u>	<u>16,389</u>

Consolidated Statement of Changes In Equity for the Year Ended 31 December 2016
(In Thousands of Dinars)

Attributable to equity holders of the parent									
	Paid in Capital	Payments on capital increase	Statutory reserve	Fair value reserve	Cash flow hedges	Accumulated losses	Total	Non – controlling interests	Total equity
2016 -									
Balance as of 1 January 2016	64,405	50,154	13,455	3,771	(178)	(64,094)	49,513	195	49,708
Total loss and comprehensive income for the year	-	-	-	-	178	(24,605)	(24,427)	34	(24,393)
Payments in respect of capital increase (note 17)	-	13,702	-	-	-	-	13,702	-	13,702
Capital increase	100,000	(63,856)	-	-	-	-	36,144	-	36,144
Capital increase costs	-	-	-	-	-	(50)	(50)	-	(50)
Balance as of 31 December 2016	146,405	-	13,455	3,771	-	(88,749)	74,882	229	75,111
2015 -									
Balance as of 1 January 2015	84,373	-	11,380	3,771	(534)	(114,995)	(16,005)	170	(15,835)
Total comprehensive income for the year	-	-	-	-	356	16,008	16,364	25	16,389
Capital reduction (note 17)	(37,968)	-	-	-	-	37,968	-	-	-
Transfers	-	-	2,075	-	-	(2,075)	-	-	-
Payments in respect of (capital increase (note 17)	-	50,154	-	-	-	-	50,154	-	50,154
Capital increase costs	-	-	-	-	-	(1,000)	(1,000)	-	(1,000)
Balance as of 31 December 2015	46,405	50,154	13,455	3,771	(178)	(64,094)	49,513	195	49,708

Consolidated Statement of Cash Flows for the Year Ended 31 December 2016
(In Thousands of Dinars)

	Notes	2016	2015
OPERATING ACTIVITIES			
(Loss) profit for the year before income tax		(24,491)	21,027
Adjustments for:			
Depreciation of property and equipment	7	25,975	28,375
Share of profit of associates	11	(2,397)	(2,438)
Finance costs		14,621	8,949
Provision for doubtful debts	14	133	1,276
Loss on sale of property and equipment		12	385
Loss on property and equipment held for sale	16	395	-
Provision for voluntary termination	30	3,501	-
Provision for end of service indemnity	20	12	2
Amortization of deferred revenue – Jordan Flight Catering		(300)	(300)
Ineffective portion of fuel option contracts		-	3
Ineffective portion of interest rate swap contracts		-	161
Working capital changes			
Accounts receivable		3,254	9,307
Spare parts and supplies		466	1,334
Other current assets		14,089	(18,149)
Derivative financial assets		-	3
Deferred revenues		2,177	(7,628)
Accounts payable and other current liabilities		(65,494)	83,879
Accrued expenses		1,675	(12,149)
Provisions paid for labor collective contract	30	(3,362)	-
End of service indemnity paid	20	(288)	(261)
Income tax paid	33	(249)	(266)
Net cash flows (used in) from operating activities		(30,271)	113,510
INVESTING ACTIVITIES			
Dividends received from associates	11	1,794	2,064
Purchase of property and equipment		(35,997)	(9,946)
(Purchase) sale of financial assets at fair value through OCI		(2)	14
Projects under construction		(418)	(134)
Change in restricted cash against lease contracts		(4,922)	(1,328)
Advances on purchase and modification of aircrafts		(39,461)	(35,844)
Restricted bank accounts		(29,582)	(2,742)
Net cash flows used in investing activities		(108,588)	(47,916)
FINANCING ACTIVITIES			
Proceeds from loans		151,064	-
Repayment of term loans		(31,594)	(47,451)
Capital increase		99,846	154
Capital increase cost		(50)	(1,000)
Finance lease obligations		(7,483)	(7,028)
Interest paid		(14,621)	(8,949)
Net cash flows from (used in) financing activities		197,162	(64,274)
Net increase in cash and cash equivalents		58,303	1,320
Cash and cash equivalents, beginning of the year		34,571	33,251
Cash and cash equivalents, end of the year	15	92,874	34,571

Notes to the Consolidated Financial Statements

(1) GENERAL

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

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

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

The consolidated financial statements were authorized for issue by the Board of Directors during their meeting held on 28 March 2017.

(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 consolidated financial statement.

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

(3) BASIS OF CONSOLIDATION

The consolidated financial statements comprise of 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 2016:

	Ownership Interest	Country
Royal Wings Company	% 100	Jordan
Royal Tours for Travel and Tourism Company	% 80	Jordan

Control is achieved when the Group is exposed, or is entitled to rights and 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 votes 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 other vote holders of the investee
- Rights arising from other contractual arrangements
- The Group's voting rights and potential voting rights

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

The financial statements of the subsidiaries company are consolidated from the control date until the date that such control ceases. Revenue and expenses of the subsidiaries are consolidated in the consolidated statement of comprehensive income from the date of control until such control ceases.

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 their non-controlling interests, even if this results in the non-controlling interests resulting in 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 interest.
- 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 from loss of control.
- Reclassifies the parent's share of components previously recognized in OCI to profit or loss.

Shareholders who have a significant influence over the Group

The Government of the Hashemite Kingdom of Jordan, Mint Trading Middle East Ltd. and Social Security Corporation own 60%, 15% and 10% respectively of the Company's shares (2015: 26%, 19% and 10% respectively).

(4) CHANGES IN ACCOUNTING POLICIES

The accounting policies used in the preparation of the financial statements are consistent with those used in the preparation of the annual financial statements for the year ended 31 December 2015 except for the followings starting from 1 January 2016:

Equity Method in Separate Financial Statements (Amendments to IAS 27 and IFRS 1)

In August 2014, the IASB amended IAS 27 Separate Financial Statements which restores the option for entities, in separate financial statements, to account for investments in subsidiaries, associates and joint ventures using the equity method as described in IAS 28 Investments in Associates and Joint Ventures. A consequential amendment was made to IFRS 1 First-time Adoption of International Financial Reporting Standards. The amendment to IFRS 1 allows a first-time adopter accounting for investments in the separate financial statements using the equity method, to apply the IFRS 1 exemption for past business combinations to the acquisition of the investment.

IAS 1 Presentation of Financial Statements – Amendments to IAS 1

The amendments to IAS 1 include narrow-focus improvements related to:

- Materiality
- Disaggregation and subtotals
- Notes structure
- Disclosure of accounting policies
- Presentation of items of other comprehensive income (OCI) arising from equity accounted investments

Investment entities (Amendments to IFRS 10 and IAS 28)

The amendments address the issues arising in practice in the application of the investment entities consolidation exception and clarify the following:

- The exemption from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity, when the investment entity measures all of its subsidiaries at fair value.
- Any subsidiary that is not an investment entity itself and provides support services to the investment entity is consolidated. All other subsidiaries of an investment entity are measured at fair value.
- Application of the equity method by a non-investment entity that has an interest in an associate or joint venture that is an investment entity: the amendments to IAS 28 Investments in Associates and Joint Ventures allow the investor, when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries.

Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortization

The amendments clarify the principle in IAS 16 and IAS 38 stating that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortize intangible assets.

Amendments to IFRS 11 Joint Arrangements: Accounting for Acquisitions of Interests

The amendments to IFRS 11 require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business, must apply the relevant IFRS 3 principles for business combining accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to IFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party.

The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation.

The implementation of the new amendments did not impact the Group's financial position or performance.

(5) USE OF ESTIMATES

The preparation of the consolidated financial statements requires management to make estimates and assumptions that effect 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 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 based on assumptions surrounding several factors involving varying degrees of judgment and uncertainty and actual results may differ resulting in future changes of 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 will be adjusted prospectively where the management believes useful lives differ from previous estimates.

Fair Value of Derivative Financial Instruments

Fair values of derivative financial instruments are determined using valuation techniques including the discounted cash flow models. The inputs to these models are taken from observable markets, where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include consideration of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of derivatives.

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 2016, the estimated liability for unredeemed points was approximately 6,163 JD (2015: JD 6,326).

(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 of 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 recognized 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 those at the acquisition date.

Property and equipment

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

	Depreciation Rate (%)
Owned passenger and cargo aircrafts, aircrafts under finance leases, Aircraft engines and aircraft components	4 - 5.5
Machinery and equipment	10-15
Computers	25
Furniture and fixtures	10
Vehicles	15-20
Buildings	2.5 - 10
	Period
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 recognized in the consolidated income statement.

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

Property and equipment held for sale

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

- The Group must be committed to sale, which should qualify for recognition as having completed sales within one year from the date of classification.

- Assets are available for immediate sales in their present condition.

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

Projects under construction

Projects under construction are stated at cost. This includes the cost of construction and other direct costs.

Projects under construction, that will be used as owner occupied properties when completed, are not depreciated until such time as the relevant assets are completed and put into operational use.

Financial assets at fair value through other comprehensive income

These financial assets are initially recognized at fair value in addition to attributable transaction costs and subsequently measured at fair value. The change in fair value of those assets are presented in the consolidated statement of comprehensive income within equity, including the change in fair value resulting from the foreign exchange differences of non-monetary assets. In case those assets – or part of them – were sold, the resultant gain or loss is recorded in the statement of comprehensive income within equity and the fair value reserve of the sold assets is directly transferred to the retained earnings and not through the consolidated income statement.

These financial assets are no longer subject to impairment testing and any distributions of profit are recorded in the consolidated income statement.

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 is similar to those necessary to determine control over subsidiaries.

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

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

The consolidated income statement reflects the Group's share of the results of associate's operations. Any change in other comprehensive incomes 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 as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

Spare parts and other supplies

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

Accounts receivable

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

Cash and cash equivalents

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

Impairment and uncollectibility of financial assets

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

The amount of impairments are determined as follows:

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

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

Fair value measurement

Fair values of financial instruments measured at amortised cost are disclosed in Note 36.

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

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

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

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

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

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

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 of 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 significant to the fair value measurement is directly or indirectly observable

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

For assets and liabilities recognised in the financial statements on a recurring basis, the Group determines whether transfers 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 fairs available for sales financial assets, and for non-recurring measurement, such as assets held for distribution in discontinued operation.

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.

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

Finance leases

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

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

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

End of service indemnity provision

The Group provides end of service indemnity benefits to its employees. Provision is made at the consolidated financial statements date for amounts payable to employees based upon the employees' final salary and length of service prior to the date on which the employees joined the social security scheme.

Accounts payable and accruals

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

Provisions

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

Loans

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

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

Revenue recognition

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

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

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

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

Maintenance and repair costs

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

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

Income tax

Tax expense comprises current tax and deferred taxes.

Current tax is based on taxable profits, which may differ from accounting profits published in the consolidated income statement. Accounting profits may include non-taxable profits or expenses which may not be tax deductible at the current moment but may be 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 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 financial statements date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized.

Operating leases

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

Foreign currencies

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

(7) PROPERTY AND EQUIPMENT

2016	Aircrafts under finance leases	Air crafts	Spare engines	Capitalized maintenance on aircrafts' engines, and components	Aircrafts' main Components	Machinery and Equipment	Computers	Furniture and Fixtures	Vehicles	Land and buildings	Total
Cost:											
Balance as of 1 January 2016	81,284	126,344	2,490	27,767	46,619	56,191	77,119	9,235	10,608	42,581	420,238
Additions during the year	72,299	-	26,873	24,551	856	5,332	881	90	180	15	131,277
Disposals during the year	-	(48,213)	-	(8,510)	-	(11)	(16)	(4)	(118)	-	(56,872)
Balance as of 31 December 2016	153,583	78,131	29,363	43,808	47,475	61,712	77,984	9,321	10,670	42,596	494,643
Accumulated depreciation:											
Balance as of 1 January 2016	28,185	117,972	2,490	17,700	41,262	49,547	14,825	7,391	9,609	8,568	297,549
Depreciation for the year	4,132	2,313	34	12,540	2,024	1,897	987	346	382	1,320	25,975
Disposals during the year	-	(46,754)	-	(8,510)	-	(9)	(16)	(4)	(108)	-	(55,401)
Balance as of 31 December 2016	32,317	73,531	2,524	21,730	43,286	51,435	15,796	7,733	9,883	9,888	268,123
Net book value as of											
31 December 2016	121,266	4,600	26,839	22,078	4,189	10,277	2,188	1,588	787	32,708	226,520

Statement of financial position

	Jordan Flight Catering Company		Jordan Aircraft Maintenance Company (Joramco)		Jordan Aircraft Training & Simulation Company (JATS)		Al Mashriq Aviation Services		Total	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
Current assets	6,966	7,132	17,769	19,185	2,156	2,167	5,948	739	32,839	29,223
Non-current assets	1,484	1,896	18,550	19,769	22,603	21,835	1,875	166	44,512	43,666
Current Liabilities	(3,947)	(3,688)	(7,179)	(8,440)	(2,449)	(2,644)	(2,403)	(242)	(15,978)	(15,014)
Non-current liabilities	-	-	(13,895)	(15,105)	(7,491)	(7,742)	(9,713)	(1,551)	(31,099)	(24,398)
Net assets	4,503	5,340	15,245	15,409	14,819	13,616	(4,293)	(888)	30,274	33,477
Group's ownerships percentage	%30	%30	%20	%20	%20	%20	%49	%49		
Investment in associate	1,351	1,602	3,049	3,081	2,964	2,723	-	-	7,364	7,406

Statement of comprehensive income

	Jordan Flight Catering Company		Jordan Aircraft Maintenance Company (Joramco)		Jordan Aircraft Training & Simulation Company (JATS)		Al Mashriq Aviation Services		Total	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
Revenues	20,857	21,319	36,544	36,321	6,542	4,980	1,397	1,377	65,340	63,997
Cost of sales	(15,018)	(15,230)	(24,551)	(23,016)	(3,987)	(3,184)	(1,051)	(1,590)	(44,607)	(43,020)
Other income and expenses	(599)	(627)	(9,065)	(9,870)	(1,353)	(1,291)	(912)	(368)	(11,929)	(12,156)
Income before tax	5,240	5,462	2,928	3,435	1,202	505	(566)	(581)	8,804	8,821
Income tax	(5)	39	-	-	-	-	-	-	(5)	39
Profit (loss) for the year	5,235	5,501	2,928	3,435	1,202	505	(566)	(581)	8,799	8,860
Group's Share of profit (loss) for the year	1,571	1,650	586	687	240	101	-	-	2,397	2,438

(12) OTHER CURRENT ASSETS

	2016	2015
Prepaid expenses	7,247	13,901
Refundable deposits	1,001	1,026
Receivable from lessors – maintenance claims	10,739	21,055
Employees' receivables	1,558	1,557
Advances to suppliers	10,339	8,682
Others	1,931	683
	32,815	46,904

(13) SPARE PARTS AND OTHER SUPPLIES

	2016	2015
Spare parts and supplies	14,989	15,455
Provision for decrease in inventory prices	(3,981)	(3,981)
	11,008	11,474

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

	2016	2015
Beginning balance	3,981	3,981
Provision for the year	-	-
Ending balance	3,981	3,981

(14) ACCOUNTS RECEIVABLE

	2016	2015
Accounts receivable	48,633	51,896
Provision for doubtful debts	(15,400)	(15,276)
	33,233	36,620

As of 31 December 2016, trade receivables at nominal value of JD 15,400 (2015: JD 15,276) were impaired and fully provided for.

Movement on provision for doubtful debts were as follows:

	2016	2015
Beginning balance	15,276	14,124
Provision for the year	133	1,276
Bad debts written off	(9)	(124)
Ending balance	15,400	15,276

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

	Past due but not impaired						Total
	Neither past due nor impaired	30 -1 days	60 - 31 days	90 - 61 days	180 - 91 days	360-181 days	
2016	2,782	20,077	3,019	2,523	2,768	2,064	33,233
2015	3,141	22,097	3,062	2,706	2,846	2,768	36,620

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

(15) CASH AND BANK BALANCES

	2016	2015
Cash and bank balances	12,944	28,866
Short term deposits*	62,202	4,633
Cash in transit **	17,728	18,968
Less: bank overdrafts	-	(17,896)
Cash and cash equivalents	92,874	34,571
Short term deposits mature after 3 months ***	49,100	19,518
	141,974	54,089

* This item represents deposits in Jordanian Dinar in Jordanian Banks as of 31 December 2016 with an interest rate ranging between %2.75 - %2.5 :2015) %3.25 - %3) 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 40,000) and Sudanese Pound (191,084 thousand Sudanese Pound which is equivalent to JD 149,940 :2015) (7,022 thousand Sudanese pounds which is equivalent to JD 19,518) as of 31 December 2016 with an average interest rate of %4.25 :2015) %4.5) and are due within eight months (2015: six months).

(16) PROPERTY AND EQUIPMENT HELD FOR SALE

During 2016, the Board of Directors resolved to sell on Airbus aircraft A310-. Accordingly, the Aircraft was classified as property and equipment held for sale as at 31 December 2016 in the consolidated statement of financial position at JD 1,064, which represents the aircraft's fair value less cost to sell. Impairment loss of JD 395 was recorded in the consolidated income statement being the difference between the aircraft's carrying value and fair value less cost to sell as at 31 December 2016.

(17) SHAREHOLDERS' EQUITY

- Paid in capital

	2016	2015
Paid in capital		
Authorized capital (246,405 shares of JD 1 each)	246,405	246,405
Paid in capital	146,405	46,405

Payments in respect of capital increase

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

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

- Statutory Reserve

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

(18) BANK LOANS

	2016		2015	
	Loan's Installments		Loan's Installments	
	Short term	Long term	Short term	Long term
Syndicated loan*	35,847	145,713	-	-
Arab Bank loan**	-	-	8,247	-
Jordan Kuwaiti Bank loan**	-	-	5,109	7,095
Arab Jordan Investment Bank loan**	-	-	1,773	1,041
Standard Chartered Bank loan**	-	-	31,300	5,217
Less: direct attributable transaction costs**	(780)	(2,405)	(196)	(681)
	35,067	143,308	46,233	12,672

* On 20 December 2015, the Group signed a new syndicated loan agreement amounted to USD 275 million equivalent to JD 195 million, the loan bears an annual interest rate of 3 months LIBOR plus %3. The loan is repayable in 60 monthly installments. The first installment amounting to JD 3 million will fall due on 20 January 2017 and the last installment will fall due on 20 January 2021.

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

** On 28 January 2016, the Group has settled all these loans and overdrafts outstanding balances.

Principal installments payable during the year 2017 and after are as follows:

Year	JD
2017	35.847
2018	35.774
2019	43.726
2020	60.938
2021	5.275
	181.560

(19) OBLIGATIONS UNDER FINANCE LEASES

	2016				2015			
	E-195	E-175	B-787	Total	E-195	E-175	B-787	Total
Long term obligations	-	1,976	61,290	63,266	3,659	5,744	-	9,403
Current obligations	3,658	3,770	4,312	11,740	3,944	3,540	-	7,484
	3,658	5,746	65,602	75,006	7,603	9,284	-	16,887

- E-195 Lease Agreement - Aircraft Number 107

The lease agreement was signed on 17 September 2007 with a total amount of USD 22,500,000 (JD 15,957). The term of the agreement is for 10 years. Interest on the lease was computed based on LIBOR plus 0.75%. The lease provides for 40 quarterly installments commencing on 20 December 2007. As of 31 December 2016, the outstanding balance is JD 1,575 (2015: JD 3,563).

- E-195 Lease Agreement - Aircraft Number 131

The lease agreement was signed on 17 September 2007 with a total amount of USD 22,500,000 (JD 15,957). The term of the agreement is for 10 years. Interest on the lease was computed based on LIBOR plus 0.75%. The lease provides 40 quarterly installments commencing on 20 February 2008. As of 31 December 2016, the outstanding balance was JD 2,083 (2015: JD 4,040).

- E-175 Lease Agreement - Aircraft Number 223

The lease agreement was signed on 17 September 2007 with a total amount of USD 21,000,000 (JD 14,894). The term of the agreement is for 10 years. Interest on the lease was computed based on LIBOR plus 0.75%. The lease provides 40 quarterly installments commencing on 15 August 2008. As of 31 December 2016, the outstanding balance has JD 2,873 (2015: JD 4,642).

- E-175 Lease Agreement - Aircraft Number 232

The lease agreement was signed on 17 September 2007 with a total amount of USD 21,000,000 (JD 14,894). The term of the agreement is for 10 years. Interest on the lease was computed based on LIBOR plus 0.75%. The lease provides 40 quarterly installments commencing on 15 September 2008. As of 31 December 2016, the outstanding balance is JD 2,873 (2015: JD 4,642).

- B-787 Lease Agreement - Aircraft Number 37984

The lease agreement was signed on 15 November 2016 with a total amount of USD 92,500,000 (JD 65,602). The term of the agreement is for 12 years. Interest on the lease was computed based on LIBOR plus 3.25%. The lease provides 48 quarterly installments commencing on 15 February 2017. As of 31 December 2016, the outstanding balance is JD 65,602 (2015: nil).

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

Year	Amounts
2017	11,740
2018	6,470
2019	4,684
2020	4,880
2021 and after	47,232
	75,006

Minimum lease payments under all finance leases are as follows:

	2016	2015
Total minimum lease payments	93,408	17,307
Interest	(18,402)	(420)
	75,006	16,887

(20) OTHER LONG TERM LIABILITIES

	2016	2015
Provision for end of service indemnity	789	1,065

Movements on provision for employee's end of service indemnity were as follows:

	2016	2015
Beginning balance	1,065	1,324
Provision for the year	12	2
Payments during the year	(288)	(261)
	789	1,065

(21) ACCRUED EXPENSES

	2016	2015
Accrual for flying operations expenses	53,598	54,634
Royalty accrual on transportation agreements with other airline companies	-	135
Accrued operating lease payments	16,634	13,649
	70,232	68,418

(22) ACCOUNTS PAYABLE AND OTHER CURRENT LIABILITIES

	2016		2015	
	Short Term	Long Term	Short Term	Long Term
Fuel suppliers	11,062	36,929	93,176	-
Government of the Hashemite Kingdom of Jordan (note 34)*	16,200	34,516	5,826	-
Spare parts suppliers and accounts payable	10,950	-	79,885	-
Ministry of Finance (note 34)	1,919	-	2,207	-
Employees Provident fund	5,009	-	6,626	-
Others	24,450	-	18,987	-
	69,590	71,445	206,707	-

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

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

(23) DEFERRED REVENUES

	2016	2015
Unutilized passenger tickets, air way bills and other service sales	28,880	26,009
Amount received on Boeing 787*	-	694
Deferred revenue – Jordan Flight Catering Company**	1,325	1,625
	30,205	28,328

* This item represents amounts received from Boeing Company during 2010 due to postponing the delivery date of the Boeing 787 aircraft. This amount was recorded as deferred revenue and was amortized until the aircraft was received during November 2016.

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

(24) REVENUES

	2016	2015
Scheduled Services		
Passengers	477,957	523,351
Cargo	33,811	42,891
Excess baggage	4,742	4,889
Airmail	6,480	5,826
Total scheduled services (note 35)	522,990	576,957
Chartered flights (note 35)	15,851	16,879
Commercial revenues from arriving and departing aircrafts of other companies	11,237	11,687
Revenues from technical and maintenance services provided to other companies	4,664	5,141
Cargo warehouse revenues	11,159	10,862
First class services revenues	4,403	4,850
Revenues from services provided to other aviation companies	1,870	1,886
Revenues from NDC (Galileo)	3,557	4,716
Change reservation revenues	6,825	7,432
Other revenues	15,715	17,645
	598,271	658,055

(25) COST OF REVENUES

	2016	2015
Flying operations cost		
Aircraft Fuel	102,374	136,700
Other flying operations cost	73,948	72,246
Total flying operations cost	176,322	208,946
Repair and maintenance	82,104	76,299
Aircraft rental expenses	85,386	89,415
Depreciation of aircraft and engines and capitalized maintenance	20,343	20,656
Stations and ground services	61,183	59,046
Ground handling unit	22,192	21,015
Passenger services	80,138	83,769
	527,668	559,146

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

	2016	2015
Salaries and wages	46,451	46,086
Overtime	2,744	2,786
End of service indemnity	1,647	1,436
Social Security contribution	5,815	5,526
Provident fund contribution	3,350	3,348
Medical expenses	2,022	1,455
Other benefits	2,529	2,461
	64,558	63,098

(26) OTHER INCOME - NET

	2016	2015
Interest income	4,382	1,829
Others	2,892	1,177
	7,274	3,006

(27) GENERAL AND ADMINISTRATIVE EXPENSES

	2016	2015
Salaries and wages	7,079	7,208
Employees benefits	616	822
Overtime	289	289
Medical expenses	592	637
End of service indemnity	429	611
Social security contribution	874	823
Provident fund contribution	562	554
Life insurance	203	269
Rent	288	278
Maintenance and cleaning expenses	72	137
Water, electricity and heating	629	486
Computer expenses	2,711	2,636
Depreciation	1,407	1,803
Others	4,839	4,566
	20,590	21,119

(28) SELLING AND MARKETING EXPENSES

	2016	2015
Commission	17,073	18,466
Salaries and wages	11,506	11,247
Marketing and advertisement	3,292	4,036
Other employee benefits	2,566	2,439
Overtime	197	202
Medical expenses	793	663
End of service indemnity	647	453
Social security contribution	1,797	1,707
Provident fund contribution	316	311
Life insurance	67	34
Rent	2,024	2,044
Maintenance and cleaning expenses	215	241
Water, electricity and heating	193	196
Computer expenses	367	330
Depreciation	229	247
Others	3,763	4,265
	45,045	46,881

(29) FINANCE COSTS

	2016	2015
Interest on loans	12,786	6,356
Interest on finance leases	540	197
Other interest and bank charges	1,295	2,396
	14,621	8,949

(30) PROVISION FOR VOLUNTARY TERMINATION

On 27 March 2016, 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 April to 30 October 2016. Accordingly, the Company has recorded a provision amounted to JD 3,501 for the year ended 31 December 2016 which represents the accrued amounts for employee who applied to the plan and management approved their applications.

Movement on provision is as follows:

	2016	2015
Provision at the beginning of the year	-	-
Provision provided during the year	3,501	-
Payments during the year	(3,362)	-
	139	-

(31) OPERATING LEASE COMMITMENTS

As of the date of these consolidated financial statements, Alia – The Royal Jordanian Airlines Company has future commitments which represent operating lease agreements in respect of six Airbus A-320 aircraft, two Airbus A-321 aircraft, four Airbus A-319 aircraft, two Airbus A-330 aircraft, and one Embraer E-175 aircraft, and five Boeing B-787 aircraft.

Payments under the operating leases are detailed as follows:

Year	Amount
2017	70,176
2018	63,304
2019	51,372
2020	43,970
2021 and after	236,906

(32) EARNINGS PER SHARE

	2016	2015
(Loss) profit for the year attributed to the equity holders of the parent ('000)	(24,605)	16,008
Weighted average number of shares ('000)	146,405	46,405
Basic and diluted (loss) earnings per share (JD)	(0.1681)	0.345

(33) INCOME TAX

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

	2016	2015
Current year's income tax charge	80	274
Deferred Tax Assets	-	4,720
Temporary differences deductions	80	4,994
Income tax expense		

Provision for income tax was calculated for the years 2016 and 2015 in accordance with Jordanian Income Tax Law No. (34) of 2014.

Provision for income tax charge on 2016 and 2015 with an amount of JD 80 and JD 274 represent the income tax expenses incurred over Royal Wings Company – Limited Liability Company (Subsidiary) for the year ended 31 December 2016 and 2015, respectively.

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

The Company filed its tax return for the year 2015. 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 reached a final settlement with the Income Tax Department up to the year 2013.

Royal Jordanian travel and tourism company reached a final settlement with the income tax department up to the year 2014.

Movement on provision for income tax were as follows:

	2016	2015
Beginning balance	232	224
Current year's income tax charge	80	274
Income tax paid	(249)	(266)
Ending balance	63	232

Movement on deferred tax assets were as follows:

	2016	2015
Beginning balance	15,080	19,800
Deferred tax assets for the year	-	(4,720)
Ending balance	15,080	15,080

Reconciliation between accounting profit and taxable profit

	2016	2015
Accounting (losses) profit	(24,491)	21,027
Non-taxable profits	(1,798)	(2,433)
Non-deductible expenses	23,609	5,004
Prior years tax losses	(126,608)	(104,294)
Accumulated tax losses	(129,288)	(80,696)
Relates to:		
Total loss – Parent Company	(129,601)	(81,621)
Total profit - subsidiary	313	925
Effective income tax rate for subsidiary	%20	%20
Statutory income tax rate	%20	%20
Current year income tax – Subsidiary company	80	274
Income tax expense	80	4,994

34) RELATED PARTY TRANSACTIONS

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

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

	2016		2015	
	Accounts receivable	Accounts payable	Accounts receivable	Accounts payable
Government of Jordan	4,026	52,635	3,749	2,207
Employees' Provident Fund	-	5,009	-	6,626
Jordan Aircraft Maintenance Company	674	-	10	1,179
Jordan Flight Catering Company	-	1,659	-	4,204
Jordan Aircraft Training and Simulation Company	7	457	2	443
Al Mashriq Aviation Services	105	-	733	-
	4,812	59,760	4,494	14,659

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

	2016	2015
Jordan Aircraft Maintenance Company (JORAMCO):		
Scheduled services revenues	166	422
Repair and maintenance expenses	(5,352)	(5,880)
Jordan Flight Catering Company:		
Passenger services expenses	(15,423)	(15,651)
Jordan Aircraft Training and Simulation Company:		
Scheduled services revenues	79	80
Pilots training expenses	(1,525)	(1,289)

The Company signed a 4 years maintenance contract with Jordan Aircraft Maintenance Company (JORAMCO) during January 2005 which has been extended for an additional seven years until the end of October 2016, and in return the Company was granted a 20% share in Jordan Aircraft Maintenance Company. The contract was extended up to the end of January 2017. Management will agree on contract renewal during 2017.

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

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

The following is a summary of transactions with key management personnel of the Group:

	2016	2015
Chartered flights revenue - Board member	-	493

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

	2016	2015
Scheduled services revenues – passengers	4,729	6,693
Scheduled services revenues – cargo	1,480	1,700
	6,209	8,393
Chartered flights	998	1,428

- The Company's contribution to the employees' saving fund amounted to JD 4,127 and JD 4,126 for the years 2016 and 2015, respectively.

Compensation of key management personnel

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

	2016	2015
Salaries and other benefits	425	541
Board of Directors remuneration	70	103

(35) GEOGRAPHICAL DISTRIBUTION OF REVENUES

All operations are integrated under the airline business. The Group does not have any segment information other than the geographical distribution of revenues, which is used by the management executives to measure the Group's performance:

	2016				2015			
	Scheduled services	Chartered Flights		Total	Scheduled services	Chartered Flights		Total
		Passengers	Cargo			Passengers	Cargo	
Levant	72,294	4,638	2,126	79,058	88,134	7,062	2,023	97,219
Europe	133,256	1,357	929	135,542	146,674	1,009	1,025	148,708
Arab Gulf	123,651	24	121	123,796	146,944	2,191	122	149,257
America	115,867	3,805	2,440	122,112	120,098	948	2,234	123,280
Asia	59,653	-	-	59,653	54,391	28	-	54,419
Africa	18,269	246	165	18,680	20,716	237	-	20,953
Total Revenue	522,990	10,070	5,781	538,841	576,957	11,475	5,404	593,836

(36) FAIR VALUE OF FINANCIAL INSTRUMENTS

Financial instruments comprise of financial assets and financial liabilities.

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

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

(37) Fair Value Hierarchy

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

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

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

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

	Level 1	Level 2	Level 3	Total
31 December 2016	JD	JD	JD	JD
Financial assets:				
Financial assets at fair value through other comprehensive income	-	6,022	-	6,022
31 December 2015				
Financial assets:				
Financial assets at fair value through other comprehensive income	-	6,020	-	6,020

(38) RISK MANAGEMENT

Interest rate risk

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

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 of financial assets and financial liabilities held at 31 December 2016.

The following table demonstrates the sensitivity of the consolidated income statement to reasonably possible changes in interest rates as of 31 December 2016, with all other variables held constant.

2016 -	Increase in interest rate	Effect on loss
Currency	(points)	
USD	50	1,024

Currency	Decrease in interest rate	Effect on loss
	(points)	
USD	25	(512)

2015 -	Increase in interest rate	Effect on loss
Currency	(points)	
USD	50	(357)

Currency	Increase in interest rate	Effect on profit
	(points)	
USD	25	179

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 2016 and 2015.

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 2016 and 2015, based on contractual payment dates and current market interest rates.

31 December 2016	Less than 3 months	3 to 12 months	1 to 5 years	> 5 years	Total
Accounts payables and other current liabilities	17,542	52,627	73,279	-	143,448
Bank loans	9,275	27,826	150,813	-	187,914
Obligations under finance leases	3,711	10,750	36,829	42,118	93,408
Other long term liabilities	-	-	355	434	789
Total	30,528	91,203	261,276	42,552	425,559

31 December 2015	Less than 3 months	3 to 12 months	1 to 5 years	> 5 years	Total
Accounts payables and other current liabilities	63,066	143,641	-	-	206,707
Bank overdraft	18,432	-	-	-	18,432
Bank loans	12,594	35,416	12,938	-	60,948
Obligations under finance leases	1,869	5,754	9,684	-	17,307
Other long term liabilities	-	-	479	586	1,065
Total	95,961	184,811	23,101	586	304,459

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 foreign currencies, with all other variables held constant, on the consolidated statement of income.

2016 -	Increase in foreign currency rate to the JD currency	Effect on loss
Currency	(%)	
Euro	1	(30)
GBP	1	(16)
SDG	1	(70)

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

2015 -	Increase in foreign currency rate to the JD currency	Effect on profit
Currency	(%)	
Euro	1	(12)
GBP	1	7
SDG	1	196

Currency	Decrease in foreign currency rate to the JD currency	Effect on profit
	(%)	
Euro	1	12
GBP	1	(7)
SDG	1	(196)

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

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

(39) CAPITAL MANAGEMENT

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

The Group manages its capital structure and makes adjustments to it in light of changes in business conditions.

The Group's losses amounted to JD 24,571 for the year ended 31 December 2016 and the Group's accumulated losses amounted to JD 88,749 as of 31 December 2016. The Company's capital was increased during 2016 to become JD 146,405 (Note 17).

Capital comprises of share capital, payments in respect of capital increase, statutory reserve and accumulated losses and is measured at JD 71,111 as at 31 December 2016 (2015: JD 45,920).

(40) CONTINGENCIES AND COMMITMENTS

Bank guarantees

As of 31 December 2016, the Group had letters of guarantee amounting to JD 24,030 (2015: JD 22,647).

Claims against the Group

The Group is a defendant in a number of lawsuits amounting to JD 15,466 (2015: JD 13,522) representing legal actions and claims related to its ordinary course of business. Related risks have been analyzed as to the likelihood of occurrence, although the outcome of these matters cannot always be ascertained with precision. The management and their legal advisors believe that no material liabilities are likely to result.

Capital commitments

As of 31 December 2016, the Group had capital commitments of USD 604,326,155 (2015: USD 737,190,177), equivalent to JD 428,600 (2015: JD 522,668) relating to finance lease agreements signed for new aircrafts.

(41) STANDARDS ISSUED BUT NOT YET EFFECTIVE

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

IFRS 9 Financial Instruments

During July 2014, the IASB issued IFRS 9 "Financial Instruments" with all the three phases. IFRS 9 sets out the requirements for recognizing and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. IFRS 9 replaces IAS 39 "Financial Instruments: Recognition and Measurement". The Group has implemented the first phase of IFRS 9 as issued during 2009. The date of initial implementation of the first phase of IFRS 9 was 1 January 2011. The new version of IFRS 9 will be implemented at the mandatory date on 1 January 2018, which will have an impact on the recognition and measurement of financial assets.

IFRS 15 Revenue from Contracts with Customers

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

IFRS 16 Leases

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

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

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

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

IAS 7 Disclosure Initiative – Amendments to IAS 7

The amendments to IAS 7 Statement of Cash Flows are part of the IASB's Disclosure Initiative and require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. On initial application of the amendment, entities are not required to provide comparative information for preceding periods. The amendments will be effective for annual periods beginning on or after 1 January 2017, with early application permitted. The application of amendments will result in adding limited amount of disclosure information.

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

The IASB issued amendments to IFRS 2 Share-based Payment that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled. Entities may apply the amendments prospectively and are effective for annual periods beginning on or after 1 January 2018, with early application permitted.

Transfers of Investment Property (Amendments to IAS 40)

The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use.

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

IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration

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

Applying Corporate Governance Code for Shareholding Companies Listed on the Amman Stock Exchange
The table below summarizes the degree of RJ's compliance with corporate governance rules listed in Corporate Governance Code during 2016:

Number	Corporate Governance Rule	Reasons behind Non-Compliance (If Any)
1	Dates of disclosure of these financial statements should be announced at least three working days prior.	The Jordanian Companies Law and related disclosure instructions are applied.
2	Setting the company's disclosure and transparency policy, and overseeing its implementation in accordance with the requirements of the regulatory authorities and the laws in force.	Related disclosure instructions are applied.
3	Setting a mechanism for receiving shareholders' complaints and suggestions, including those related to listing certain items on the agenda of the general assembly meeting, in a manner that would ensure that they are studied and that proper action is taken on them within a certain period of time.	The company does not have a related policy, but it is ready to accept any comments or complaints from its customers anytime through its website or any of its offices.
4	The general assembly meeting shall be directed in a manner that allows shareholders to participate effectively, express their opinions freely, receive answers to their questions, and provide them with sufficient information that enables them to take their decisions.	The Jordanian Companies Law is applied.
5	The Audit Committee and The Nominations and Remunerations Committee shall submit their reports and recommendations to the board of directors, and a report on their activities to the company's general assembly annual meeting.	The committee's decisions are submitted to the board of directors only.
6	The board of directors shall announce the date and place of the general assembly meeting at least twice in three local daily newspapers and on the website of the company.	The date and place of the general assembly meeting is announced once in two local newspapers in accordance with Article 145, The Jordanian Companies Law.
7	The rules of good corporate governance for companies require that no new topic should be addressed at the meeting that was not listed on the agenda sent previously to the shareholders.	The Jordanian Companies Law is applied.
8	A shareholder who wishes to nominate himself for membership of the board of directors shall send his Curriculum Vitae (CV) prior to the end of the fiscal year preceding the year in which the meeting of the general assembly would meet to elect the board.	The Jordanian Companies Law is applied.
9	The board shall attach this CV to the invitation to the general assembly meeting that it addresses to shareholders.	The Jordanian Companies Law is applied.
10	Receiving annual dividends within thirty days from the date of the decision taken by the general assembly to distribute them	The Jordanian Companies Law is applied.

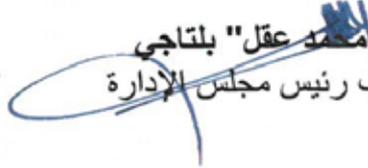
Number	Corporate Governance Rule	Reasons behind Non-Compliance (If Any)
11	Priority to subscribe in any new share issuance by the company, before these shares are offered to other investors.	The Jordanian Companies Law is applied.
12	The company shall establish written work procedures in accordance with the disclosure policy adopted by the board of directors to regulate disclosure of information and follow up on the implementation of the policy in accordance with the requirements of the regulatory authorities and the legislations in force.	Related disclosure instructions are applied.

يقر مجلس إدارة الشركة بعدم وجود أي أمور جوهرية قد تؤثر على إستمرارية الشركة خلال السنة المالية التالية لعام 2016.

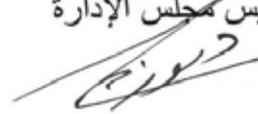
سليمان عبيدات
عضو



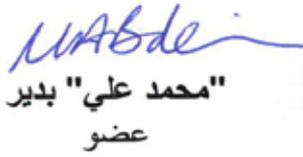
"محمد عقل" بلتاجي
نائب رئيس مجلس الإدارة



سعيد دروزة
رئيس مجلس الإدارة



UABde
"محمد علي" بدير
عضو



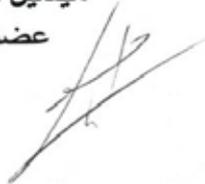
عزالدين كناكزية
عضو



باسم السالم
عضو



ميشيل نزال
عضو



عماد القضاة
عضو

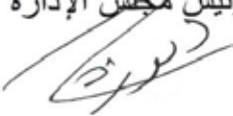


سامر المجالي
عضو



نقرنح الموقعين أدناه بصحة ودقة وإكتمال المعلومات والبيانات الواردة في التقرير السنوي لعام 2016.

سعيد دروزة
رئيس مجلس الإدارة



سليمان عبيدات
المدير العام/الرئيس التنفيذي



فراس القراعين
رئيس القطاع المالي

