Annual Report 2017

الملكية الأردنية

ROYAL JORDANIAN

Content

His Majesty
King Abdullah II bin Al Hussein

His Royal Highness
Crown Prince Al Hussein Bin Abdullah

Expanding Our Horizons

Our Vision, Mission and Values

Vision:
To be the airline of choice, connecting Jordan and the Levant with 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 people are motivated and work productively as a team, 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 will be proud of us because we:
- Represent the best of Jordanian hospitality and culture.
- Promote Jordan as a destination and a gateway to the Middle East, to both business and leisure travelers.
- Support local communities and charities.

Values:
- We strive for excellence and those who succeed in our Company will be team players.
- We enjoy working and succeeding through effective communication and believe we can achieve more by working together as one 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 deliver 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 always understanding and helpful to our customers.
- We always try 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

H.E. Eng. Basem Khalil al-Salem
Vice Chairman, representing Government Shareholdings' Management Company (from 30 October 2017)

H.E. Akel Biltaji
Former Vice Chairman, representing Government Shareholdings' Management Company (from 26 February 2017 until 26 October 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. Mr. Nasser Sultan Shraideh
Member, representing Government Shareholdings' Management Company (from 26 October 2017)

H.E. Dr. Izzidin Muyhieddin Kanakriya
Member, representing Government Shareholdings' Management Company

H.E. Captain Suleiman Reda Obeidat
Member, representing Government Shareholdings' Management Company

H.E. Eng. Samer Abdul Salam Al-Majali
Member, representing Mint Trading Middle East Ltd.

H.E. Imad Jamal Al-Qudah
Member, representing Social Security Corporation

H.E. "Mohammad Ali" Issam Bdair
Member

H.E. Michael Nabeeh Nazzal
Member

Auditors
Ernst & Young

Legal Advisor
Ahmad Abu Arkoub & Partners – Law Office
Hani Al-Kordi – Law Office

Chairman of the Board of Directors' speech

Dear shareholders,

On behalf of my colleagues from 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.

RJ plays a key and strategic role in connecting Jordan to the world and serves the kingdom in various sectors: national, economic and social.

Dear shareholders,

Looking back at the beginning of 2017 and the financial results of the first six months, we see that the company faced operational challenges that made financial results below our aspiration; the company incurred a net loss of JD26.3 million in the first half of the year not only because of travel seasonality, but due to a decrease in ticket prices due to fierce competition, increased capacity in the market and RJ's operating costs that grew by 3%.

In the second half of 2017, the company's performance started witnessing a remarkable improvement as it took effective measures to increase bookings, launched a series of sales promotions to encourage customers to travel during the low seasons (fall and winter), and started implementing the 5-year turnaround plan which is based on clear strategic pillars.

The positive results of the enhanced commercial performance began to show in the third and fourth quarter of 2017. In the third quarter, the company witnessed positive results and achieved a net profit of JD31.8 million, covering the loss of the first half and recording a net profit of JD5.4 million in the first nine months, ending 2017 with a profit of JD468,000 before tax.

This might not sound significant, but it reflects the commercial turnaround we achieved in the 3rd and the 4th quarter of 2017, particularly when compared to the net losses of 2016, which reached JD24.6 million.

As indicated earlier, the positive results were due to a 15% increase in the number of passengers and 9 points of growth in the load factor in the final quarter of 2017, which led to an annual increase of 7% in the number of passengers and 5 points of growth in load factor. For the fiscal year 2017, the load factor reached an average of 71% in comparison to the seat load factor in 2016, which was 66%. Thus, revenues went up to JD25 million, raising the net operating profit up to JD12 million in 2017 from JD5 million in 2016.

Dear shareholders,

The five-year turnaround plan the company is currently implementing is based on three main pillars, foremost among which is sustainable profitability that attracts the capital market and makes it possible for shareholders to benefit from their investment. The second pillar of the plan focuses on RJ being a "customer champion", by thinking of our guests first and delivering a consistent customer experience across all touch points.

The third pillar would see RJ become the "employer of choice" in Jordan, attracting and retaining talented and skilled workforce, while providing the best training and career planning, and managing and rewarding performance.

Overall, the company's objective is to position itself as the number 1 network carrier in the Levant.

The turnaround plan which runs until 2022 encompasses major initiatives that are expected to enhance unit revenues by 7% and lower unit costs by 6%, focusing on product and ancillary revenues, in addition to the innovative electronic travel services that will facilitate all travel procedures for our customers and enhance revenues.

Dear shareholders,

Today, Royal Jordanian's network extends to 45 global destinations, including the Copenhagen route, which will start in June 2018. Eight routes on RJ's network are still suspended due to security instability and they are: Damascus, Aleppo, Mosul, Tripoli, Benghazi, Misrata, Sana and Aden.

The turnaround plan also includes opening other international routes besides Copenhagen, which are Washington and Stockholm. Moreover, RJ remains committed to resuming the suspended routes in the Levant once they become stable, to ensure safe operations.

The company will continue to review its network, look for new markets and study the feasibility of enhancing traffic and improving connections between flight departures and arrivals to better serve transit passengers.

As for the fleet, which comprises 26 aircraft, the airline's current plan is to renew the contracts of a number of short- and medium-range aircraft for the coming few years. After extending the contracts, we will modernize the medium- and short-haul airliners by replacing part of the currently operating ones and introducing four new aircraft. RJ is now studying the options before taking the appropriate decision concerning the choice of aircraft, which should provide the best net present value (NPV) and thus reduce maintenance and operating costs.

Today RJ's modern fleet of aircraft counts seven Boeing 787s (Dreamliners), in addition to 13 Airbus 320 family, four Embraer regional jets and one Airbus 310 freighter.

Dear shareholders,

RJ continues to increase its capital, as per the decision of the general assembly, taken in May 2015, which stipulated a restructuring of the RJ capital. The following procedures were taken to that end:

1- The capital was reduced by JD37,968,008 from 84,373,350 shares/dinars to 46,405,342 shares, in order to cover part of the accumulated losses.
2- The procedures of the increase in the authorized capital by JD200,000,000 were finalized and the authorized capital becomes 246,405,342 shares/dinars. Procedures for subscribing to the capital increase were completed; as a result, the subscribed capital becomes JD246,405,342. This increase happened over two phases:

- The first phase involved an increase of JD100 million shares/dinars that were paid entirely in cash in 2016.

- In the first part of the second phase, ratified by the Cabinet in its Sept. 6, 2017 session, there was subscription to the capital of 128,205,128 shares, at the cost of 390 fils per share, for the amount of JD50 million, paid in two installments:

The first installment:
JD25 million paid by capitalizing part of the debt RJ owed the Ministry of Finance.

The second installment:
A- JD14 million paid in cash on Feb. 7, 2018.
B- Further JD11 million will be paid after obtaining the Extraordinary General Assembly's approval to raise the capital of the company by 28,205,128 shares that will be allocated and registered. This is expected to take place during the second quarter of 2018.

- The second part of the second phase: The procedures of the second part of the second phase (JD50 million) are expected to start in the fourth quarter of 2018.

Dear shareholders,

We believe that RJ is now moving in the right direction, and has a clear strategic plan for the next five years that is being implemented in a smart manner to restructure the company and enable it to complete the turnaround process toward profitability, which we are now working on and that all shareholders are expecting.

The Board of Directors has all the trust of the management under the leadership of our new CEO, who will make this transformation and translate RJ's business plan into reality.

RJ is looking forward to strengthening its role in the national economy, enhancing its contribution to connecting Jordan to the world, serving the kingdom and its citizens, supporting tourism, trade, investment and exports.

I would like to thank you all on behalf of my colleagues, the board members. We trust RJ’s employees and the executive management’s potential to take the company to a brighter future under the wise guidance and leadership of His Majesty King Abdullah II.

I wish to extend my thanks to the government of the Hashemite Kingdom of Jordan, as well, for the support it lends to this national company, enabling RJ to keep playing its strategic role in serving our beloved country.

Thank you,

Chairman of the Board of Directors
Eng. Said Darwazeh

President & CEO speech

Dear shareholders,

On behalf of the Executive Management Team, I would like to thank every shareholder in our national carrier Alia – the Royal Jordanian Public Shareholding Company – for their continued loyalty in good and in bad times.

Dear shareholders,

I am proud to report to you that we were able to manage a strong recovery after a weak start into the fiscal year 2017. After the first five months, we suffered a very weak revenue performance and were on the edge of dropping further into the operating loss zone this year. But, we were able to recover our commercial performance and enhanced our load factor performance in the second half of the year considerably by 8 percentage points to continuously above the 71% mark.

We changed revenue management, sales and marketing strategies and tactics to gain new customers for our airline and this worked very well. So, the recovery in the second half of the year was the fruit of a strong revenue performance across the network.

In parallel, we developed a 5-year turnaround plan to redesign the company and make it fit for all future challenges. This includes the operational and commercial efficiencies as well as a review of all the business activities, driven by the core strategy to become the leading network carrier for the Levant.

The turnaround plan is also reviewing our portfolio of business activities as we have some hidden champions such as our loyalty program Royal Plus and Royal Tours. We will need to develop these and others much further to become valuable assets for our company. And we need to look for partners for some of the non-core businesses in our portfolio.

Dear Shareholders,

For the year ahead, we have seen a strong start and will most probably have a significantly better first quarter than in the previous years. This again is driven by a much stronger commercial performance as we are heading to a load factor performance which is up to 10 percentage points above the same period in 2017. Royal Jordanian is now having a stronger connectivity at our home airport in Amman which enables more network sales. For the coming summer schedule, the connectivity at QAIA will have increased by more than 42%.

Our marketing activities are now less generic and much more retail focused with an aggressive pricing strategy.

As for the challenges in the year ahead, the most significant one will be the entry of low cost airlines into Jordan, and the management team works hard to face those challenges and turn them into opportunities. And we can do it!

Dear shareholders,

Let me thank our Chairman and the Board of Directors for their continuous support as well as our Government of the Hashemite Kingdom of Jordan. Without the board as a critical and supportive partner, the management would not have been able to start and now execute the turnaround plan for Royal Jordanian.

Our management team is committed to delivering sustainable profitable results in the years to come as well as a great product and customer experience for all our guests.

In our corporate brand, we carry the most powerful and unifying symbol in Jordan: the Crown. We know that this is our ultimate obligation to take the company to a brighter future under the wise guidance and leadership of His Majesty King Abdullah II.

Thank you,

President & CEO
Stefan Pichler


Welcome
on Board
Our
Dreams

Board of Directors Report

• Company's objectives and main activities

RJ Group works towards achieving the objectives for which it was founded, important among which are: 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 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 employs 4,016 staff members as recorded on December 31, 2017; 310 of the employees work at the outstations abroad, 104 in Royal Wings and 21 in the subsidiary company Royal Tours.

• Capital

Royal Jordanian's capital amounts to JD146,405,342, divided into 146,405,342 shares with a par value of JD1 per share. In its Sept. 6, 2017 session, the Cabinet ratified that the Government of the Hashemite Kingdom of Jordan, represented by the Government Shareholdings' Management Company, subscribes to 50% of the second phase of the capital increase of JD100 million, this means JD50 million, whereas the government will subscribe to 100% in case the main shareholders do not agree to subscribe.

JD25 million were paid by capitalizing part of the debt owed to the Government Shareholdings' Management Company, and the remaining amount to be paid in cash, at the cost of JD.390 per share. Thus, JD25 million of the receivables due to the government were classified as advanced payments made at the expense of the capital increase as at December 31, 2017. The subscription to the remaining part of the second phase will take place in 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 it 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 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 served currently by RJ.

Royal Wings headquarters has been moved to Royal Jordanian's head office. It employs 93 staff members. Its capital amounts to JD5 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 in the world. RT books tickets and arranges trips to tourist groups to various tourism sites and countries in the region and worldwide, always looking for new options for tourists. Today, Royal Tours is the company of choice for the stopover program "Zuwar" besides its responsibility for the execution of the Ministry of Tourism plans through "City Tour" program.

• Tikram

Tikram, which was a joint venture between RJ and Worldwide Flight Services, is fully owned by RJ since March 2017. The company was established in line with RJ's strategy of expanding vertically by identifying new and attractive business opportunities associated with air travel.

It is the exclusive meet and greet service provider at QAIA; its diverse, state-of-the-art services include immigration and security fast track, porter services and luggage wrapping, hosting passengers in the departure lounge (RJ's Crown Lounge) and oriental-style arrival lounge, limousine service and in-terminal shuttle.

Tikram's 24/7 counters serve VIPs, families and groups, including airlines, hotel guests, bank and telecom customers, event management companies, large corporate entities, travel agencies and tour operators, as well as embassy staff.

Tikram services complement all other compelling services RJ offers online at very competitive prices. Tikram meet and greet will enhance all customers' experience, which the airline constantly works to boost, whether in the air or on the ground.

• Board of Directors and their biographical information

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. Basem Khalil Al-Salem	Member, Rep Government Shareholdings' .Management Co	30.10.2017	19.6.1956	BSc. Chemical Engineering	1978
H.E. Akel Biltaji	Former 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. Nasser Sultan Shraideh	Member, Rep Government Shareholdings' .Management Co	26.10.2017	5.6.1967	MA Economics	1994
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, Rep Government Shareholdings' .Management Co	27.10.2015	6.6.1947	BA Military Sciences	1978
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. 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

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

H.E. Eng. Said Sameeh Darwazeh

- Eng. Said Darwazeh became Chairman of RJ on June 20, 2016, representing the Government Shareholdings' Management Company on RJ's Board of Directors on June 19, 2016.
- Eng. Darwazeh is Chairman/CEO of Hikma Pharmaceuticals Co.
- Appointed Minister of Health 2003-2006.
- Chairman of Queen Rania Institution which develops youth capabilities and provides them with tools for success through focusing on using technology in remote educations.
- Board member of Central Bank of Jordan.
- 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.
- In Amman he established the Health Care Approval council as a non-profit institution that approves health care providers and improve health care standards.
- Holds a BSc. In Industrial Engineering from Bordeo University in the USA, and an MA in Business Administration from INSEAD University in France.

H.E. Eng. Basem Khalil Al-Salem

- Chairman of Capital Bank.
- Held several government positions, he was a board member of the Central Bank, 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, he participated in some government economic and educational committees, and then he was appointed Minister of Finance.
- Founder and board member of several industrial and mining companies.
- Was appointed senator until 2011.
- Holds a BSc. In Chemical Engineering from Imperial College, University of London.

H.E. Akel Biltaji

- 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 12, 2017.
- Member of the Senate for the period between 2005-2013.
- Advisor to HM the King from 2004 until 2005.
- Chairman of Commissioners council – Aqaba Special Economic Zone Authority 2001-2004.
- Minister of Tourism and Antiquities 1997.
- Held several positions at RJ and was a liaison officer of government – Airports Development Projects/ Ministry of Defense of Saudi Arabia, 1967-1969.
- Executive Assistant – Aramco Schools for Saudis and joined the Arabian American Oil Company (ARAMCO), 1962-1967.
- 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.
- 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

- Head of Legislation and Opinion Diwan June 30, 2013 until now.
- Deputy Head of Grievances Diwan December -31, 2014October 18, 2015.
- Minister of State for Cabinet Affairs 2012-2013.
- Minister of Political Development 2012.
- Associate Professor of public law - School of Law.
- Advocate and legal consultant.
- Holds a PhD. In public Law/Ein Shams University, Egypt with honors in 2004.
- Holds an MA in public Law from Ahl Al-Bait University in 1997.
- Holds a BA in Law from Muta University in 1990.

H.E. Nasser Sultan Shraideh

- Mr. Nasser Shraideh is an economist with over twenty-seven years of work experience with various ministries and public sector institutions, international NGOs, and United Nations agencies. This has afforded him a substantive knowledge and professional experience in areas of international cooperation, economic and trade policy development, tourism development, investment promotion, private sector development, small and micro-finance, community development, and institutional capacity building.
- In June 2016 Mr. Shraideh was appointed as the Chief Commissioner of Aqaba Special Economic Zone Authority, and serves as the Chairman of the Board of Aqaba Development Corporation , Aqaba Container Terminal Company , Aqaba Airport Company , Aqaba Company for Ports Operation and Managements, Prior to this posting Mr. Shraideh has served as Chairman of the Board for the Jordanian Free Zones Company, Minister of Environment, and he served as Chief Commissioner of the Petra Development & Tourism Region Authority, Secretary General of the Ministry of Planning and International Cooperation, and assumed a director position for a number of departments including EU-Jordan Association Unit, Aid Coordination Unit, Bilateral Cooperation Department, and International Cooperation Department.
- Obtained both his Bachelors and Masters Degrees in Economics from the Yarmouk University, where he graduated with 'Honors' in 1988 and 1994, respectively.

H.E. Dr. Izzidin M. Kanakriya

- Was appointed Undersecretary of the Ministry of Finance in June 5, 2014 for the second time as he held the same position during the period 2007-2012.
- Headed the Income Tax and Sales Tax Department in March 2012.
- Appointed commissioner in Jordan's Securities Commission from 2012-2014.
- Held various positions in the Ministry of Finance, Undersecretary, Head of Monetary Section in the Ministry.
- 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.

- Dr. 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

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

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

- 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.
- Fellow, Royal Aviation Society/Britain.
- Licensed by the British Engineers Association.
- Member, Jordanian Engineers Association.
- Board Member, Central Bank of Jordan.
- Board Member of Royal Jordanian Airlines.
- Former Chairman of IATA's Board of Governors (May 2008-May 2009).
- Former Deputy Chairman of Gulf Hotel Group, Bahrain.
- Former Member of IATA's Board of Governors (2005-2012).
- Former Chairman of Arab Air Carriers Organization-2004.
- Former Manager of International Flight Catering Association – 2001.
- Former Executive Committee member, Arab Air Carriers Organization.
- Holds an MA in Management of Air Transport.
- Holds Lloyds Aviation Economics Prize from Cranfield Institute of Technology, UK.
- BSc. Degree in Aeronautical Engineering and Design, Diploma in Industrial Studies from Loughborough University of Technology in the UK.
- In 1975, graduated from Dean Close School in the UK.

H.E. Imad J. Al-Qudat

- Was appointed board member in December 2015.
- Currently he heads the Shares Investment Department/Social Security Investment Fund.
- Held the position of Head of Treasury/social Security Investment Fund (2002-2008).
- Held the position of Acting Head of Social Security Investment Fund (2005-2006).
- Was head of Portfolio/External Investment Department/Jordan's Central Bank (2000-2002).
- Was Chief Dealer/Jordan's Central Bank (1996-2000).
- Was Dealer/External Investment Department/Jordan's Central Bank (1991-1996).
- Was Assistant Head of Central Accounts Division/Jordan's Central Bank (1989-1991).
- Did military service/General Security Governorate (1986-1988).
- Holds an MA degree in Business Management/Saul Ross State University, USA 1985.

Mr. "Mohammad Ali" I. Bdair

- Was appointed board member in March 2008.
- Currently he is the General Manager of Perfect Dimension Investment Co., and a board member of Arab Mining Co.
- Former General Manager of International Telecommunications Technology (2000-2005) and a member of Investment Promotion Council.
- 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

- Member of the 25th Senate.
- Was executive director in RJ (1980-1982)
- Chairman, Dead Sea Hotels Co. (1990-now)
- Chairman, Mina Hotel Co. (2004-now)
- Chairman, Jordan Hotels Association (1988-now)
- Chairman, Union of Tourist Societies (2004-now)
- Deputy Chairman, Jordan Tourism Board (2004-now)
- Founder and Trustee of Jordan Community College (1988-now)
- Holds a BA in hotel management from Switzerland, 1978.

• Senior Executive Management and their biographical information

Brief Resumes of Members of the Senior Executive Management Team:

Name	Position	Date Appointed	Date of Birth	Qualifications	Specialty	Graduation
Mr. Stefan Pichler	President/ CEO	01.06.2017	07.11.1957	MA	Economics & Law	1995
Capt. Suleiman Obaidat	President/ CEO	27.10.2015	06.06.1947	BA	Military Sciences	1978
Mr. Server Aydin	CCO	05.06.2016	04.07.1975	BA	Management & Marketing	1997
Mr. Firas Al-Qaraeen	CFO	18.10.2015	14.11.1969	BA	Accounting	1991
Mr. Sufian Al-Salman	CHRO	01.10.2017	26.10.1971	MA	Political Sciences	1997

Senior Management business experiences in brief:

Mr. Stefan Pichler

- Mr. Pichler was appointed as President/CEO of RJ in June 2017.
- He was the CEO of Airberlin group from February 2015 till he joined RJ.
- Led Fiji Airways as Managing Director and CEO in September 2013.
- Was the CEO of Jazeera Airways K.S.C during Jun 2009 - August 2013.
- Since 2004, Stefan was part of Richard Branson's senior management team. He was responsible for Virgin Blue's transformation from a low-cost carrier to a "new world" network airline and served as their Chief Commercial Officer.
- Was the CEO of the German tourism group "Thomas Cook AG".
- Mr. Pichler joined Lufthansa in 1989 as the Marketing & Sales Manager for France, then was appointed as Managing Director of Lufthansa France in 1991. Additional roles included his appointments as Managing Director for Germany in 1995 and as the Executive Vice President of worldwide Sales & Marketing in 1996 and as a Member of Lufthansa's Executive Board in 1997.
- Holds a Masters Degree in both Economics and Law from Augsburg University.

Captain Suleiman Obeidat

- Held the position of President/CEO of RJ from October 2015 to May 2017.
- Was appointed as the Chief Commissioner of the Civil Aviation Regulatory Commission in 2007.
- Was General Manager of the Civil Aviation Authority in 2004.
- Held the position of Vice President of Flight Operations, and Chief Technical Officer in RJ.
- Held the position of Commander of the Royal Squadron and the Air Transport Squadron in the Royal Air Force.

Mr. Server Aydin

- Held the position of Chief Commercial Officer from June 2016 to June 2017.
- Was head of commercial section in Sun Express airline. Before that he was executive director of HR and finance in the same airline.
- Was head of commercial section in Sabiha Gokcen Airport, Istanbul, for four years.
- Held several positions in Turkish Airlines for 6 years during where 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.
- Started as marketing executive in the German Fraport Co. which manages and operates airports.
- Holds a Bachelor Degree in Management and Marketing from Deacon University in Australia, and a diploma in Management from Kent University in London.

Mr. Firas Qareen

- Appointed as the Chief Financial Officer in October 2015
- Former GM in Al-Rajihi Cement Co.
- Former Deputy GM for Finance and Business Support in Al-Rajihi Cement Co.
- Former Chief Consultant in Karma consultation and Development Company for three years.
- Former Chief Auditor in Ernst & Young and in Arthur Anderson.
- Former director of finance in Zara Holding Co., and held the same position in Arab Jordanian Engineering Co. (2K).
- Holds a Bachelor Degree in Accountancy from the University of Jordan.
- He is a CPA (Certified Public Accountant).

Mr. Sufian Al-Salman

- Appointed as Chief Human Resources & Administration Officer in October 2017.
- Before joining RJ, he spent 16 years in PepsiCo in different HR leadership roles across Middle East & Africa region and most recently as Employees, Labor Relations and HR Services Senior Director for Asia, Middle East & North Africa based in Dubai.
- Was HR and Administration Manager at Tabuk Pharmaceuticals from 1999-2001.
- Has an experience in Personnel Office at Arab Bank for 5 years 1993-1998
- Holds a Master Degree in Political Sciences from the University of Jordan.
- Holds a Bachelor Degree in Political Sciences and Economics from University of Jordan.
- Completed advanced HR executive education programs from University of Reading.
- Certified from HOGAN Institution as Hogan Assessment & Coach for Executives.

• Major Shareholders

No	Shareholder	No. of Shares at 31.12.2017	%	No. of Shares at 31.12.2016	%
1	Government Shareholding Management Co.	88,243,117	60.3	88,243,117	60.3
2	Mint Trading Middle East Ltd.	22,518,838	15.4	22,518,838	15.4
3	Social Security Corporation	14,640,534	10.0	14,640,534	10.0

• RJ's Competitive Position

RJ is the national carrier of Jordan. It operates regular flights from Jordan to (51) destinations around the world in 2017 as follows:

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

Arabian Gulf:
Abu Dhabi, Dammam, Doha, Dubai, Jeddah, Kuwait, Riyadh and Medina. RJ will resume operation to Sanaa and Aden as soon as conditions allow.

Africa:
Khartoum, Tunis, and Algiers, with a commitment to resume operation to Misurata, Tripoli and Benghazi as soon as security conditions allow.

Europe:
Amsterdam, Athens, Barcelona, Berlin, Frankfurt, Istanbul, Geneva, Larnaca, London, Madrid, Moscow, Munich, Paris, Vienna, Rome, and Zurich. RJ is planning to start serving Copenhagen in Summer 2018.

Fareast:
Bangkok, Hong Kong, and Kuala Lumpur.

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

RJ faces direct competition from other airlines in (23) destinations out of (51) destinations. Also the airline always monitors markets and market developments to grab any opportunity of opening new markets or increasing weekly frequencies to the current routes.

On April 1, 2007 Royal Jordanian joined the oneworld airline alliance which gathers a group of international, giant airlines. RJ was chosen to join this alliance because of the excellent reputation it enjoys and the competitive services it provides for its passengers on all its trips. At that time, RJ was the first Arab airline to join this global alliance, with the advantage that being a member in this alliance offers RJ's passengers easy access to around 1,000 cities around the world which are served by the alliance members. Besides RJ, the following carriers are members in oneworld: American Airlines, British Airways, Cathay Pacific, Iberia, Finnair, Japan airlines, Qantas, Malaysian Airlines, Siberia airlines, Qatar Airways, LATAM in South America, and Sri Lanka Airlines.

Moreover, RJ has entered in commercial agreements with a number of international airlines to operate on codeshare basis, whereby RJ is the marketing carrier that puts its code on other airlines' flights. These codeshare agreements are developed to expand the airline's network by reaching to points where does not operate directly. This includes non-stop flights that serve RJ's passengers from Amman to each of Bucharest Bahrain 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 the company or any of its products in accordance with laws and regulations.
- There are no patents or privileges earned by the company.

• Suppliers and Customers

The company 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, the company 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 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 signed a comprehensive agreement with the EU on December 15, 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 the major European cities most important of which is London's Heathrow Airport.

In its session held on November 13, 2016 the Cabinet agreed to exempt contracts of purchasing, selling, leasing and financing aircraft, 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 December 31, 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:

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

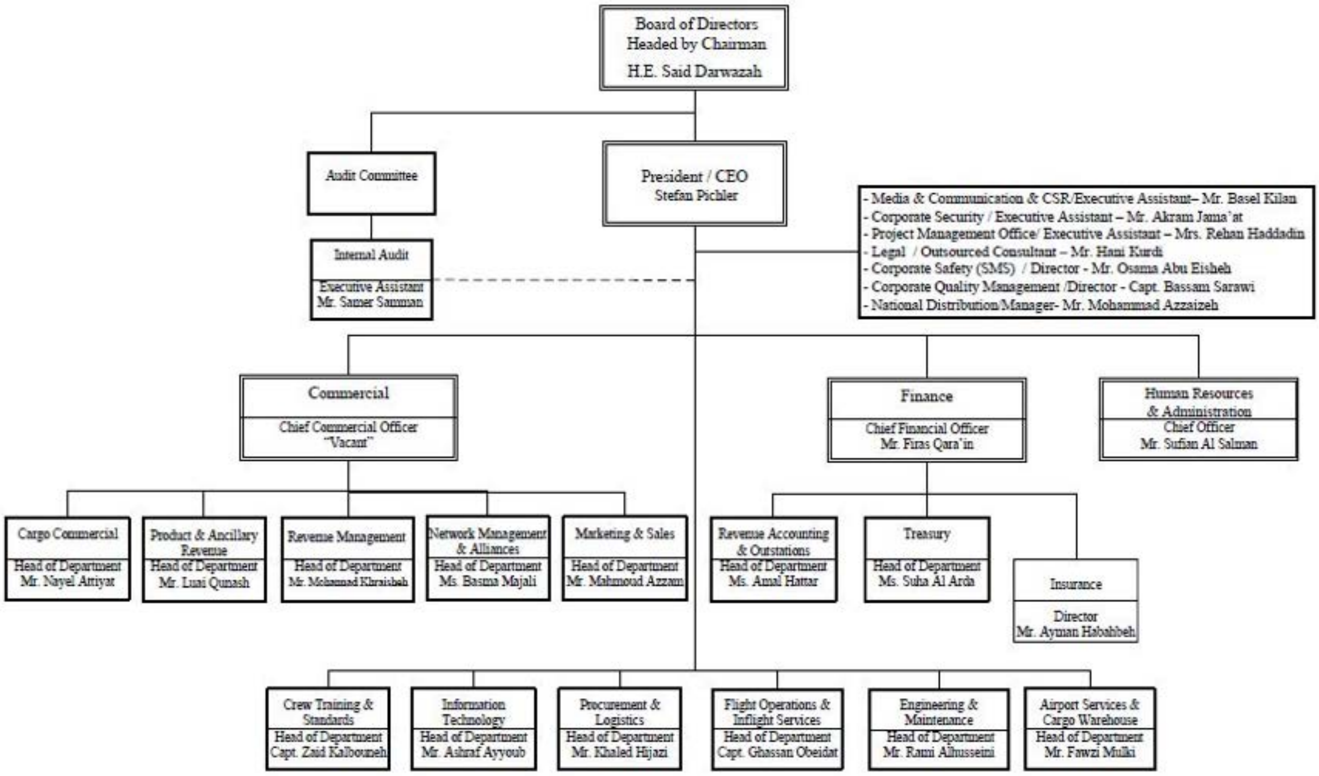
As such, the CQM Department shall follow up quality bases requirements and measure the extent of application thereof by the company, whether from production or services point of view. After studying general requirements and general safety, we prepare forms for use by quality controller during scheduled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

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

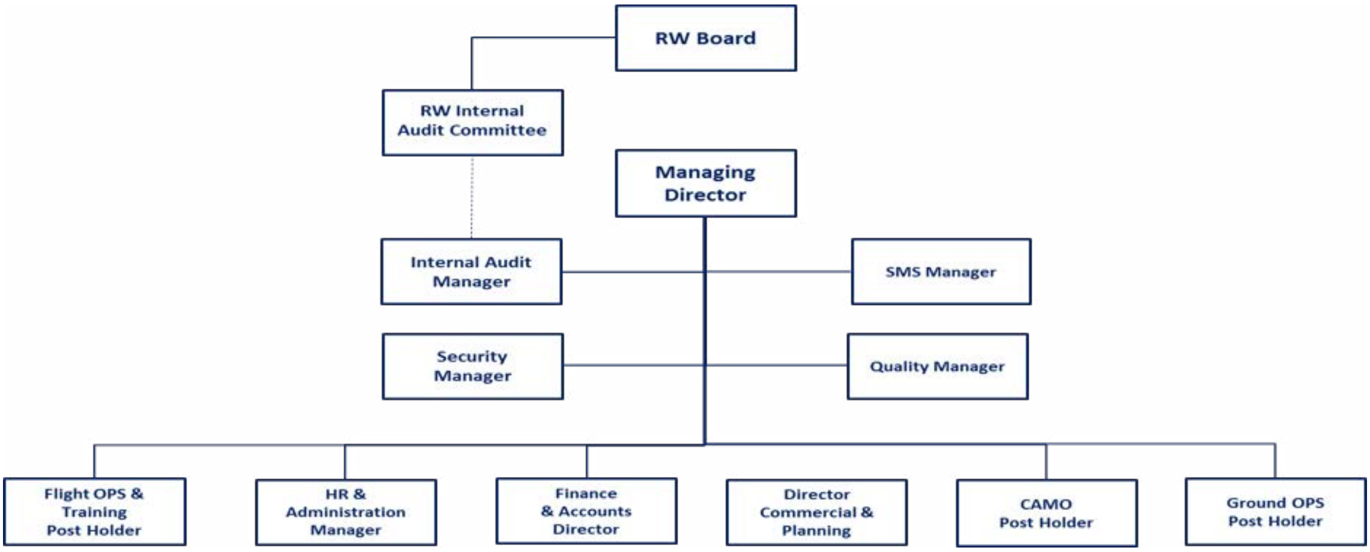
- Plan to improve the quality at the company through designing an annual, monthly and daily program for checking the work in accordance with accredited specifications.
- Control the daily field work, especially in operational departments.
- Make sure practically of the quality and safety of work, workers and equipment.

• RJ’s corporate structure

Royal Jordanian Corporate Structure as end of Dec. 2017:



RW ORGANIZATION STRUCTURE



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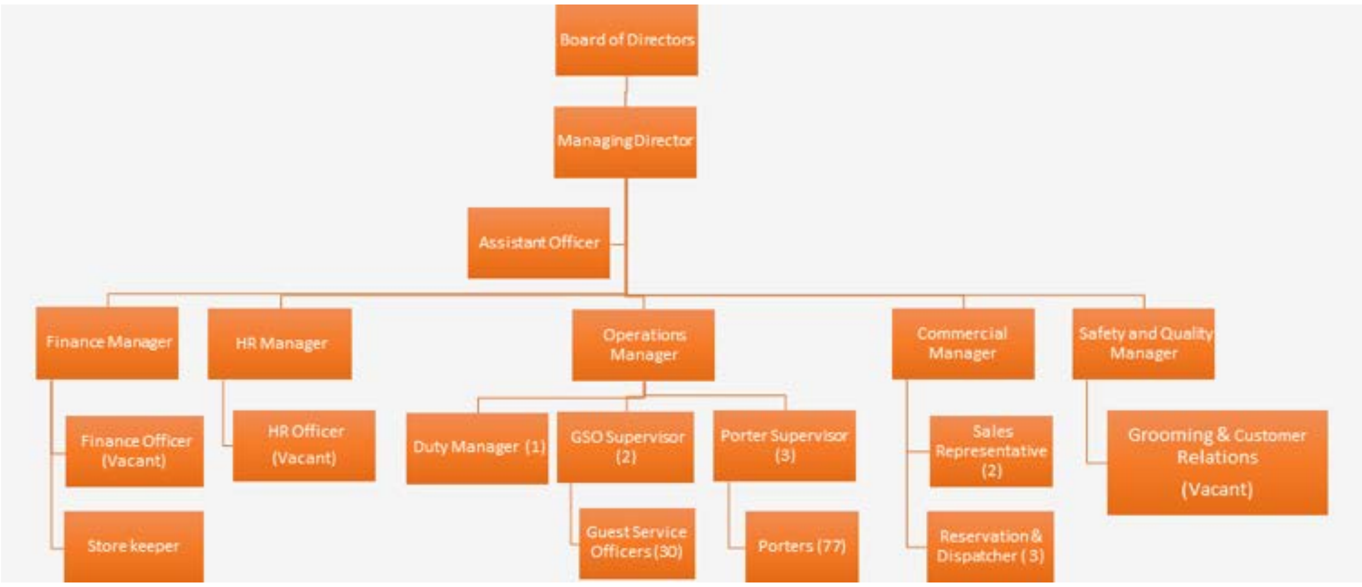


• Staff numbers and academic qualifications

Below is a table of staff numbers and qualifications in the parent and subsidiaries at end of 2017:

Academic Qualifications	RJ	RW & Subsidiary	Total
PhD	2	-	2
MA	77	1	78
BA	1624	50	1674
Diploma	646	18	664
High School	588	20	608
Below High School	954	36	990
Total	3891	125	4016

310 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 2017 the company provided training for the staff through 745 courses in which 7,373 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	100	853
Technical Courses	626	6372
Managerial Courses	1	1
Computer, IT Courses	18	147
Total	745	7373

• Risks

The company deals with various types of risks within 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 thereto. 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 year may be summarized as follows:

External Risks:

Geographical Location Risks

Most RJ's operations take place within the borders of Jordan. All its flights depart from Amman. As such the geographical location of the Kingdom constitutes a big challenge to the company especially in these days when political and economic tension is happening in some neighboring Arab countries. The company has had to adapt in 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 which constituted a big challenge for most carriers, 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 affected directly the performance of the air transport industry and reduced the volume of air traffic. In this context, the company initiated certain procedures such as opening 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 ended December 31, 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 are a 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

IT Systems Risks

In light of the great and accelerating development in the field of information technology, we face a new risk which could adversely affect the IT 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 IT 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 which are necessary for 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.

• 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	YEAR				
	2017	2016	2015	2014	2013
Realized Profit/Loss (JD'000)	274	(24,571)	16,033	(39,638)	(38,858)
Dividends	-	-	-	-	-
Shareholders' Equity (JD'000)	100,335	75,111	49,708	(15,835)	19,566
Share Price at year end	0.44	0.44	1.14	0.68	0.58

Toward the Future

RJ's Achievements during 2017

In 2017, Royal Jordanian continued its growth and excellence in the aviation and air transport industry by implementing plans and programs that help the company progress and further improve its air and ground services, and that enhance its distinguished position locally and globally.

Being the national carrier of Jordan, Royal Jordanian contributes to the country's growth and development; it is one of the main pillars of the national economy, of the air transport industry and of local aviation.

To this already important achievement can be added its distinguished regional and international reputation, built on the safety of its operations, modern fleet of aircraft serving destinations on four continents, and its direct contribution of about 2.5% to the Kingdom's GDP.

In 2017, RJ can boast to have reached the following achievements:

1 Launched the turnaround plan

In the last quarter of 2017, RJ started to implement the turnaround plan with its strategic pillars that were introduced and approved by the government of Jordan, which is the major shareholder in the company.

In October 2017, the Chairman of the Board of Directors and RJ President/CEO presented the five-year plan to the PM and the government's economic team. The plan is based on three strategic pillars:
- Reach sustainable profitability that attracts the capital market and targets increasing operating margins in the coming five years.
- Focus on RJ being a "customer champion" by putting customers first and delivering a consistent customer experience at all touch points.
- Become the "employer of choice" that attracts and retains talented and skilled workforce while providing the best training and career planning, and managing and rewarding performance.

2 Fleet modernization

The company plans to have a single supplier for all the narrow-body fleet currently from two aircraft manufacturers, considerably reducing expenses on maintenance, spare parts and training. Additionally, the airline will add more Economy Class seats by cutting down the number of Crown Class seats in its narrow-body planes, and thus increase the earning capacity, while keeping the comfortable pitch of seats in both classes. This move will generate more revenues for RJ.

Today's fleet of 26 aircraft will grow gradually to reach 30 by 2021; seven of them will be the currently operating 787s. The seventh 787 joined RJ at the beginning of 2017; it, along with the sixth 787, were introduced on capital lease basis, while the first five are operationally leased.

The 787s paved the way for RJ to step into a significant new era, a step that pushes the national carrier of Jordan forward in terms of inflight services and route network, enhancing its regional and international competitiveness. Today RJ's fleet age does not exceed five years, which makes it a young and modern fleet regionally and internationally.

Under a five-year strategic agreement, Boeing will provide Royal Jordanian a comprehensive training solution for the 787, including pilot type-rating and recurrent training at its London Gatwick training campus.

3 Route network

The strategic objective of Royal Jordanian is to position itself as the No. 1 network carrier in the Levant. The airline regularly revisits its route network to enhance connectivity through its hub in Amman and will ensure that the fleet runs a consistent flight schedule that makes future growth easier.

Royal Jordanian will keep offering super-low fares to retain loyal customers and gain new ones; all travellers can witness improved services and a seamless travel experience.

Royal Jordanian will reach new international destinations in the coming five years. The first is Copenhagen, beginning with June 2018, then Washington, Stockholm and Ercan Airport, in Cyprus. It will also resume flying on previously suspended routes, including Damascus, Mosul, Sanaa, Aden and Benghazi.

Expanded codeshare agreements:

In February 2017, Royal Jordanian signed a codeshare agreement with Alitalia. The agreement enables RJ to expand its offers to Italy; RJ places its flight code on Alitalia's daily Amman-Rome service, and on the Italian airline's connections from Rome to the following 16 domestic destinations: Ancona, Brindisi, Bologna, Bari, Catania, Florence, Genoa, Naples, Palermo, Pisa, Reggio Calabria, Lamezia Terme, Turin, Trieste, Verona and Venice.

Royal Jordanian expanded its codeshare agreements with Turkish Airlines and Malaysia Airlines. Thus, RJ passengers have the option to travel to more destinations -- eight more global cities -- for competitive fares and more conveniently. The expansion of the codeshare agreement with Turkish Airlines added four new cities to RJ passengers' list of potential destinations: Milan, Sofia, Sarajevo and Budapest, which are sold in connection with RJ's Amman-Istanbul flights.

The codeshare expansion agreement with Malaysia Airlines gives RJ passengers access to five new destinations: Singapore, Langkawi, Penang, Sydney and Melbourne, all sold in connection with RJ's Kuala Lumpur flight.

RJ also improved its code-share agreement with Oman Air, whereby Oman Air markets flights from Muscat to Beirut via Amman. RJ passengers have the chance to travel from all destinations and connect their flights to Muscat with Oman Air.

RJ has 15 code share agreements with global airlines, including with oneworld carriers and with Arab and international airlines. They are: American Airlines, British Airways, Iberia, Qatar Airways, Siberia airlines, Malaysia Airlines, Oman Air, Turkish Airlines, Middle East Airlines, Alitalia, Tarom, Gulf Air, Sri Lankan Airlines, Syrian Air and Meridiana Fly Airlines.

4 IT systems

In 2017, Royal Jordanian started using advanced electronic systems to increase its ability to track the movement of its aircraft and optimize its flight network in order to keep abreast with modern advances and the expansion of air transport industry services. By making use of the latest solutions, RJ is in line with the accredited technical systems and the global aviation sector. These IT systems also include innovative solutions that improve operational processes and provide excellent services to airport and onboard passengers:

Enhancing flight tracking by using ARINC Flight Data Display

In an ongoing effort to meet the increased demand for enhanced flight tracking, Royal Jordanian has been using Rockwell Collins' web-based ARINC Flight Data Display, a new situational awareness display that provides a simple and clear visual representation of an entire fleet. The new display, launched with Royal Jordanian and available for carriers globally, ensures that key flight information is available to support airlines' operational decision making.

NAVBLUE's N-Flight Planning

Royal Jordanian and NAVBLUE expanded their partnership in technology with the selection of NAVBLUE's N-Flight Planning Solution. The addition of N-Flight Planning builds on NAVBLUE's track record of supporting Royal Jordanian, since 2014, with its YourRAIM Prediction solution enabling the airline to implement the latest navigation capabilities, such as Required Navigation Performance Approach (RNP APCH).

By moving to N-Flight Planning, Royal Jordanian is expecting flight planning response time improvements with robust -4dimensional (4D) calculations that will result in an estimated 2% fuel savings, 20% improvement of staff production and greater aircraft utilization.

Improved network planning in agreement with Sabre

Airline network planning departments face several challenges, such as proactively and accurately informing network planners about which markets to serve and determining the right markets where to use code-share agreements. Under the new multi-year agreement with Sabre, Royal Jordanian benefits from the Sabre Network Planning suite of technology, which helps it address these challenges.

5 Engineering and Maintenance

Royal Jordanian and Turkish Airlines Technic, Inc. sealed an agreement whereby RJ will receive Line Replaceable Units (LRU) components pool support and spares for V2500 engines installed on RJ's A320 family aircraft.

The services and spares provided within the framework of the agreement will be based in Turkish Technic's Istanbul base and supply stations throughout the world. The LRU components are serviced in Turkish Technic state-of-the-art facilities at Istanbul Sabiha Gokcen International Airport.

Also, Royal Jordanian and Lufthansa Technik AG signed a Total Component Support (TCS) contract that stipulates that Lufthansa Technik will supply components for Royal Jordanian's 12 A320 aircraft. The exclusive contract includes extensive component maintenance services. Spare parts are provided through access to Lufthansa Technik's component pool and through a home base lease at Royal Jordanian's headquarters in Amman.

6 Air Cargo

Air cargo is RJ's second major source of revenue. The company continues its efforts to improve revenues generating by cargo operations on RJ aircraft or through partnership agreements with regional and international entities or other airlines. RJ also focuses on projecting Jordan as a regional distribution hub, helped by the country's strategic geographic location, to connect the different regions of the world and seek promising markets in this sector.

e-Air Waybill (e-AWB) system:

Royal Jordanian inaugurated the e-Air Waybill system, which was developed through the cooperation of the airline's Information Technology Department and CHAMP Cargosystems (CHAMP), a global IT provider serving the air cargo industry. E-freighting is one of IATA's Simplifying the Business (StB) program initiatives.

The e-Air Waybill system allows RJ to safely and efficiently empower its freight customers to perform the most essential tasks for cargo booking and data capture. The -24hour self-service application enables cargo agents anywhere in the world to look up flight schedules, check capacity, create real-time bookings and manage bookings completely unassisted. The e-AWB system connects directly with the electronic system that is applied at the Jordanian Customs Department and other concerned parties, thus easing and accelerating clearance of goods and delivery to the consignee.

Boosting cargo operations and revenues:

RJ reached a deal with Aramex to transport perfume on the RJ network as courier shipment, as per the IATA rules and regulations.

Transporting perfume generates high revenues, particularly that it is considered a dangerous product to be carried on board planes.

Another deal was signed with Aramex to double its current courier load from Hong Kong to Doha via Amman, in response to the growing demand for courier transportation on this route.

Royal Jordanian also has an exclusive agreement with the Ministry of Communications of the Kurdistan Region to transport Kurdistan post on its aircraft from Erbil to all parts of the world.

Two new interline agreements were also signed with cargo general sales agents in India and Vietnam, whereby RJ will transport goods from India and Vietnam to the world through Jordan, while the GSAs secure goods to be shipped from the Indian Subcontinent to Abu Dhabi and Jeddah, and from there on to the world on the RJ network.

In the same context, RJ sealed an exclusive deal with a local cargo general sales agent whereby RJ's A310 freighter carries strawberry crops from Amman to Maastricht and onboard passenger aircraft to London. From London, the strawberries will be transported on to other parts of Europe by trucks.
This step was taken out of RJ's keenness to support Jordanian exports of perishables to world markets, securing fast shipping that helps them arrive at destination in the best condition.

7 Online services

One of RJ's plans for 2017 was to utilize advanced technology to improve the electronic services it offers and enhance its passengers' travel experience through a variety of flexible options that passengers can choose from easily at any time and from anywhere, for a seamless and enjoyable flight. To that end, RJ added some options on its website and mobile app, including:

Excess Baggage: Passengers can save money and the hassle of paying last minute for excess baggage at the airport by buying this service from the RJ website at a discounted price, with the ability to buy a bulk of excess baggage, which is a baggage pass that can be redeemed upon the passengers' desire.

Preferred Seat: Offers the chance to get a preferred seat, in the Economy Class cabin, in advance at a nominal fee that is less than the price passengers would have pay for a preferred seat at the airport, depending on the destination. Passengers can select, among others, a front-row seat when traveling with family and children, which enables them to experience a comfortable journey at a low price.

Royal Boutique: The electronic Duty Free shopping gives travelers the chance to choose from an exclusive collection of best-selling duty free products at great discounts and enjoy a relaxed shopping experience. The online pre-order has to be placed minimum 72 hours before the flight's departure time.

Lounge Pass: RJ Guests can use the exquisite Crown lounge amenities at Queen Alia International Airport while waiting for their flight by buying the Lounge Pass from RJ's website, with the ability to purchase a bulk of lounge access vouchers which can be redeemed upon passengers' desire.

Travelers can also enjoy access to the Crown Lounge every time they fly when they purchase the Lounge Pass online, which is a convenient and cheaper way to get access to the Crown Lounge for multiple trips without having to buy an Lounge Access every time.

Flight Pass: RJ passengers can pre-purchase multiple tickets bundled to one or more destinations on RJ's global route network at fixed, pre-set and highly attractive fares per flight, and book flights later when they want to travel. They can purchase between two and 50 round-trips per Flight Pass, choose travel validity from one month to one year, and choose to pay either up front or in easy installments.

Go Crown: Allows passengers holding economy class tickets to place a bid to upgrade to Crown Class at a lower price, through RJ's website.

Online multi-currency pricing: Royal Jordanian customers can now purchase their online air tickets and services in as many as 150 currencies through a feature on RJ's website and mobile app. They can also benefit from various payment options when visiting the website, through credit cards, debit cards, PayPal, Real-time Banking, efawateerkom and other options.

8 Launching a series of sales promotions campaigns

RJ has enhanced its connection with its customers by launching a series of sales promotions campaigns in mid2017-, in line with the turnaround plan the airline is currently implementing and that focuses on it becoming the "customer champion" by allowing its customers to plan ahead for their travels and benefit from ticket discounts and low fares, thus gaining their loyalty.

The goal of these sales campaigns that RJ launched in the Jordanian, Arab and global markets is to encourage business and leisure travelers to travel more during the holiday seasons, in addition to boosting inbound and outbound tourism.

RJ awarded Four Stars at Global APEX Awards:

The Airline Passenger Experience Association (APEX) awarded Royal Jordanian the "Four-Star Major Regional Airline" accolade in September 2017. The Official Airline Ratings, the industry's first rating program, is based solely on the airline's passengers' verified feedback, using the TripIt mobile app that is used by millions of air travelers worldwide.

Passengers rated their overall flight experience and were then given the opportunity to provide ratings in five subcategories: seat comfort, cabin service, food and beverage, entertainment and Wi-Fi.

Second most punctual airline in the Middle East and Africa

Royal Jordanian ranked second in terms of punctuality among Middle East and African airlines with 80.67% on-time performance rate last year, according to OAG's Punctuality League study, released earlier this year.

Dubai LYNX awards 2017

RJ was awarded one Grand Prix, two gold and two silver prizes at the Dubai LYNX awards 2017 for the US elections post. RJ advertisements were sassy and cheerful, and had a positive impact on the audience and the number of passengers flying RJ.

Cannes Lions International Festival of Creativity 2017

Royal Jordanian won the Bronze Lions award under the Direct category at the Cannes Lions International Festival of Creativity, which is considered the most prestigious festival that celebrates the advertising and communications industry.

The triumph of the airline at the festival came as a direct result of its communication campaign regarding the US elections at the end of 2016.

Award for Excellence in Driving Revenue

During the Aviation Festival Europe, Royal Jordanian was highly commended by SimpliFlying Award for Excellence in Social Media 2017, in the "Best Airline in Driving Revenue" category, because of its innovative and targeted campaigns on social media that generate sales. SimpliFlying spots the best social media practices in the aviation industry.

RJ was nominated for this recognition due to its marketing campaigns, constant super-low fares and state-of-the-art e-services.

RJ awarded PCI DSS Compliance Certification

RJ successfully attained the latest version of the PCI Data Security Standard version 3.2 (PCI DSS V3.2) Compliance Certification and Attestation of Compliance for the second year. 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.

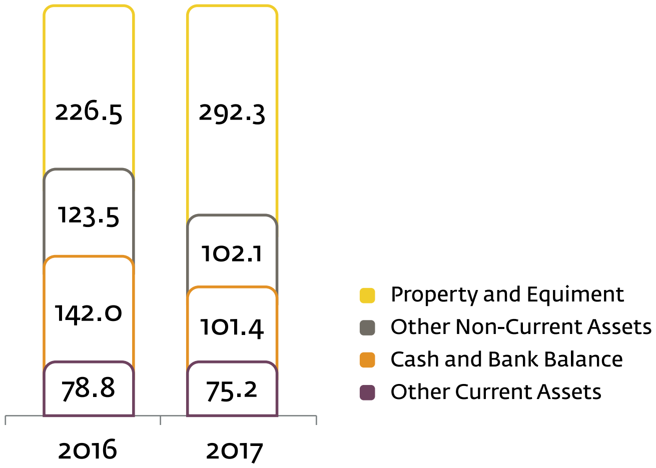
This comprehensive standard is intended to reduce the risk of data breaches by guiding merchants with specific requirements to protect customer account data.

• Analysis of Company's Financial Position and 2017 Business Results

Analysis of the Financial Position

Assets

Assets increased slightly by 0.02% over 2016 (JD89,000). Property, plant and equipment increased as a result of introducing a new Boeing 787 aircraft with a value of JD87 million on the basis of capital lease, whereas, current assets decreased as a result of the decrease in cash and bank balances by JD40.6 million compared to 2016.



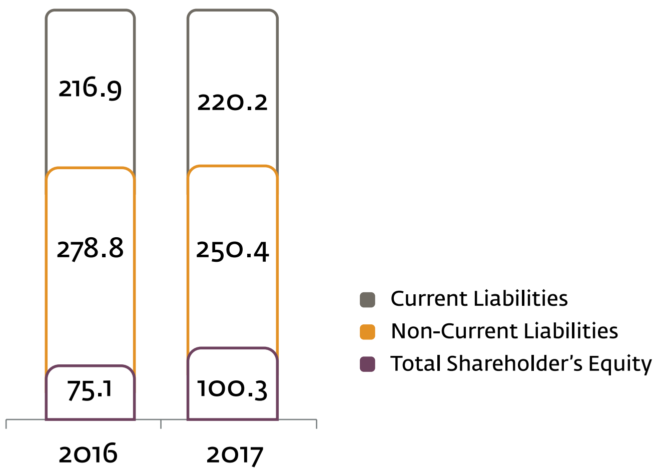
Total Shareholders' Equity

Total shareholders' equity increased by 34% over 2016. It amounted to JD100.3 million as end of 2017, compared to JD75.1 million as end of 2016. During 2016, the first phase of the capital increase with an amount of JD100 million was completed and fully subscribed. In its Sept. 6, 2017 session, the Cabinet ratified that the Government of the Hashemite Kingdom of Jordan, represented by the Government Shareholdings' Management Company, subscribes to 50% of the second phase of the capital increase of JD100 million, this means JD50 million, whereas the government will subscribe to 100% in case the main shareholders do not agree to subscribe.

JD25 million were paid by capitalizing part of the debt owed to the Government Shareholdings' Management Company, and the remaining amount to be paid in cash, at the cost of JD.390 per share. Thus, JD25 million of the receivables due to the government were classified as advanced payments made at the expense of the capital increase as at December 31, 2017. The subscription to the remaining part of the second phase will take place in 2018.

Liabilities

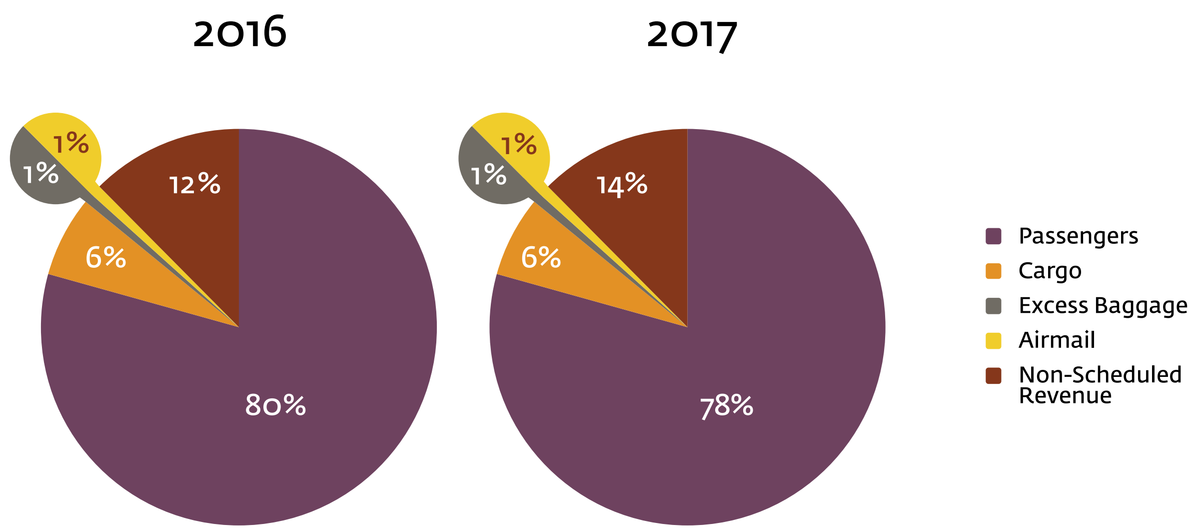
Non-current liabilities decreased by 10% over 2016 despite that the company recorded the 7th Boeing 787 financing loan. The main reason behind the significant decrease was the company's ability to meet its syndicate loan obligations on time besides its monthly obligations for the Jordanian government and Jordan Petroleum Refinery with an overall amount of JD86 million. Also, the company has capitalized JD25 million of its debt during 2017 as part of the capital increase plan. Current liabilities kept that of last year's level, which constituted 39% of total liabilities and shareholders' equity.



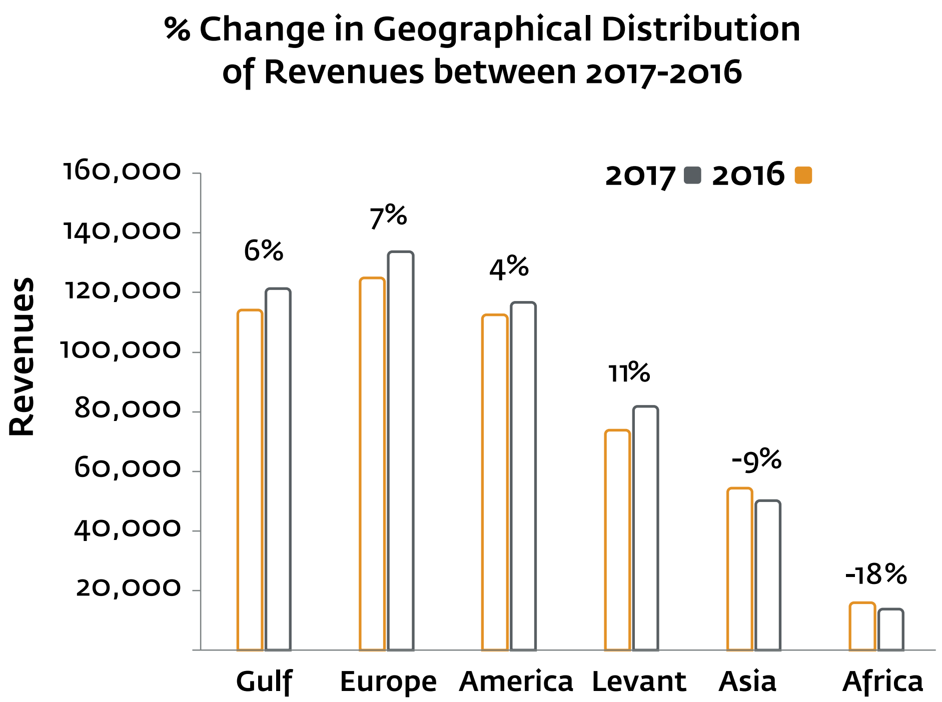
Analysis of Business Results

Revenues

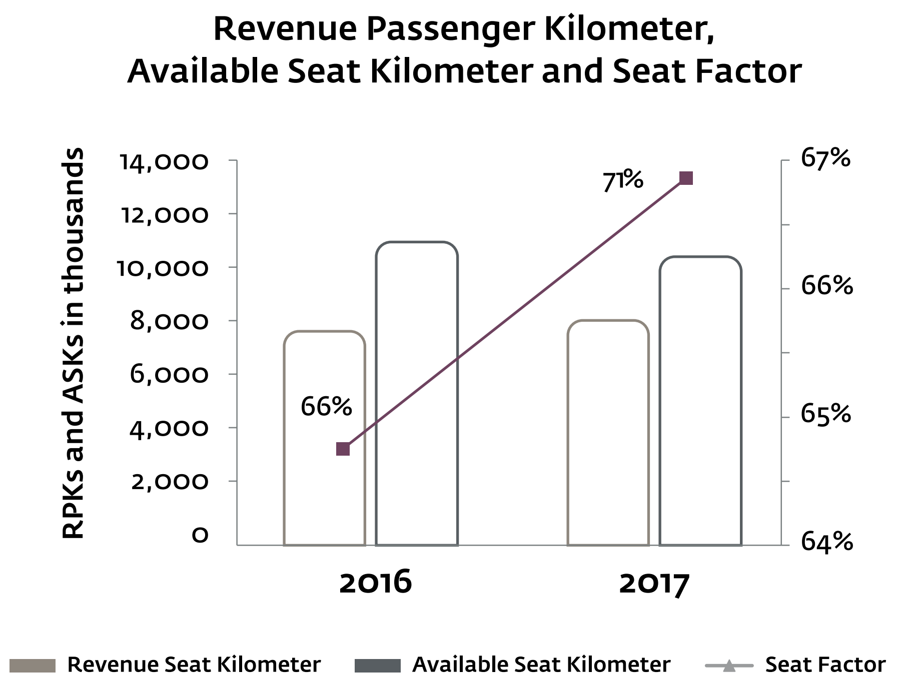
In 2017 revenues amounted to JD623.2 million against JD598.3 million in 2016, a rise of 4%. The main reason behind the increase in revenues was the growth of 7% in the number of passengers. The following graph shows the distribution of revenues in 2016 and 2017 as a percentage of total revenues. Passenger revenues represent the largest portion of total revenues which is 78% in 2017 compared to 80% in 2016.

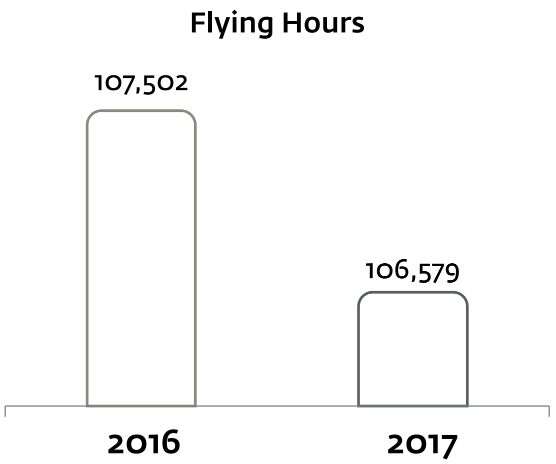


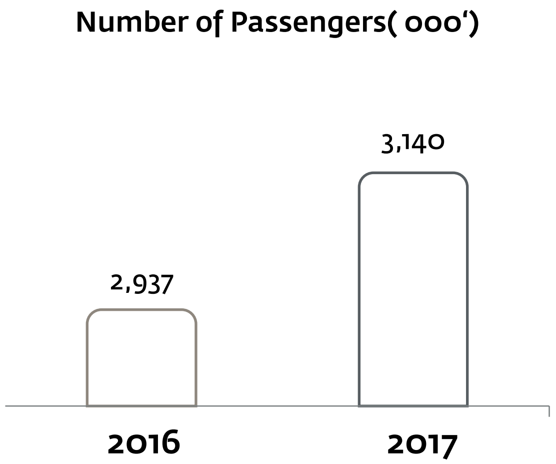
The following graph shows the geographical distribution of revenues and the variation between 2016 and 2017. Company revenues improved in all areas compared to 2016, with the exception of revenues from Asia and Africa which declined by 9% and 18% respectively due to closing Guangzhou and Jakarta destinations in January, 2017 besides decreasing the number of operated flights to Khartoum by 50%. However, the main reason behind the increase in the number of passengers from and to Gulf was the growing number of flights to Doha, Dubai, Abu Dhabi and Al-Madinah Al-Munawwarah.

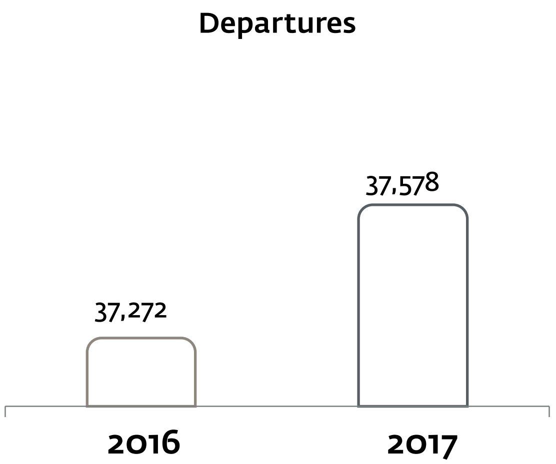


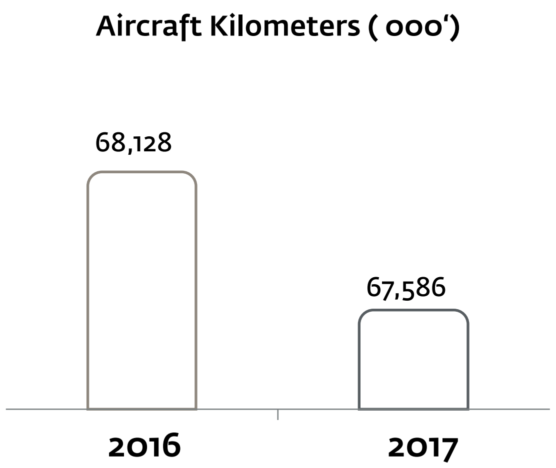
Our Operational KPIs in 2017





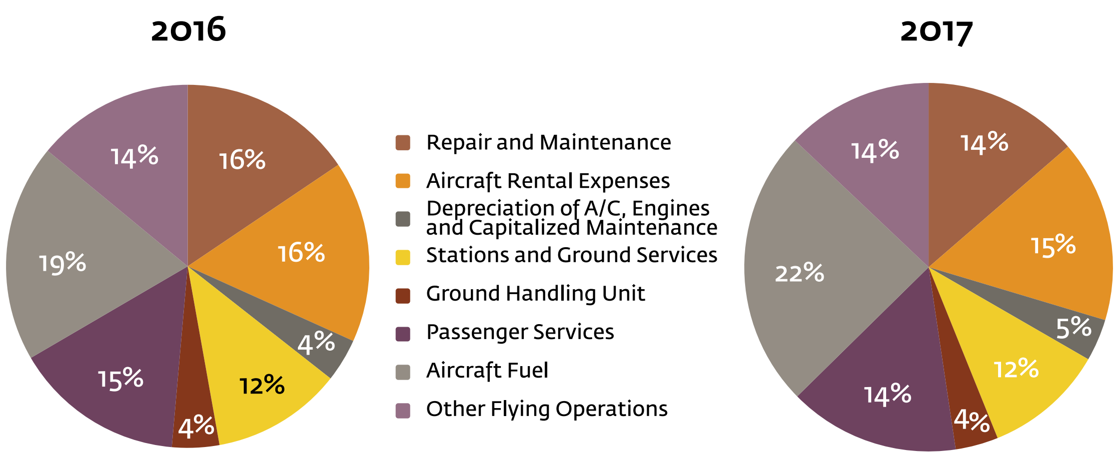






Cost of Revenues

Operating costs increased by 3% during 2017 compared to 2016. The main reason behind the increase in operating costs was the increase in average fuel price from USD/USG 1.56 to USD/USG 1.87, raising the fuel bill by JD19 million. The following graph shows operating cost distribution as a percentage of total operating cost in 2016 and 2017. The graph shows that 22% of total costs represent fuel cost compared to 19% in 2016.



Gross profit and net operating profit

Gross profit margin rose from 12% in 2016 to 13% in 2017 due to the increase in revenues by 4%. Net operating profit amounted to JD12 million in 2017 compared to net operating profit of JD5 million in 2016.

Net Profit

The company recorded JD274,000 net profit after tax in 2017 compared to a net loss of JD24.6 million in 2016. The main reason behind this improvement was the revenue growth which resulted in a higher number of passengers and growth in RJ's seat factor from %66 to %71. Moreover, 2016 losses included JD19 million provisions for currency devaluation of the Sudanese and Egyptian Pound.

Cash Flow from Operating Activities

Net cash flow from operating activities amounted to JD22.9 million in 2017 compared to net cash flow used in operating activities of JD30.7 million in 2016. The main reason behind this significant increase was the positive results the company achieved during 2017.

Cash and Liquidity

Cash and cash equivalent including short-term deposits amounted to JD101.4 million in 2017, which constitutes 16% of total revenues. The company paid JD73 million of its debt besides JD12.5 million for the two 787s' financing loans which decreased its debt ratio from 84% to 78.2%.

Below is a summary of the most important financial indicators for 2017-2016:

	2016	2017	% Change
Revenues	598,271	623,231	4%
Net Operating Profit	4,835	11,936	147%
Net Profit (Loss)	(24,571)	274	-
Non-Current Assets	350,048	394,339	13%
Current Assets	219,704	176,566	(20%)
Total Shareholders' Equity	75,111	100,335	34%
Paid in Capital	146,405	146,405	0%
Net Cash Flow from Operating Activities	(30,689)	22,856	-
Return on Paid in Capital	(16.8%)	0.2%	-
Return on Assets	(4.3%)	0.0%	-
Current Ratio	1.01	0.80	(21%)
Debt to Total Assets Ratio	86.8%	82.4%	(5%)
Equity to Total Assets Ratio	13.2%	17.6%	34%
Debt Ratio*	84.0%	78.2%	(7%)
Share Price at End of Year (JD)	0.44	0.44	0%
Earnings per Share	(0.17)	0.0017	-
Number of Shares Outstanding ('000)	146,405	146,405	0%

*Interest-Bearing Debt

• Company Future Developments in 2018

The airline always reviews its network, normally through feasibility studies that are conducted regularly to look for new opportunities and enhance the current network in a profitable manner.

RJ is also committed to follow up on its plans to review the number of departures to the current destinations, in addition to boosting connectivity of its flights from and to Amman, and the transit time as per the needs of transit passengers. Some routes had to be suspended for safety reasons, these are: Misurata, Tripoli and Benghazi in Libya, Mosul in Iraq, Sana'a and Aden in Yemen, while suspension continues on RJ's services to Damascus and Aleppo in Syria for political circumstances.

RJ will keep on servicing its operations to most of it current routes in 2018. These routes will cover 52 destinations worldwide, served by 368 weekly departures: 89 departures to Europe, 7 to Asia, 131 to the Arabian Gulf, 111 to the Levant, 18 departures to North America, and 12 departures to North Africa.

Fleet Future Plans

The company is continuously keen on introducing new aircraft, as part of its policy to maintain adequacy and efficiency of fleet operations through continuous modernization and maintaining a young fleet, thus reducing the cost of maintenance.

In its policy and strategic plans for the continuous modernization of its fleet, the company introduced a number of modern aircraft: Boeing, Airbus, and Embraer. In 2017 the company witnessed the introduction of the 7th Boeing 787. The seventh aircraft of the same model arrived in January 2017. These fuel-efficient planes replaced all Airbus 340/330 fleet to operate on long- and medium- haul routes: North America, East Asia and London.

This quality addition reduced the average age of RJ's fleet, giving a competitive advantage to the airline.
As such the company fleet in 2018 will consist of:

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

RJ will lease 3 medium-and short- haul aircraft temporarily in summer 2018 (the peak season) to increase the offered capacity (ACMI bases), in order to enhance its competitiveness and market share.

Future Plans: oneworld Alliance and Code Sharing

Since joining the oneworld alliance in 2007, RJ has been working to strengthen its relations with the carriers in this alliance. RJ will also cooperate and coordinate with the alliance members 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 and from Amman.

Also in 2017, RJ enhanced the benefits derived from some codeshare agreements with a number of companies in the alliance, through increasing the number of destinations included in the agreements with: American Airlines, British Airlines, Siberia Airlines (S7), Iberia, Malaysian Airlines, and Qatar airways. In addition to the airline's previous agreements with Tarom Airways, Syrian Airlines (currently not operating because of the situation in Syria), Gulf Air, Oman Air, Middle East Airlines, Alitalia and Turkish Airlines.

Important Future Developments

Currently studies are ongoing to develop the 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 cost.

In 2018, the airline is planning to continue the improvement of the quality and accuracy of the overall performance, through enhancing processes and implementing new systems and solutions such as the network planning system that has started implementation in 2017 to develop and enhance the company's network planning on the medium- and long- terms periods.

• Audit Fees

Audit fees for RJ and its subsidiary Royal Wings for 2017 were as follows:

• **Royal Jordanian** audit fee JD81,200 including tax.
• **Royal wings and subsidiary** audit fee JD16,240 including tax.
• **Tikram** (Mashreq flight services) JD8,120 including 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	
			31.12.2017	31.12.2016
H.E. Said S. Darwazeh (From 20.06.2016)	Chairman	Jordanian	-	-
H.E. Basem K. Al-Salem (From 30.10.2017)	Vice Chairman	Jordanian	-	-
HE Akel Biltaji (From 26.2.2017 to 26.10.2017)	Former Vice Chairman	Jordanian	5,000	-
H.E. Dr. Nofan M. Al-Akeel (From 17.4.2016 to 22.1.2017)	Former Vice Chairman	Jordanian	-	-
H.E. Nasser S. Shraideh (From 26.10.2017)	Member	Jordanian	-	-
H.E. Izzidin M. Kanakriya	Member	Jordanian	-	-
Capt. Suleiman R. Obeidat	Member	Jordanian	3,406	3,406
Eng. Samer A. Majali	Member	Jordanian	54,999	54,999
Mr. Imad J. Al-Qudah	Member	Jordanian	-	-
Mr. "Mohammad Ali" Bdair	Member	Jordanian	7,699	7,699
Mr. Michael N. Nazzal	Member	Jordanian	5,000	5,000

There are no securities owned by the board members' relatives by the end of 2017.

• 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	
			31/12/2017	31/12/2016
Mr. Stefan Pichler (From 01.06.2017)	President/CEO	German	-	-
Capt. Suleiman Obeidat (Resigned 31-05-2017)	Former President/CEO	Jordanian	3,406	3,406
Mr. Feras Qarrain	CFO	Jordanian	-	-
Mr. Sufian Alsalman (From 01-10-2017)	CHRO	Jordanian	-	-
Mr. Server Aydin (Resigned 30-06-2017)	CCO	Swedish	-	-

.There are no securities owned by relatives of members of the Senior Executive Management during 2017

• Board of Directors Benefits and Remunerations

Below is a table of remunerations and benefits received by the Chairman and Board members in 2017 in JD:

Name	Title	Rep. Allowance Transport Allowance (Annual)	Annual Remunerations	Travel Allowance	Total Annual Benefits
H.E. Said Darwazeh	Chairman	-	-	-	-
H.E. Basem Al-Salem	Vice Chairman	5,000	-	-	5,000
H.E. Akel Biltaji	Former Vice Chairman	4,000	-	-	4,000
H.E. Dr. Nofan Al-Akeel	Former Vice Chairman	339	-	-	339
H.E. Nasser Shraideh	Member	500	-	-	500
Dr. Izziddin Kanakriya	Member	5,000	-	-	5,000
Capt. Suleiman Obeidat	Member	5,000	-	-	5,000
Eng. Samer Majali	Member	6,000	-	-	6,000
Mr. Imad Al-Qudah	Member	6,000	-	-	6,000
Mr. Mohammad Ali Bdair	Member	6,000	-	-	6,000
Mr. Michael N. Nazzal	Member	6,000	-	-	6,000

• Senior Executive Management Benefits and Remunerations

Below is a table of remunerations and benefits received by Senior Executive management during 2017 in JD:

Name	Title	Annual Salaries	Annual Remuneration	Travel Allowance (JD)	Total Annual Benefits
Mr. Stefan Pichler	President/CEO	244,624	-	1,750	246,374
Capt. Suleiman Obeidat	President/CEO	82,579	-	735	83,314
Mr. Firas Qaraeen	CFO	123,120	-	840	123,960
Mr. Surver Aydin	CCO	73,906	-	-	73,906
Mr. Sufian AlSalman	CHRO	27,852	-	-	27,852

• Donations and Grants made by the company in 2017

Recipient	Amount (JD)
Royal Jordanian Staff Club	10,000
Scholarships	138,120
Royal Jordanian Gliding Club	15,000
Mother's Day Celebration – Charitable Clothes Bank	3,000
Education Fund – The General Trade Union of Workers in Air Transportation	1,000
Emergency Cases	5,200
Ramadan Annual Campaign – Charities	22,875
Others	9,022
Total	204,217

• 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 Royal Wings.
- Pilots Commissioning Agreement with Royal Wings.
- Maintenance Agreement with Royal Wings.
- Fit to Fly Agreement with Royal Wings.
- Engine Leasing Agreement with Royal Wings.
- Dispatch Agreement at QAIA with Royal Wings.
- Agreement with Royal Wings to include it in the maintenance agreement between RJ and Air France.
- Leasing Aircraft Capacity with Royal Wings.
- Agreement to supply Royal Wings with fuel and include it in fuel purchase 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.

• Royal Jordanian's corporate social responsibility policy

Introduction

Since its establishment in 1963 as an emerging airline, Royal Jordanian has taken upon itself to be an active model to serve the community and contribute, alongside other national organizations, to Jordan's development and progress, to open new global horizons to its people and eliminate all obstacles in the way of ambitions, to reach across the globe seeking education and knowledge, self-affirmation and cross-cultural interaction.

Royal Jordanian strongly believes in the principle of social responsibility and the importance of positive interaction in the Jordanian community, through active participation in various local events and activities, in fields as varied as economic, social, artistic or sports. It is interested in knowing the needs of the poor, charity associations, orphanages and those with special needs, and lend them support within its capabilities.

Community service

In Royal Jordanian's chapter on vision, mission and values, a clause regarding social responsibility is clearly stated as a primary principle of the airline, which believes in the importance of partnership between the public and private sectors to achieving general benefits.

RJ's mission includes "supporting local communities and charities", based on the idea that successful companies play a major role in contributing to improving the quality of life of communities, should support ambitious projects and lead humanitarian initiatives, and support endeavors of individuals or associations, particularly sustainable efforts.

National role

Being the national carrier with the national identity, and having the Royal Crown as the logo placed proudly on all its aircraft, Royal Jordanian believes in the vital role it plays and which, 54 years into its existence, has established it as a main national and economic pillar in the country.

Today RJ is placed high in the hierarchy of national economic powerhouses, in terms of resources, revenue, cost, work force and major services it offers to various sectors, including tourism, commerce, and a provider of hard currency.

RJ has been a cultural bridge linking Jordan to the world and a means of connecting people, as part of its vision and strategic targets in serving the country.

The airline believes true excellence of companies and associations is not measured only by the profits attained or basic goals reached, but, more importantly, by what they offer to the society directly or indirectly, how they understand and respond to the community's needs, away from self-promotion, and as such, RJ will continue playing this leading national role it has been always known for.

Ever since its establishment, RJ has adopted programs that support its belief in the need to strengthen local communities and provide assistance to various events and activities in dynamic sectors, including education, youth, health, environment, and to the less fortunate, since social responsibility is part of the basic citizenship responsibility that RJ carries out distinctively.

Dimensions of the company's CSR

RJ relies on a set of regulations and values that govern its CSR policy, define its features and execution of initiatives to achieve the desired objectives. This has the following main dimensions:

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

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

Economic: 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.

Goals of the social responsibility

- Ensure that RJ is one of the leading national establishments with an active role in the Jordanian community.
- Contribute to encouraging the spirit of social responsibility and stress its importance as a parallel work course at RJ.
- Adopt programs that are in line with RJ's mission to support the local community and provide assistance to different community or national economic, sports and creative events and activities, in addition to supporting dynamic sectors relating to education, health, youth and the less fortunate.
- Contribute to developing the local community.
- Contribute to strengthening the country's infrastructure, an important component that contributes to the wellbeing of citizens.
- Support civil society associations involving women, children, youth, school and university students, the elderly and individuals with special needs.
- Support educational institutions and hospitals, aware that scientific research and cooperation between private sector companies and educational institutions will lead to better services for the local community.
- Contribute to protecting the environment and minimizing pollution.
- Contribute positively and effectively in emergency situations and cases of natural disasters.
- Increase social solidarity among different segments of the Jordanian community.

Transparency and social responsibility:

Based on proper corporate governance, Royal Jordanian issues annual financial reports with all figures and details about the airline's achievements and its role in the field of social responsibility, which measure the airline's performance throughout the year, assuring it is balanced and inclusive of different areas and segments of the society. These accurate and reliable reports and statements clearly show the financial donations to the local community.

In this vein, it should be noted that:

- Royal Jordanian sponsors and supports various local events only with the approval of the president/CEO and at the recommendation of the Executive Assistant to the President/Media, Corporate Communications and CSR.
- Support and donations are granted to non-profit organizations only, to enable them to achieve their objectives.

Implementing social responsibility initiatives

Royal Jordanian has a specialized department responsible for implementing different social responsibility programs and initiatives, which reports directly to the president/CEO; it works with a budget approved by RJ's Board of Directors.

Social responsibility policy and the environment

- As part of the company's continuous quest to modernize its fleet and introduce new aircraft, it contributes directly to minimizing CO_2 emissions and noise pollution resulting from operating old aircraft. This is in line with Royal Jordanian's objective of protecting the environment and minimizing pollution.
- Royal Jordanian recently introduced seven Boeing 787 Dreamliners, among the most fuel efficient aircraft in the world. That, in turn, resulted in less fuel consumption and significantly eliminated noise levels due to their advanced-technology engines.
- The average age of RJ's aircraft is considered young by international standards; it does not exceed five years, while the average fleet age of many international airlines reaches up to 11 years. This makes RJ's modern fleet environment friendly.
- The airline takes measures to minimize the pollution resulting from fuel combustion when operating the aircraft; it participates in the EU Emissions Trading Scheme (EU ETS) to reduce CO_2 emissions with the objective of enhancing the environmental performance and control the negative operational impact, in accordance with international laws.
- Royal Jordanian was one of the first airlines to prohibit smoking on all company premises and on board its aircraft since the beginning of the 21st century.
- Royal Jordanian employees often carry out community activities aiming at protecting the environment.

Paper consumption

Royal Jordanian seeks to reduce the negative environmental impact of paper consumption by going electronic, providing digital and automated services to customers. It is one of the first international airlines to issue electronic tickets (E-ticket), in compliance with IATA regulations and other organizations (since 2008), and to put an end to paper tickets. Moreover, RJ is fully electronic in all booking and travel procedures.

Reducing energy consumption

Although the nature of RJ business requires great consumption of energy, RJ continuously works on rationalizing this consumption in various ways.

- The headquarters building is equipped with gas central heating system, considered safe and environment friendly.
- Exterior shades on the windows of the headquarters building help cooling in the summer; also, all old lighting units were replaced with energy saving units.

Community Support

RJ is proud of the pioneering role it plays in supporting the local community and of being aware of the needs and concerns of the community. This stand is firmly entrenched in the minds of the RJ family and is part of their internal organizational culture. The company will continue increasing its presence and visibility in various fields and events.

Support is directed to non-profit organizations to enable them to achieve their objectives.

Royal Jordanian carries out a goodwill campaign and offers food and medical assistance annually during the Holy Month of Ramadan.

• Corporate Social Responsibility 2017

Continuous support to King Hussein Cancer Foundation

RJ extends ongoing support to the foundation and center in their fight against cancer. This support took the following manifestations in 2017:

Renewing agreement to donate travel miles: RJ renewed the agreement with King Hussein Cancer Foundation (KHCF) whereby RJ's Royal Plus members can 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 to travel and get necessary trainings and to attend medical conferences.

In 2017, the total miles donated to the King Hussein Cancer Foundation reached 2,100,000 miles.

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

RJ's contribution to King Hussein Cancer Foundation's coin box collection program helped collect JD30, 000 during 2017 and JD143, 000 since they were distributed, in 2013.

World Cancer Day activities: On the occasion of the World Cancer Day, which is observed on February 4, RJ held different activities, at the head office to raise awareness about this disease. The activities included: an educational session that tackled the impact of smoking, healthy lifestyle and physical exercise; awareness messages were posted on RJ's social media about fighting cancer; a KHCF booth was placed, where memorabilia were sold to the benefit of cancer patients; three-day proceeds of RJ gift shop (Hadiyah) were donated to KHCF.

Continuous support to the Charity Clothing Bank

RJ has been offering continuous support to the Charity Clothing Bank since 2014 by placing donation boxes at different company facilities to enable the staff to donate garments, shoes and toys to the beneficiaries of the clothing bank. In 2017, RJ employees donated around 4,560 kg of clothes; 1,140 persons benefitted from the staff contribution.

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

RJ also donated 1,200 blankets used by the airline passengers but are in a very good condition. The bank distributed them to the people in need.

Ramadan Charity Campaign

Among RJ's most notable social contributions is the annual Ramadan campaign, a translation into practice of the airline's CSR ethos, which makes it interact with and help local communities.

The 2017 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 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 the distribution visited the governorates of Maan, Karak, Zarqa, Mafraq, Ajloun and the Jordan Valley.

Iftar banquets for orphans: Further exercising its social responsibility, RJ also held iftars for orphans, wishing to offer them some happy moments, in addition to offering them gifts and clothes for Eid Al Fitr.
Tens of RJ employees attended these iftars that hosted, in all, 550 children. The iftars were given at RJ's head office, Queen Rania Park, the Children's Museum/Jordan and Haya Cultural Centre.

Mother's Day

Royal Jordanian held an event organized at Haya Cultural Center in appreciation of the key role women play in the society.

Underprivileged women from different associations and their children took part in several cultural and artistic activities organized on the occasion.

The event included a number of educational, artistic and entertainment activities. Royal Jordanian employees helped the children plant flowers that were presented to their mothers on this occasion, in addition to helping in other activities, like art crafts and baking and decorating cookies.

Sustainable development

RJ focuses on the implementation of several community-based initiatives that are sustainable, particularly supporting educational programs and helping needy students, and establishing small businesses.

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

RJ took several measures to control pollution produced by fuel consumption, aiming at improving the environmental part of the operations, and controlling and monitoring the negative impact of operations, in line with 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 almost 11 years old.

University scholarships program: RJ is paying university fees of 50 students studying for their bachelor degree, who started their university studies in the scholastic year 30 ;2014/2013 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 are related to RJ's fields of work, thus ensuring a flow of manpower for the airline's future needs. Scholarships are distributed for the following majors: engineering (industrial, mechanical, electrical and mechatronics), IT, finance, accounting, business administration and MIS.

Recruitment of employees with special needs: RJ provides Jordanian job seekers with equal and fair opportunities, and 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 aims to secure the right of individuals with disabilities to education, health, sports, employment and others.

Donation of used computers and electronic devices: RJ donated a large number of used computers and electronic devices through Talal Abu Ghazaleh Organization, which, in an initiative launched in 2012, fixes them and distributes them to needy students and underprivileged schools in the kingdom.

The donation is proof of RJ's keenness to serve the local community and contribute to reducing the digital gap amongst the underprivileged.

The company donated computers, screens, printers, LCD TV screens, scanners, fax machines and different other devices.

Adopting GoDirect Fuel Efficiency software: RJ introduced Honeywell's Connected Aircraft GoDirect Fuel Efficiency software to reduc fuel usage on its fleet of 25 aircraft. It uses data analysis, reporting and monitoring tools to identify fuel-saving opportunities that make flying more cost efficient and better for the environment. It also helps RJ work toward fulfilling Jordan's pledge to reduce greenhouse gas emissions. The technology also fully complies with the European Union emissions trading system legislation.

RJ renovates 'aviation zone' at the Children's Museum, adds a Boeing 787 model

As part of the corporate social responsibility that RJ believes in, RJ donated a small-scale Boeing 787 aircraft model painted with its logo for the "aviation zone" at the Children's Museum-Jordan, supporting the museum's efforts in the field of interactive education and development of children's skills.

The initiative aims mainly at familiarizing children with the undertakings of the national carrier that connects Jordan to the world, while also allowing them to learn more about aviation professions, such as pilots and flight attendants, and experience the whole travel process.

The aviation zone at the museum includes models of a control tower, a passenger waiting area with nine seats and a screen displaying information about RJ's network, and a corner where children get to dress up in RJ uniforms before boarding the scale-model plane.

The Boeing 787 model consists of a flight deck that holds two persons and a -5seat passenger cabin; it gives children the chance to learn about aviation and the pilot's job in a fun and exciting way. Other miniature models of all aircraft from RJ's fleet are displayed in the aviation zone, in addition to information banners.

Training staff to deal with passengers with special needs

Royal Jordanian continues to hold training sessions for a number of employees whose nature of work requires them to deal with travelers with special needs. This kind of training (the Compliant Resolution Official) 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.

Free tickets to Toleen and her parents to receive treatment in Istanbul

As part of its social responsibility and keenness to support special cases, RJ granted -10year-old Toleen Breihi and her parents free Amman-Istanbul-Amman tickets in March, facilitating all her travel needs at Queen Alia International Airport and Ataturk Airport/Istanbul, and enabling her to travel to undergo a liver and kidney transplant operation.

Free maintenance for the 'Society of Cerebral Palsy' bus

Royal Jordanian provided free maintenance to a bus that belongs to the Society of Cerebral Palsy. The staff of the Shops section at the Engineering and Maintenance Department carried out the maintenance work on the bus that transports the sick children.

Sport and youth sponsorships

Sponsorship to the Arab Youth Conference: RJ offered discounted tickets to youth from different Arab and foreign countries who participated in the 36th edition of the Arab Youth Conference, held under the patronage of Her Majesty Queen Noor.

The conference, organized by the National Centre for Culture and Arts of King Hussein Foundation, was held in July under the title "21st century skills for a culture of peace and prosperity".

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

Supporting Eng. Ayat Al Amr: Royal Jordanian awarded a free ticket to Jordanian engineer Ayat Amr who was selected as a Youth Ambassador to represent Jordan in the 14th Annual International Human Rights Summit in New York. She proposed to NASA a robot model to explore Pluto, becoming the 1st Arab female student to win NASA's prestigious award.

Supporting kickboxing champion: RJ offered two free tickets on Amman-Tunis-Amman route 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 under67- kg category in that tournament.

Sponsoring jiu-jitsu player Ruba Sayegh: Royal Jordanian donated a number of free tickets to jiu-jitsu Jordanian player Ruba Sayegh to enable her to participate in international tournaments held in 2017.

Cargo sponsorships

As part of its role in supporting charity organizations, RJ helped transport many items on board its aircraft in 2017, in support of humanitarian and social causes:

Shipping material for the Jordan River Foundation: Royal Jordanian shipped to the United States, free of charge, about 500 kg of items for the Jordan River Foundation. The shipment contained 5 boxes of carpets that were sold at a bazaar in Santa Fe. The proceeds from the sales went to support the foundation's charity deeds.

Shipping bicycles for Rum team: RJ shipped a number of bicycles from Amman to London for the Rum team, for free, to enable 32 Jordanian cyclists to participate in the 2017 World Cycling Initiative organized by GBI. The team raised 5,000€, donated to support the local Yarmouk Association for Education.

RJ as official carrier for participants in different exhibitions and conferences

World Economic Forum: The World Economic Forum (WEF) has been selecting RJ as the official carrier for the participants in the forum, every year since its first edition in Jordan, in 1995. This attests to the appreciation the organizers of the forum have for RJ's reputation, as a quality-service airline with a wide route network and an established record in helping arrange travel for participants in meetings of such size and caliber.

RJ has been keen to sponsor holding the forum in the region, which is the biggest global, economic and political event that brings new investment opportunities to Jordan and offers a great chance for RJ to brand its name and services, including its network, modern fleet and excellent ground and onboard services.

Women on the Front Lines conference: In line with Royal Jordanian's commitment to support women's empowerment, locally and in the Arab world, particularly women who face every day exceptional obstacles, it accepted to be the official carrier of the participants in the Women on the Front Lines (WoFL), MENA chapter, conference, in its second edition, organized by the May Chidiac Foundation. The event gathered a group of prominent women influencers in the media, politics and economy.

RJ offered six free tickets to the main speakers from its stations in Tunis, Cairo, London and Istanbul.

World Science Forum: Royal Jordanian was the official carrier for participants in the World Science Forum (WSF) 2017, held under the patronage of His Majesty King Abdullah II at King Hussein bin Talal Convention Center/Dead Sea under the theme "Science for Peace". The forum saw the participation of 3,000 scientists, policymakers, Nobel laureates, academics and investors from over 120 countries.

RJ offered forum participants discounted tickets to different destinations on its global network, as part of the carrier's support for Jordan, which hosted the forum's first edition in the Middle East, an occasion to discuss global sustainability challenges.

Regional Conference on Tourism in MENA Cities: RJ offered free and discounted tickets to a number of participants in the 'Regional Conference on Tourism in MENA Cities' held under the title: "Competitiveness for Sustainable Growth", in cooperation with the Jordanian Ministry of Tourism and Antiquities, the Jordan Tourism Board (JTB), the Greater Amman Municipality and with the technical support of the World Tourism Organization (UNWTO).

Conference on Media and Political Transformation in the Middle East: Royal Jordanian contributed to the success of the conference "Media and Political Transformation in the Middle East", held by Yarmouk University. The company granted two free business class tickets to keynote speakers at the opening session of the conference, one on London-Amman-London and the other on Cairo-Amman-Cairo route.

Arab Reporters for Investigative Journalism annual forum: RJ offered free upgradable tickets to the five main speakers at the Arab Reporters for Investigative Journalism (ARIJ) forum, in its 10th edition, held at the Dead Sea, which saw participation of more than 400 media representatives.

Jerash Festival for Culture and Arts: RJ has been sponsoring this theme-oriented event ever since it was first launched. RJ offered discounts on tickets for the singers, performers, folk troupes and poets participating in this festival that is held annually in the ancient Greco-Roman city of Jerash.

Fuhais Festival: RJ was the official carrier for the singers and bands of musicians participating in the Fuhais Festival. RJ offered discounted tickets to Arab singers and their music bands, which came from different parts of the world to participate in the festival.

La Traviata Opera: Royal Jordanian granted free tickets to the orchestra musicians playing for "La Traviata" opera, performed during the Amman Opera Festival at the Roman Theatre in downtown Amman under the patronage of HRH Princess Muna.

Faithful sponsor of Dead Sea Live Nights Festival: Royal Jordanian was the official carrier for the participants in the Dead Sea Live Nights Festival, considered one of the most important cultural and musical activities in the region.

The airline's sponsorship consisted in two free Crown class Cairo-Amman-Cairo tickets for Egyptian composer and pianist Omar Khairat and singer Sherine Abdel Wahab, in addition to discounted tickets for the members of the musical groups accompanying them.

Sponsoring other activities

During 2017, RJ sponsored different charity activities and events that aim at boosting development and participating in public work, as RJ believes in its national role towards society.

Sponsorships take the form of free or discounted tickets, or facilitating booking and travel procedures.

The main associations sponsored were: the Society of Friends of Liver Disease Patients, the Young Women's Christian Association, the Friends of Jordan Society, Queen Alia Contest for Social Responsibility, the Conservation of the Holy Quran Society, Families and Friends Society of Persons with Disabilities, associations for the hearing impaired and orphanages and Royal Institute for Inter-Faith Studies.

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INDEPENDENT AUDITOR'S REPORT
To the Shareholders of Alia – The Royal Jordanian Airlines Company (Royal Jordanian)
Amman - Jordan

Report on the Audit of the Consolidated Financial Statements

Opinion

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

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

Basis for Opinion

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

Key Audit Matters

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

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

1. Passenger and cargo revenue recognition Refer to note 24 of the consolidated financial statements	
Key audit matter	**How the key audit matter was addressed in the audit**
Passenger tickets and cargo airway bills sales are reflected in the consolidated statement of financial position as deferred revenue and recognized as revenue when the transportation service is provided. Tickets that are not used for transportation ('unused tickets') are recognized as revenue after 12 months from the date of their issuance. We focus on revenue recognition because it is material and the process is highly automated. 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.

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2. Lease classification Refer to notes 19 and 31 of the consolidated financial statements	
Key audit matter	**How the key audit matter was addressed in the audit**
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.
3. Obsolete and slow moving spare parts and other supplies Refer to note 13 of the consolidated financial statements	
Key audit matter	**How the key audit matter was addressed in the audit**
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.

Other information included in the Company's 2017 annual report

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

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

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

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

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

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

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

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

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

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

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exist, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However future events or conditions may cause the Company's to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

Report on Other Legal and Regulatory Requirements

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

Ernst & Young/ Jordan

Ernst & Young

Waddah Isam Barkawi
License No. 591

Amman – Jordan
18 March 2018

Independent auditor's report and consolidated financial statements for 2017

• Consolidated Statement of Financial Position

At 31 December 2017
(In Thousands of Dinars)

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

• Consolidated Income Statement

For the Year Ended 31 December 2017

(In Thousands of Dinars)

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

• Consolidated Statement of Comprehensive Income

For the Year Ended 31 December 2017

(In Thousands of Dinars)

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

Consolidated Statement of Changes in Equity

For the Year Ended 31 December 2017
(In Thousands of Dinars)

	Attributable to equity holders of the parent								
	Paid in Capital	Payments in respect of capital increase	Statutory reserve	Fair value reserve	Cash flow hedges	Accumulated losses	Total	Non – controlling interests	Total equity
2017-									
Balance as of 1 January 2017	146,405	-	13,455	3,771	-	(88,749)	74,882	229	75,111
Total comprehensive income for the year	-	-	-	-	-	246	246	28	274
Transfers	-	-	54	-	-	(54)	-	-	-
Payments in respect of capital increase (note 17)	-	25,000	-	-	-	-	25,000	-	25,000
Capital increase costs	-	-	-	-	-	(50)	(50)	-	(50)
Balance as of 31 December 2017	**146,405**	**25,000**	**13,509**	**3,771**	**-**	**(88,607)**	**100,078**	**257**	**100,335**
2016 -									
Balance as of 1 January 2016	46,405	50,154	13,455	3,771	(178)	(64,094)	49,513	195	49,708
Total loss and comprehensive income for the 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**

• Consolidated Statement of Cash Flows
For the Year Ended 31 December 2017
(In Thousands of Dinars)

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

1 GENERAL

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

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

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

The consolidated financial statements were authorized for issue by the Board of Directors during their meeting held on 10 March 2018.

2 BASIS OF PREPARATION

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

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

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

3 BASIS OF CONSOLIDATION

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

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

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

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

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

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

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

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

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

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

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

Shareholders who have a significant influence over the Group
The Government of the Hashemite Kingdom of Jordan presented by Governmental Investment Management Company, Mint Trading Middle East Ltd. and Social Security Corporation own 60%, 15% and 10% respectively of the Company's shares (2016: 60%, 15% and 10% respectively). As disclosed in note 17, capital increase procedures for part of the second tranche shares were completed during February 2018. Accordingly, the Government of the Hashemite Kingdome of Jordan presented by Governmental Investment Management Company share of the Company's shares became 76.4%.

4 CHANGES IN ACCOUNTING POLICIES

The accounting policies used in the preparation of the consolidated financial statements are consistent with those used in the preparation of the annual consolidated financial statements for the year ended 31 December 2016 except for the followings starting from 1 January 2017:

Amendments to IAS 7 Statement of Cash Flows: Disclosure Initiative
Limited amendments which require entities to provide disclosures about changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses). However, the adoption of these amendments have no impact on the Group's consolidated financial statements.

Amendments to IAS 12 Income Taxes: Recognition of Deferred Tax Assets for Un-recognised Losses
Limited amendments to clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference and some other limited amendments, the adoption of these amendments have no impact on the Group's consolidated financial statements.

5 USE OF ESTIMATES

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

Significant estimates are as follows:

Useful lives of property and equipment

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

Revenue recognition – Frequent Flyer points for customer loyalty program

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

6 SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted are as follows:

Business combinations and Goodwill

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

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

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

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

Impairment of Goodwill

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

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

Property and equipment

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

	Depreciation Rate (%)
Owned passenger and cargo aircrafts, aircrafts under finance leases, Aircraft engines and aircraft components	5 - 5.5
Machinery and equipment	10-15
Computers	25
Furniture and fixtures	10
Vehicles	15-20
Buildings	2.5 - 10
	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 recognised in the consolidated income statement.

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

Property and equipment held for sale

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

- The Group must be committed to sale, which should be expected to qualify for recognition as completed sales within one year from the date of classification.
- Assets are available for immediate sales in its present condition.
- Property and equipment held for sale are recorded at the lower of cost or fair value less cost to sell.

Financial assets at fair value through other comprehensive income

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

Investments in associates

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

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

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

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

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

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

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

Spare parts and other supplies

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

Accounts receivable

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

Cash and cash equivalents

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

Impairment and uncollectibility of financial assets

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

The amount of impairment is determined as follows:

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

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

Fair value measurement

Fair values of financial instruments are disclosed in Note 36.

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

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

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

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

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

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

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

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

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

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

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

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

Finance leases

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

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

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

End of service indemnity provision

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

Accounts payable and accruals

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

Provisions

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

Loans

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

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

Revenue recognition

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

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

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

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

Maintenance and repair costs

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

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

Income tax

Tax expense comprises current tax and deferred taxes.

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

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

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

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

Operating leases

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

Foreign currencies

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

All differences are taken to the consolidated income statement.

7 ACQUISITION OF A SUBSIDIARY

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

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

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

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

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

	2017
Cash flow on acquisition	
Net cash acquired with the subsidiary	411
Cash paid	-
Net cash acquired	411

8 PROPERTY AND EQUIPMENT

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

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

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

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

9 ADVANCES ON PURCHASE AND MODIFICATION OF AIRCRAFTS

	2017	2016
Advances for the purchase of Boeing 787 aircrafts	**35,993**	59,731

10 FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

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

11 INVESTMENTS IN ASSOCIATES

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

Movement on investments in associates was as follows:

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

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

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

	Jordan Flight Catering Company		Jordan Aircraft Maintenance Company (JORAMCO)		Jordan Aircraft Training & Simulation Company (JATS)		Al Mashriq for Aviation Services		Total	
Statement of financial position	**2017**	2016	**2017**	2016	**2017**	2016	**2017**	2016	**2017**	2016
Current assets	**5,868**	6,966	**17,602**	17,769	**1,296**	2,156	-	5,948	**24,766**	32,839
Non-current assets	**1,331**	1,484	**18,530**	18,550	**21,702**	22,603	-	1,875	**41,563**	44,512
Current liabilities	**(3,499)**	(3,947)	**(9,293)**	(7,179)	**(2,363)**	(2,449)	-	(2,403)	**(15,155)**	(15,978)
Non-current liabilities	-	-	**(13,272)**	(13,895)	**(6,669)**	(7,491)	-	(9,713)	**(19,941)**	(31,099)
Net assets	**3,700**	4,503	**13,567**	15,245	**13,966**	14,819	-	(4,293)	**31,233**	30,274
Group's ownerships percentage	**30%**	30%	**20%**	20%	**20%**	20%	**100%**	49%		
Investment in associate	**1,110**	1,351	**2,713**	3,049	**2,793**	2,964	-	-	**6,616**	7,364

	Jordan Flight Catering Company		Jordan Aircraft Maintenance Company (JORAMCO)		Jordan Aircraft Training & Simulation Company (JATS)		Al Mashriq for Aviation Services		Total	
Statement of comprehensive income	**2017**	2016	**2017**	2016	**2017**	2016	**2017**	2016	**2017**	2016
Revenues	**19,770**	20,857	**33,929**	36,544	**5,175**	6,542	**267**	1,397	**59,141**	65,340
Cost of sales	**(13,942)**	(15,018)	**(25,860)**	(24,551)	**(3,578)**	(3,987)	**(446)**	(1,051)	**(43,826)**	(44,607)
Other income and expenses	**(1,329)**	(599)	**(9,808)**	(9,065)	**(1,249)**	(1,353)	-	(912)	**(12,386)**	(11,929)
Income (loss) before tax	**4,499**	5,240	**(1,739)**	2,928	**348**	1,202	**(179)**	(566)	**2,929**	8,804
Income tax	-	(5)	-	-	-	-	-	-	-	(5)
Profit (loss) for the year	**4,499**	5,235	**(1,739)**	2,928	**348**	1,202	**(179)**	(566)	**2,929**	8,799
Group's Share of profit for the year	**1,350**	1,571	**(348)**	586	**70**	240	-	-	**1,072**	2,397

12 OTHER CURRENT ASSETS

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

13 SPARE PARTS AND OTHER SUPPLIES

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

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

	2017	2016
Beginning balance	**3,981**	3,981
Provision for the year	**242**	-
Ending balance	**4,223**	3,981

14 ACCOUNTS RECEIVABLE

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

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

Movement on provision for doubtful debts was as follows:

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

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

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

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

15 CASH AND BANK BALANCES

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

* This item represents deposits in Jordanian Dinar in Jordanian Banks as of 31 December 2017 with an interest rate ranging between 4.5% – 5% (2016: 3% – 3.65%) and are due within three months.
** This item represents cash received on tickets sales and other sales during December that were deposited in the Company's bank accounts during January of next year.
*** This item represents deposit in Banks in Jordanian Dinar (JD 20,752) and Sudanese Pound (215,302 thousand Sudanese Pound which is equivalent to JD 40,000 :2016) (7,722 Jordanian Dinar and 191,084 Sudanese pounds which is equivalent to JD 7,022) as of 31 December 2017 with an average interest rate of %4.5 :2016) %5.13) and are due within four months (2016: eight months).

16 PROPERTY AND EQUIPMENT HELD FOR SALE

During 2016, the Board of Directors resolved to sell on Airbus aircraft 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 for the year ended 31 December 2016 being the difference between the aircraft's carrying value and fair value less cost to sell as at 31 December 2016. The aircraft was sold during 2017, no additional losses resulted for the year ended 31 December 2017.

17 SHAREHOLDERS' EQUITY

Paid in capital	**2017**	2016
Authorized capital (246,405 shares of JD 1 each)	**246,405**	246,405
Paid in capital	**146,405**	146,405

Payments in respect of capital increase

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

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

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

The Prime Ministry resolved in its meeting on 6 September 2017 to approve government's subscriptions presented by Governmental Investment Management Company in 50% of the second tranche of the suggested capital increase of JD 100 million (JD 50 million). The government shall subscribe in 100% of the capital increase if the major shareholders do not subscribe in the ramming 50%. Subscription was completed through capitalization of JD 25 million of the amounts due to the Governmental Investment Management Company and through cash payments of the remaining amount. Subscription was calculated using the share price in Amman Stock Exchange "ASE" on the date of the resolution (JD 0.390). Accordingly, an amount of JD 25 million was reclassified from long term liabilities to advance payments over capital increase in the consolidated financial statements as at 31 December 2017. The remaining amount of the second tranche will be subscribed during 2018.

- Statutory Reserve

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

18 BANK LOANS

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

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

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

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

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

19 OBLIGATIONS UNDER FINANCE LEASES

	2017				2016			
	E-195	E-175	B-787	Total	E-195	E-175	B-787	Total
Long term obligations	-	-	114,534	114,534	-	1,976	61,290	63,266
Current obligations	-	1,975	8,869	10,844	3,658	3,770	4,312	11,740
	-	1,975	123,403	125,378	3,658	5,746	65,602	75,006

- E195- Lease Agreement - Aircraft Number 107

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

- E195- Lease Agreement - Aircraft Number 131

The lease agreement was signed on 17 September 2007 with a total amount of USD 22,500,000 (JD 15,957). The term of the agreement is for 10 years. Interest on the lease was computed based on LIBOR plus 0.75%. The lease provides for 40 quarterly installments commencing on 20 February 2008. The group has settled all lease balance during December 2017 (the outstanding balance amounted to JD 2,083 as at 31 December 2016).

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

- E175- Lease Agreement - Aircraft Number 223

The lease agreement was signed on 17 September 2007 with a total amount of USD 21,000,000 (JD 14,894). The term of the agreement is for 10 years. Interest on the lease was computed based on LIBOR plus 0.75%. The lease provides for 40 quarterly installments commencing on 15 August 2008. As of 31 December 2017, the outstanding balance was JD 987 (31 December 2016: JD 2,873).

- E175- Lease Agreement - Aircraft Number 232

The lease agreement was signed on 17 September 2007 with a total amount of USD 21,000,000 (JD 14,894). The term of the agreement is for 10 years. Interest on the lease was computed based on LIBOR plus 0.75%. The lease provides for 40 quarterly installments commencing on 15 September 2008. As of 31 December 2017, the outstanding balance was JD 988 (31 December 2016: JD 2,873).

- B787- Lease Agreement - Aircraft Number 37984

The lease agreement was signed on 15 November 2016 with a total amount of USD 92,500,000 (JD 65,602). The term of the agreement is for 12 years. Interest on the lease was computed based on LIBOR plus 3.25%. The lease provides for 48 quarterly installments commencing on 15 February 2017. As of 31 December 2017, the outstanding balance was JD 61,291 (31 December 2016: 65,602).

- B787- Lease Agreement - Aircraft Number 37985

The lease agreement was signed on 15 January 2017 with a total amount of USD 92,031,250 (JD 65,270). The term of the agreement is for 12 years. Interest on the lease was computed based on LIBOR plus 3.25%. The lease provides for 48 quarterly installments commencing on 15 April 2017. As of 31 December 2017, the outstanding balance was JD 62,112 (31 December 2016: nil).

The Company has mortgaged the Embraer aircrafts E175- and Boeing B787 aircrafts for the finance lease agreements for those aircrafts.

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

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

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

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

20 OTHER LONG TERM LIABILITIES

	2017	2016
Provision for end of service indemnity	**433**	789

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

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

21 ACCRUED EXPENSES

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

22 ACCOUNTS PAYABLE AND OTHER CURRENT LIABILITIES

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

* During 2016, the Company signed an agreement with Jordan Petroleum Refinery to reschedule an amount of JD 83,024 over 60 monthly installments of JD 1,383.7 each with an annual interest rate of 4.4%. The first installment fell due on 30 April 2016. During 2017, interest rate decreased to 0.5%. Accordingly, the liability was recorded at its fair value of JD 45,483 which was calculated by discounting the future cash flows using the average interest rate of 4.4% which is equivalent to the Company's average borrowing rate for 2017. The difference between the fair value and the liability balance of JD 2,346 was recorded as other income in the consolidated income statement for the year ended 31 December 2017. This amount will be recognized as finance costs in subsequent periods.

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

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

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

23 DEFERRED REVENUES

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

*** 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

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

25 COST OF REVENUES

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

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

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

26 OTHER INCOME - NET

	2017	2016
Interest income	**2,449**	4,382
Others	**572**	2,892
	3,021	7,274

27 GENERAL AND ADMINISTRATIVE EXPENSES

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

28 SELLING AND MARKETING EXPENSES

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

29 FINANCE COSTS

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

30 PROVISION FOR VOLUNTARY TERMINATION

During March 2017, the Company signed a labor collective contract with union of workers in Air Transport and Tourism as requested from some of the staff who decided to terminate their services voluntarily. The agreement covering the period from 15 March 2017 to 30 April 2017. Accordingly, the Company has recoded a provision amounted to JD 1,243 for the year ended 31 December 2017 which represents the accrued amounts for employees who applied to the plan and management approved their applications (31 December 2016: the Company has recorded a provision amounted to JD 3,501 against the labor collective contract covering the period from 1 April 2016 to 30 October 2016).

Movement on provision was as follows:

	2017	2016
Provision at the beginning of the year	139	-
Provision provided during the year	1,243	3,501
Payments during the year	(1,217)	(3,362)
	165	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 aircrafts, two Airbus A-321 aircrafts, four Airbus A–319 aircrafts, one Embraer E-175 aircraft , and five Boeing B-787 aircrafts.

Payments under the operating leases are detailed as follows:

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

32 EARNINGS PER SHARE

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

33 INCOME TAX

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

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

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

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

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

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

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

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

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

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

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

Movement on provision for income tax was as follows:

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

Movement on deferred tax assets was as follows:

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

Reconciliation between accounting profit and taxable profit:

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

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 polices and terms of these transactions are approved by the Group's management.

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

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

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

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

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

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

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

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

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

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

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

Compensation of key management personnel

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

	2017	2016
Salaries and other benefits	**552**	425
Board of Directors remuneration	**51**	70

35 GEOGRAPHICAL DISTRIBUTION OF REVENUES

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

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

36 FAIR VALUE OF FINANCIAL INSTRUMENTS

Financial instruments comprise of financial assets and financial liabilities.

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

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

37 FAIR VALUE HIERARCHY

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

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

31 December 2017	**Level 1**	**Level 2**	**Level 3**	**Total**
Financial assets:				
Financial assets at fair value through other comprehensive income	-	**5,992**	-	**5,992**

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

38 RISK MANAGEMENT

Interest rate risk

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

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

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

	Increase in interest rate	**Effect on profit**
2017-	**(points)**	
Currency		
USD	**50**	**(1,410)**
JD	**50**	**246**

	Decrease in interest rate	Effect on profit
	(points)	
Currency		
USD	(25)	**705**
JD	(25)	**(123)**

	Increase in interest rate	Effect on loss
2016-	(points)	
Currency		
USD	50	1,322
JD	50	(511)

	Decrease in interest rate	Effect on loss
	(points)	
Currency		
USD	(25)	(661)
JD	(25)	256

Credit risk

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

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

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

Liquidity risk

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

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

31 December 2017	Less than 3 months	3 to 12 months	1 to 5 years	More than 5 years	Total
Accounts payables and other current liabilities	**2,473**	**59,525**	**16,689**	**-**	**78,867**
Bank loans	**12,144**	**33,126**	**127,136**	**-**	**172,406**
Obligations under finance leases	**5,637**	**11,143**	**75,593**	**72,988**	**165,361**
Other long term liabilities	**-**	**-**	**-**	**433**	**433**
Total	**20,254**	**103,794**	**219,418**	**73,421**	**416,887**

31 December 2016	Less than 3 months	3 to 12 months	1 to 5 years	More than 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

Currency risk

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

2017 -		
Currency	**Increase in foreign currency rate to the JD currency**	**Effect on profit**
	(%)	
Euro	1	50
GBP	1	36
SDG	1	59

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

2016 -		
Currency	Increase in foreign currency rate to the JD currency	Effect on loss
	(%)	
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

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

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

39 CAPITAL MANAGEMENT

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

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

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

40 CONTINGENCIES AND COMMITMENTS

Bank guarantees

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

Claims against the Group

The Group is a defendant in a number of lawsuits amounting to JD 17,038 (2016: JD 15,466) representing legal actions and claims related to its ordinary course of business. Related risks have been analyzed as to the likelihood of occurrence, although the outcome of these matters cannot always be ascertained with precision. The management and their legal advisors believe that no material liabilities are likely to result.

Capital commitments

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

41 STANDARDS ISSUED BUT NOT YET EFFECTIVE

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

IFRS 9 Financial Instruments

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

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

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

(a) Classification and Measurement

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

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

(b) Impairment

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

IFRS 15 Revenue from Contracts with Customers
IFRS 15 specifies the accounting treatment for all revenue arising from contracts with customers. It applies to all entities that enter into contracts to provide goods or services to their customers, unless the contracts are in the scope of other IFRSs, such as IAS 17 Leases. IFRS 15 supersedes IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfers of Assets from Customers; and SIC31- Revenue—Barter Transactions Involving Advertising Services. The standard is effective for annual periods beginning on or after 1 January 2018, and early adoption is permitted.

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

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

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

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

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

IFRS 16 Leases

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

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

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

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

IFRS 17 Insurance Contracts

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

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

Transfers of Investment Property (Amendments to IAS 40)

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

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

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

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

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

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

IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration

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

IFRIC Interpretation 23 Uncertainty over Income Tax Treatment

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

42 COMPARATIVE FIGURES

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


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