

SAUDI AIRLINES CATERING COMPANY
(A Saudi Joint Stock Company)

FINANCIAL STATEMENTS
For the year ended December 31, 2019
with
INDEPENDENT AUDITORS' REPORT



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License No. 46/11/323 Issued 11/3/1982

Independent auditors' report

To the Shareholders of Saudi Airlines Catering Company

Opinion

We have audited the financial statements of Saudi Airlines Catering Company ("the Company"), which comprise the statement of financial position as at December 31, 2019, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, to the financial statements comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2019, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by the Saudi Organization for Certified Public Accountants (SOCPA).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the professional code of conduct and ethics that are endorsed in the Kingdom of Saudi Arabia that are relevant to our audit of the financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements. 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 financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Revenue Recognition

Refer to note 4 for the accounting policy and note 23 for the related disclosure.

Key audit matter

As at December 31, 2019, the Company recognized total revenue of SR 2,156 million (2018: SR 2,036 million).

There continues to be pressure on the Company to meet expectations and targets, which may result in a misstatement of revenue.

How the matter was addressed in our audit

We performed the following procedures in relation to revenue recognition:

- Assessed the appropriateness of the Company's revenue recognition accounting policies by considering the requirements of IFRS - 15 "Revenue from Contracts with Customers."



Independent auditors' report

To the Shareholders of Saudi Airlines Catering Company (continued)

Revenue Recognition (continued)

Key audit matter

Revenue recognition is considered a key audit matter as there is a risk that management may override controls to misstate revenue transactions.

How the matter was addressed in our audit

- Assessed the design and implementation, and tested the operating effectiveness of the Company's controls, including anti-fraud controls, over the recognition of revenue as per the Company's policy;
- Inspected sales transactions, on a sample basis taking place at either side of the year-end to assess whether revenue was recognized in the correct period;
- Selected, on a sample basis, revenue transactions and verified the related supporting documents, which included signed agreements and customer signed acknowledgement, to ensure the accuracy and validity of revenue recognition.

Impairment of Trade Receivables

Refer to notes 3 and 4 for the accounting policy and note 13 for the related disclosure.

Key audit matter

As at December 31, 2019, the Trade Receivables balance was SAR 868 million (2018: SAR 950 million)

The Company assesses at each reporting date whether the financial assets carried at amortized cost are credit impaired, and consequently measures impairment allowances based on the Expected Credit Loss (ECL) model as envisaged in IFRS 9.

The ECL model involves the use of various assumptions, covering both future macro-economic factors and the study of historical trends.

We considered this as a key audit matter due to the judgements and estimates involved in the application of the expected credit loss model.

How the matter was addressed in our audit

We performed the following procedures in relation to the impairment allowance of trade receivables:

- Reviewed management's assessment of the impairment of trade receivables and the ECL model, and assessed the appropriateness of the assumptions used.
- Tested significant assumptions, including those related to historical trends and future economic events that were used to calculate the likelihood of default and the expected loss on default and tested the arithmetical accuracy of the ECL model and appropriateness of allowance recorded.
- We also evaluated the adequacy of the disclosures included in the accompanying financials statements.



Independent auditors' report

To the Shareholders of Saudi Airlines Catering Company (continued)

First-time adoption of IFRS 16 "leases"

Refer to notes 3 and 4 for the accounting policy and note 9 for the related disclosure.

Key audit matter	How the matter was addressed in our audit
<p>The Company adopted IFRS 16 "Leases" with effect from 1 January 2019 which superseded the requirements of IAS 17.</p> <p>IFRS 16 introduces a new lease accounting model, where lessees are required to recognise a right of use (ROU) asset and a lease liability arising from a lease, in the Statement of Financial Position.</p> <p>The Company has applied IFRS 16 using the modified retrospective approach. Therefore, the cumulative effect of adopting IFRS 16 is recognised as an adjustment to the opening Retained Earnings at 1 January 2019, with no restatement of comparative information.</p> <p>As a result, as at 1 January 2019, the Company has recorded Right of Use (ROU) assets of SR 611.6 million, lease liabilities of SR 587.4 million, and a decrease in retained earnings of SR 17.6 million.</p> <p>Significant judgement is required in the assumptions and estimates made in order to determine the ROU asset and lease liability. The assumptions and estimates include identifying contracts that meet the lease definition, assessment of the lease term, and the determination of appropriate discount rates. The adjustments arising from applying IFRS 16 are material to the Company and as a result the adoption of IFRS 16 has been identified as a key audit matter.</p>	<p>We performed the following procedures in relation to the implementation of IFRS 16:</p> <ul style="list-style-type: none">• Reviewed the impact assessment report provided by the Company in respect of classification and measurement of its right of use assets and lease liabilities and assessed the approach taken towards implementation of IFRS 16.• Verified the accuracy of the underlying lease data by agreeing a sample of leases to the original contract and other supporting information.• Tested lease schedules, on a sample basis, by recalculating the amounts underlying the right of use assets and lease liabilities, based on the terms of the lease contracts and checked the arithmetical accuracy of those individual lease schedules.• Assessed the appropriateness of the discount rates applied by management in determining lease liabilities.• Tested, on a sample basis, contracts exempted from recognition under IFRS 16 and insured the appropriateness of excluding them from the assessment.• Verified the completeness of the list of contracts included in the management's assessment.• Assessed the appropriateness of the disclosures made in the financial statements.



Independent auditors' report

To the Shareholders of Saudi Airlines Catering Company (continued)

Other Information

Management is responsible for the other information. The other information comprises the information included in the annual report but does not include the financial statements and our auditors' report thereon. The annual report is expected to be made available to us after the date of this auditors' report.

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

In connection with our audit of the financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

When we read the annual report, when made available to us, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by SOCPA, the applicable requirements of the Regulations for Companies and Company's By-laws and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company'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 Company or to cease operations, or has no realistic alternative but to do so.

The Board of Directors is responsible for overseeing the Company's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' 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 International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia, will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the 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.



Independent auditors' report

To the Shareholders of Saudi Airlines Catering Company (continued)

Auditors' Responsibilities for the Audit of the Financial Statements (continued)

- 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 exists, then we are required to draw attention in our auditors' report to the related disclosures in the 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 auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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 of Saudi Airlines Catering Company ("the Company").

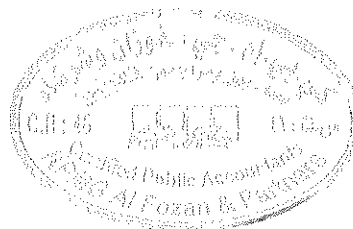
We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and where applicable, related safeguards.

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

**For KPMG Al Fozan & Partners
Certified Public Accountants**

Ebrahim Oboud Baeshen
License No: 382

Jeddah, Rajab 1, 1441H
Corresponding to February 25, 2020



SAUDI AIRLINES CATERING COMPANY
(A Saudi Joint Stock Company)
STATEMENT OF FINANCIAL POSITION
As at December 31, 2019
(Expressed in Saudi Arabian Riyals)

	<i>Note</i>	December 31, <u>2019</u>	December 31, <u>2018</u>
Assets			
Property, plant and equipment	6	560,160,540	586,708,910
Right-of-use assets	9A	529,745,770	--
Subleased assets	9C	12,858,734	--
Intangible assets	7	1,846,190	258,269
Investment property	8	36,388,484	38,337,434
Equity accounted investee	10	11,588,345	15,125,813
Financial assets at amortized costs	11	19,754,026	29,991,692
Non-current assets		<u>1,172,342,089</u>	<u>670,422,118</u>
Subleased assets	9C	12,526,423	--
Inventories	12	153,791,958	125,027,878
Trade and other receivables	13	868,141,260	950,225,547
Prepayments and other assets	14	108,559,751	192,857,373
Cash and cash equivalents	15	188,903,543	147,252,743
Current assets		<u>1,331,922,935</u>	<u>1,415,363,541</u>
Total assets		<u>2,504,265,024</u>	<u>2,085,785,659</u>
Equity			
Share capital	16	820,000,000	820,000,000
Statutory reserve	17	353,835,879	353,835,879
Retained earnings		131,816,062	127,619,578
Total equity		<u>1,305,651,941</u>	<u>1,301,455,457</u>
Liabilities			
Lease liabilities	9B	416,501,275	--
Employees' benefits	19	176,750,314	167,423,832
Non-current liabilities		<u>593,251,589</u>	<u>167,423,832</u>
Lease liabilities	9B	117,364,903	--
Zakat and income tax liabilities	20	34,182,178	30,310,014
Trade and other payables	21	453,814,413	586,596,356
Current liabilities		<u>605,361,494</u>	<u>616,906,370</u>
Total liabilities		<u>1,198,613,083</u>	<u>784,330,202</u>
Total equity and liabilities		<u>2,504,265,024</u>	<u>2,085,785,659</u>

The accompanying notes 1 through 35 form an integral part of these financial statements.


Chief Financial Officer


Chief Executive Officer


Authorized Board of Directors
Member

SAUDI AIRLINES CATERING COMPANY

(A Saudi Joint Stock Company)

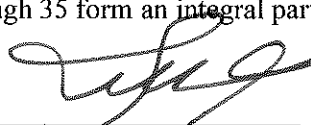
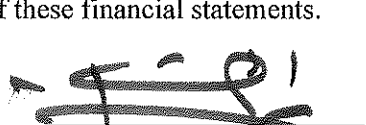
STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended December 31, 2019

(Expressed in Saudi Arabian Riyals)

	<u>Note</u>	<u>2019</u>	<u>2018</u>
Revenue	23	2,156,266,255	2,035,757,930
Cost of sales	24	(1,369,334,227)	(1,339,278,458)
Gross profit		786,932,028	696,479,472
Allowance for / (reversal of) expected credit losses	13	(7,112,344)	12,818,781
General and administrative expenses	26	(245,538,680)	(214,449,367)
Other expenses	27	(3,851,112)	(1,624,719)
Other income	25	8,951,631	12,355,651
Operating profit		539,381,523	505,579,818
Finance income	28	1,337,128	1,478,314
Finance costs	29	(34,296,036)	(5,256,820)
Net finance costs		(32,958,908)	(3,778,506)
Share in loss of equity accounted investee	10	(3,355,121)	(5,406,251)
Profit before zakat and income tax		503,067,494	496,395,061
Zakat and income tax expense	20	(39,134,091)	(37,114,177)
Profit for the year		463,933,403	459,280,884
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Remeasurement of defined benefit liability	19	(3,749,353)	4,690,707
Share of other comprehensive loss of associate	10	(182,347)	(110,010)
Other comprehensive (loss)/gain for the year		(3,931,700)	4,580,697
Total comprehensive income for the year		460,001,703	463,861,581
Earnings per share			
Basic earnings per share	30	5.66	5.60
Diluted earnings per share	30	5.66	5.60


The accompanying notes 1 through 35 form an integral part of these financial statements.


Chief Financial Officer
Chief Executive Officer
Authorized Board of Directors
Member


SAUDI AIRLINES CATERING COMPANY
(A Saudi Joint Stock Company)
STATEMENT OF CHANGES IN EQUITY
For the year ended December 31, 2019
(Expressed in Saudi Arabian Riyals)

	<u>Note</u>	<u>Share capital</u>	<u>Statutory reserve</u>	<u>Retained earnings</u>	<u>Total</u>
Balance at January 1, 2018		820,000,000	353,835,879	109,109,072	1,282,944,951
Total comprehensive income					
Profit for the year		--	--	459,280,884	459,280,884
Other comprehensive income		--	--	4,580,697	4,580,697
Total comprehensive income		--	--	463,861,581	463,861,581
<u>Transactions with owners of the Company</u>					
Contributions and distributions					
Dividends declared	18	--	--	(445,351,075)	(445,351,075)
Balance at December 31, 2018		<u>820,000,000</u>	<u>353,835,879</u>	<u>127,619,578</u>	<u>1,301,455,457</u>
Balance at January 1, 2019		<u>820,000,000</u>	<u>353,835,879</u>	<u>127,619,578</u>	<u>1,301,455,457</u>
Impact of adoption of IFRS 16	4	--	--	(17,583,849)	(17,583,849)
Total comprehensive income					
Profit for the year		--	--	463,933,403	463,933,403
Other comprehensive loss		--	--	(3,931,700)	(3,931,700)
Total comprehensive income		--	--	460,001,703	460,001,703
<u>Transactions with owners of the Company</u>					
Contributions and distributions					
Dividends declared	18	--	--	(438,221,370)	(438,221,370)
Balance at December 31, 2019		<u>820,000,000</u>	<u>353,835,879</u>	<u>131,816,062</u>	<u>1,305,651,941</u>

The accompanying notes 1 through 35 form an integral part of these financial statements.



Chief Financial Officer



Chief Executive Officer



Authorized Board of Directors
Member

SAUDI AIRLINES CATERING COMPANY

(A Saudi Joint Stock Company)

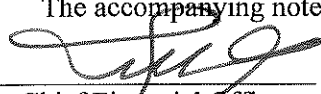
STATEMENT OF CASH FLOWS

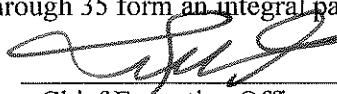
For the year ended December 31, 2019

(Expressed in Saudi Arabian Riyals)

	<u>Note</u>	<u>2019</u>	<u>2018</u>
Cash flows from operating activities			
Profit for the year		463,933,403	459,280,884
<i>Adjustments for:</i>			
Zakat and tax		39,134,091	37,114,177
Depreciation on property, plant and equipment and investment in property	6 & 8	76,917,741	62,387,898
Depreciation on right-of-use assets	9A	81,854,770	--
Amortization	7	297,170	1,023,915
Bad debt write off		296,621	--
Provision of slow-moving inventory, net	12	8,595,571	9,246,193
Allowance / (reversal) of expected credit losses, net	13	7,112,344	(12,818,781)
Finance income	28	(1,337,128)	(1,478,314)
Finance cost	29	34,296,036	5,256,820
Share of loss in equity accounted investees	10	3,355,121	5,406,251
Loss on sale of property, plant and equipment	27	506,880	105,341
Employees' benefits service cost	19	17,890,880	14,860,779
Provision for accrued bonus - long term	19	1,810,092	2,400,000
		<u>734,663,592</u>	<u>582,785,163</u>
<i>Changes in:</i>			
Trade and other receivables		64,989,223	(82,480,609)
Inventories		(37,359,651)	(24,293,155)
Prepayments and other assets		64,823,466	(63,068,048)
Trade and other payables		(27,015,284)	66,658,533
Cash generated from operating activities		<u>800,101,346</u>	<u>479,601,884</u>
Payment of accrued bonus - long term		(178,890)	--
Employees' benefits paid	19	(20,598,118)	(19,401,260)
Zakat & income tax paid	20	(35,261,927)	(37,994,250)
		<u>744,062,411</u>	<u>422,206,374</u>
Net cash from operating activities			
Cash flows from investing activities			
Interest income received		--	1,531,319
Payments received for sublease		4,251,844	--
Proceeds from sale of investment	10	--	40,000,000
Proceeds from disposal of property, plant and equipment		5,980	--
Additions to property, plant and equipment	6	(63,496,018)	(92,791,185)
Additions to intangibles assets	7	(1,885,091)	--
Net cash used in investing activities		<u>(61,123,285)</u>	<u>(51,259,866)</u>
Cash flow from financing activities			
Payments of lease liabilities		(81,259,734)	--
Dividends paid	18	(560,028,592)	(325,241,423)
Net cash used in financing activities		<u>(641,288,326)</u>	<u>(325,241,423)</u>
Net increase in cash and cash equivalents			
Cash and cash equivalents at beginning of the year		41,650,800	45,705,085
		<u>147,252,743</u>	<u>101,547,658</u>
Cash and cash equivalents at end of the year	15	<u>188,903,543</u>	<u>147,252,743</u>

The accompanying notes 1 through 35 form an integral part of these financial statements.


Chief Financial Officer


Chief Executive Officer


Authorized Board of Directors
Member

SAUDI AIRLINES CATERING COMPANY
(A Saudi Joint Stock Company)
NOTES TO THE FINANCIAL STATEMENTS
For the year ended December 31, 2019
(Expressed in Saudi Arabian Riyals)

1. REPORTING ENTITY

Saudi Airlines Catering Company (the "Company") is a Saudi Joint Stock Company domiciled in the Kingdom of Saudi Arabia. The Company was registered as a Saudi limited liability company on Muharram 20, 1429H (January 29, 2008) under commercial registration number 4030175741.

The main objectives of the Company are the provision of cooked and non-cooked food to private and public sectors, provision of sky sales, operation and management of duty-free zones in Saudi Arabian airports and ownership, operation and management of restaurants at airports and other places, and the ownership, operation and management of central laundries.

The Company mainly provides catering services to Saudi Arabian Airlines and other foreign airlines in the airports of Jeddah, Riyadh, Dammam and Madinah in Saudi Arabia and to Saudia's flights operating from Cairo International Airport.

The Company also has the following branches, which are operating under separate Commercial registrations:

<u>Branch location</u>	<u>C.R.</u>	<u>Date</u>
Rabigh	4602006306	Rajab 16, 1436H (May 5, 2015)
Medina	4650055980	Jumada Al-Thani 1, 1433H (April 23, 2012)
Dammam	2050082998	Jumada Al-Thani 1, 1433H (April 23, 2012)
Makkah	4031084114	Jumada Al-Atwal 23, 1435H (March 25, 2014)
Jeddah	4030227251	Jumada Al-Thani 1, 1433H (April 23, 2012)
Jeddah	4030285290	Muharram 2, 1437H (October 16, 2015)
Riyadh	1010336558	Jumada Al-Thani 1, 1433H (April 23, 2012)

The registered head office of the Company is located at the following address:

Saudi Airlines Catering Company
Al Saeb Al Jomhi Street
Prince Sultan Bin Abdulaziz Road, Almohammadya District (5)
P. O. Box 9178, Jeddah 21413
Kingdom of Saudi Arabia

SAUDI AIRLINES CATERING COMPANY
(A Saudi Joint Stock Company)
NOTES TO THE FINANCIAL STATEMENTS
For the year ended December 31, 2019
(Expressed in Saudi Arabian Riyals)

2. BASIS OF ACCOUNTING

a) Statement of compliance

These Financial Statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements that are issued by Saudi Organization for Certified Public Accountants (“SOCPA”) (hereafter referred to as “IFRS as endorsed in KSA”).

b) Basis of Measurement

This is the first set of the Company’s annual financial statement in which IFRS 16 Leases has been applied. The related changes to significant accounting policies are described in Note 4.

These financial statements have been prepared under the historical cost basis, except for the defined benefit obligation which is recognized at the present value of future obligation using the projected unit credit method.

c) Functional and presentation currency

These financial statements are presented in Saudi Arabian Riyals (“SR”) which is the Company’s functional and presentation currency.

3. USE OF JUDGEMENTS AND ESTIMATES

In preparing these financial statements, the management has made judgments, estimates and assumptions that affect the application of the Company’s accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized prospectively.

A. Judgements

The management exercises judgement in applying the accounting policies that have the most significant effects on the amounts recognized in the financial statements.

Lease Term

Certain property leases contain extension options exercisable by the management up to one year before the end of the non-cancellable contract period. Where practicable, the management seeks to include extension options in new leases to provide operational flexibility. The extension options held are exercisable only by the management and not by the lessors. At the lease commencement date, the management assesses whether it is reasonably certain to exercise the extension options and thereafter reassesses if there is a significant event or significant changes in circumstances within its control.

SAUDI AIRLINES CATERING COMPANY
(A Saudi Joint Stock Company)
NOTES TO THE FINANCIAL STATEMENTS
For the year ended December 31, 2019
(Expressed in Saudi Arabian Riyals)

3. USE OF JUDGEMENTS AND ESTIMATES (continued)

B. Assumptions and estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Inventories obsolescence provision

Inventories are held at the lower of cost and net realisable value. When inventories become old or obsolete, an estimate is made of their net realisable value. Amounts which are old or obsolete, are assessed collectively and a provision applied according to the inventory type and the degree of ageing or obsolescence.

At the reporting date, gross inventories were SR 164.9 million (December 31, 2018: SR 138.4 million) with a provision for obsolete and slow-moving inventories amounting to SR 11.1 million (December 31, 2018: SR 13.4 million). Any difference between the amounts realised in future periods and the amounts expected will be recognized in the statement of profit or loss.

Defined Benefit Obligation

The present value of Company's obligation under defined benefit plans is determined using actuarial valuation. This involves making various assumptions that may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, mortality rates and employees' turnover rate. Due to the complexities involved in the valuation and its long-term nature, a defined benefit obligation is sensitive to changes in these assumptions. All assumptions are reviewed annually (refer note 19).

Impairment for expected credit losses (ECL) in trade and other receivables

The management's determination of the ECL in trade and other receivables requires them to take into consideration certain estimates for forward looking factors while calculating the probability of default. These estimates may differ from actual circumstances.

Useful lives of property, plant and equipment, & investment property

The management determines the estimated useful lives of property, plant and equipment & investment property for calculating depreciation. This estimate is determined after considering expected usage of the assets or physical wear and tear.

The management reviews the useful lives, residual value and method of depreciation annually for any significant changes and any resultant changes to the depreciation charge are adjusted in current and future periods.

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4. SIGNIFICANT ACCOUNTING POLICIES

Except for the changes below, the management has consistently applied the accounting policies to all periods presented in these financial statements.

The management applied IFRS 16 with a date of initial application of 1 January 2019 using the modified retrospective approach under which the cumulative effect of initial application is recognized in retained earnings at 1 January 2019. Accordingly, the comparative information presented for 2018 is not restated, i.e. it is presented as previously reported, under IAS 17 and related interpretations. The details of the changes in accounting policies are disclosed below. Additionally, the disclosure requirements in IFRS have not generally been applied to comparative information.

a. *Leases*

i. *Definition of a lease*

Previously, the management determined at contract inception whether an arrangement is or contains a lease under IFRIC 4. Determining whether an Arrangement contains a Lease. Under IFRS 16, the management assesses whether a contract is or contains a lease based on the definition of a lease, as explained below.

On transition to IFRS 16, the Company elected to apply the practical expedient to grandfather the assessment of which transactions are leases. It applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed for whether there is a lease. Therefore, the definition of a lease under IFRS 16 was applied only to contracts entered into or changed on or after 1 January 2019.

ii. *As a lessee*

As a lessee, the Company leases many assets, including unit building, staff accommodation building, laundry plant land, office building and vehicles, the management previously classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the management. Under IFRS 16, the management recognises right-of-use assets and lease liabilities for most leases – i.e. these leases are on statement of financial position .

At commencement or on modification of a contract that contains a lease component, the management allocates the consideration in the contract to each lease component on the basis of its relative stand-alone price.

Leases classified as operating leases under IAS 17

Assets held under other leases were classified as operating leases and were not recognised in the management's statement of financial position. Payments made under operating leases were recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received were recognised as an integral part of the total lease expense, over the term of the lease. Leases classified as finance leases under IAS 17; The management leases a number of item unit building, staff accommodation building, laundry plant land, office building and vehicles. These leases were classified as finance lease under IAS 17. For these finance leases, the carrying amount of the right-of-use asset and the lease liability at 1 January 2019 were determined at the carrying amount of the lease asset and lease liability under IAS 17 immediately before that date.

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4. SIGNIFICANT ACCOUNTING POLICIES (continued)

ii. As a lessee (continued)

The Company has tested its right-of-use assets for impairment on the date of transition and has concluded that there is no indication that the right-of-use assets are impaired.

The management used a number of practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17. In particular, the management:

- did not recognise right-of-use assets and liabilities for leases for which the lease term ends within 12 months of the date of initial application;
- did not recognise right-of-use assets and liabilities for leases of low value assets;
- excluded initial direct cost from the measurement of the right-of-use asset at the date of initial application; and
- used hindsight when determining the lease term.

For leases of other assets, which were classified as operating under IAS 17, the management recognised right-of-use assets and lease liabilities.

Under IFRS 16 at transition, lease liabilities were measured at the present value of the remaining lease payments, discounted at the management's incremental borrowing rate as at 1 January 2019. Right-of-use assets are measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments – the management applied this approach to all other leases.

iii. As a lessor

The Company sub-leases asset, AMI Building in King Khalid International Airport in Riyadh. The management has classified these leases as finance lease. The Company sub-leased small portion of Staff accommodation in Dammam which management has classified as operating lease.

The management is not required to make any adjustments on transition to IFRS 16 for leases in which it acts as a lessor, except for a sub-lease.

Under IFRS 16, the management is required to assess the classification of a sub-lease with reference to the right-of-use asset, not the underlying asset.

The Company sub-leases some of its properties. Under IAS 17, the head lease and sub-lease contracts were classified as operating leases. On transition to IFRS 16, the right-of-use assets recognized from the head leases are presented in statement of financial position and measured at fair value at that date. The Company assessed the classification of the sub-lease contracts with reference to the right-of-use asset rather than the underlying asset and concluded that they are operating leases under IFRS 16. The Company has applied IFRS 15 revenue from contracts with customers to allocate consideration in the contract to each lease and non-lease component.

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4. SIGNIFICANT ACCOUNTING POLICIES (continued)

iv. Impacts on financial statements

When measuring lease liabilities, the management discounted lease payments using its incremental borrowing rate at 1 January 2019. The weighted average rate applied is 4.86%. The impact of transition is summarized below:

	<u>1 January 2019</u>
Right-of-use assets presented	611,600,540
Property and equipment owned	(14,562,737)
Subleased assets	28,299,872
Lease liabilities	(587,483,042)
Receivable adjustment for subleased assets	(9,686,099)
Receivables	(29,711,821)
Accruals	1,759,438
Impairment of Rights of use assets	(17,800,000)
Impact on Retained earnings	(17,583,849)

	<u>1 January 2019</u>
Operating lease commitment at 31 December 2018 as disclosed under IAS 17 in the Company's financial statements	<u>1,178,088,996</u>
Discounted using the incremental borrowing rate at 1 January 2019	<u>587,483,042</u>
Lease liabilities recognised at 1 January 2019	<u>587,483,042</u>

v. Impact for the period

The Company has recognised depreciation and interest costs, instead of operating lease expense. During the year ended December 31, 2019, the Company recognised SR 81.9 million of depreciation charges and SR 27.6 million of interest costs in respect of these leases.

Furthermore, during the assessment, the management identified a leased property which is vacant and not used nor sub leased. The management is currently negotiating with the lessor to exit and terminate the contract related to this vacant property. The management has formed a provision of SR 17.8 million for the expected cash out flows on termination of the contract. Movement in lease liabilities and subleased assets over the periods ended December 31, 2019 are as follows:

Lease liabilities

Lease liability as at 1 January 2019	587,483,042
Increase in Lease Liability due to finance cost	27,642,870
Lease payment made during the year	<u>(81,259,734)</u>
Lease liability as at 31 December 2019	533,866,178
Less: Current portion of lease liability	<u>(117,364,903)</u>
Non-current portion of lease liability	<u>416,501,275</u>

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4. SIGNIFICANT ACCOUNTING POLICIES (continued)

v. *Impact for the period (continued)*

Subleased assets

Net subleased assets as at 1 January 2019	28,299,873
Increase due to finance income	1,337,128
Lease receipts during the period	(4,251,844)
Net subleased assets as at 31 December 2019	<u>25,385,157</u>
Less: Current portion of net subleased assets	<u>(12,526,423)</u>
Non-current portion of net subleased assets	<u>12,858,734</u>

vi. *Leases policy*

The management has applied IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under IAS 17 and IFRIC 4. The details of accounting policies under IAS 17 and IFRIC 4 are disclosed separately if they are different from those under IFRS 16 and the impact of changes is disclosed above.

Policy applicable from 1 January 2019

At inception of a contract, the management assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the management uses the definition of a lease in IFRS 16. This policy is applied to contracts entered into, or after 1 January 2019.

Policy applicable before 1 January 2019

For contracts entered into before 1 January 2019, the management determined whether the arrangement was or contained a lease based on the assessment of whether:

- fulfilment of the arrangement was dependent on the use of a specific asset or assets; and
- the arrangement had conveyed a right to use the asset. An arrangement conveyed the right to use the asset if one of the following was met:
 - the purchaser had the ability or right to operate the asset while obtaining or controlling more than an insignificant amount of the output;
 - the purchaser had the ability or right to control physical access to the asset while obtaining or controlling more than an insignificant amount of the output; or
 - facts and circumstances indicated that it was remote that other parties would take more than an insignificant amount of the output, and the price per unit was neither fixed per unit of output nor equal to the current market price per unit of output.

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4. SIGNIFICANT ACCOUNTING POLICIES (continued)

vi. Leases policy (continued)

Company as a lessee

The Company recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the management uses its incremental borrowing rate as the discount rate.

The management determines its incremental borrowing rate by obtaining interest rates from various external financing sources and make certain adjustments to reflect the terms of the lease and type of the asset leased.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Company is reasonably certain to exercise, lease payments in an optional renewal period if the Company is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Company is reasonably certain not to terminate early.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the management's estimate of the amount expected to be payable under a residual value guarantee, or if the management changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

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4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Short-term leases and leases of low-value assets

The management has elected not to recognise right-of-use assets and lease liabilities for short-term leases that have a lease term of 12 months or less and leases of low-value assets. The management recognises the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

Company as a lessor

At inception or on modification of a contract that continue a lease component, the management allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices.

When the Company acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease. To classify each lease, the management makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, the management considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

When the Company is an intermediate lessor, it accounts for its interest in the head lease and sublease separately. It assesses the lease classification of a sub-lease with reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset. If a head lease is a short-term to which the Company applies the exemption described above, then it classifies the sub-lease as an operating lease

The Company recognises lease payments received under operating leases as income on a straight-line basis over the lease term.

The accounting policies applicable to the Company as a lessor in the comparative period were not different from IFRS 16.

Gross investment in finance lease include the total of the future lease payments on finance leases (lease receivables), plus estimated residual amounts receivable. The difference between the lease receivables and the cost of the leased asset is recorded as unearned lease finance income and for presentation purposes, is deducted from the gross in the finance leases. Any unguaranteed residual value of the assets is reviewed periodically and any decrease in residual value is recorded immediately.

Initial direct cost incurred by the lessors in negotiating an operating lease are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as the lease income.

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4. SIGNIFICANT ACCOUNTING POLICIES (continued)

b. Investment in Associates

An associate is an entity over which the Company 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 Company investments in its associate is accounted for using the equity method.

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

The profit or loss reflects the Company's share of the results of operations of the associate. Any change in OCI of those investees is presented as part of the Company's OCI. In addition, when there has been a change recognized directly in the equity of the associate, the Company recognizes its share of any changes, when applicable, in the statement of changes in equity. Unrealized gains and losses resulting from transactions between the Company and the associate are eliminated to the extent of the interest in the associate.

The aggregate of the Company's share of profit or loss of an associate is shown on the face of the statement of profit or loss outside operating profit and represents profit or loss after tax.

The financial statements of the associate are prepared for the same reporting period as the Company.

After application of the equity method, the management determines whether it is necessary to recognize an impairment loss on its investment in its associate. At each reporting date, the management determines whether there is objective evidence that the investment in the associate is impaired. If there is such evidence, the management calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value, then recognizes the loss.

Upon loss of significant influence over the associate, the management measures and recognizes any retained investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retained investment and proceeds from disposal is recognized in profit or loss.

c. Foreign currency transactions

Transactions in foreign currencies are translated into the functional currency of the Company at the exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the exchange rate at the reporting date. Non-monetary items that are measured based on historical cost in a foreign currency are translated at the exchange rate at the date of the transaction. Foreign currency differences are generally recognized in profit or loss.

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4. SIGNIFICANT ACCOUNTING POLICIES (continued)

d. Revenue

The Company recognizes revenue from contracts with customers based on a five-step model as set out in IFRS 15 and is given below:

Step 1 – Identify the contract(s) with a customer: A contract is defined as an agreement between two or more parties that creates enforceable rights and obligations and sets out the criteria for every contract that must be met;

Step 2 – Identify the performance obligations in the contract: A performance obligation is a promise in a contract with a customer to transfer a good or service to the customer;

Step 3 – Determine the transaction price: The transaction price is the amount of consideration to which the Company expects to be entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties;

Step 4 – Allocate the transaction price to the performance obligations in the contract: For a contract that has more than one performance obligation, the management allocates the transaction price to each performance obligation in an amount that depicts the amount of consideration to which the management expects to be entitled in exchange for satisfying each performance obligation.

Step 5 – Recognize revenue when (or as) the entity satisfies a performance obligation.

The Company satisfies a performance obligation and recognizes revenue over time, if one of the following criteria is met:

- The Company's performance does not create an asset with an alternate use to the Company and the Company has an enforceable right to payment for performance completed to date;
- The Company's performance creates or enhances an asset that the customer controls as the asset is created or enhanced;
- The customer simultaneously receives and consumes the benefits provided by the Company's performance as the Company performs.

For performance obligations where none of the above conditions are met, revenue is recognized at the point in time at which the performance obligation is satisfied.

Catering revenue

Revenue from catering and other services is recognized when the services are rendered to the customer.

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4. SIGNIFICANT ACCOUNTING POLICIES (continued)

d. Revenue (continued)

Airline equipment

Revenue is recognized when the control over the equipment is transferred to the customer.

Business lounges

Revenue from business lounges is recognized upon rendering the service to the passengers.

Sales of goods - Retail

Revenue from the sale of goods is recognized when the Company satisfies the performance obligation by transferring the promised goods (asset) to the customer. An asset is transferred when the customer obtains control of that asset.

Hotel - revenue

The management recognizes revenue from room sales and from other ancillary guest services on a daily basis, as the rooms are occupied and we have rendered the services.

Revenue is recorded net of returns, trade discounts and volume rebates.

e. Employee benefits

i. Short-term employee benefits

Short-term employee benefits are expensed as the related service is provided. A liability is recognized for the amount expected to be paid if the Company has a present legal or constructive obligation to pay this amount as a result of the past service provided by the employee and the obligation can be estimated reliably.

ii. Defined benefit plans

Provision is made for amounts payable to employees under the Saudi Labour Law and employee contracts. This liability, which is unfunded, represents the amount payable to each employee on a going concern basis. The cost of providing benefits is determined using the projected unit credit method as amended by IAS 19.

Remeasurements, comprising of actuarial gains and losses, excluding amounts included in interest on the defined benefit liability are recognized immediately in the statement of financial position with a corresponding debit or credit to retained earnings through OCI in the period in which they occur. Remeasurements are not reclassified to profit or loss in subsequent periods.

Past service costs are recognized in profit or loss on the earlier of:

- The date of the plan amendment or curtailment, and
- The date that the Company recognizes related restructuring costs

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4. SIGNIFICANT ACCOUNTING POLICIES (continued)

d. Employee benefits (continued)

Interest is calculated by applying the discount rate to the defined benefit liability. The management recognizes the following changes in the defined benefit obligation under 'cost of sales', and 'general and administration expenses' in the income statement:

- Service costs comprising current service costs, past-service costs, gains and losses on curtailments and non-routine settlements
- interest expense or income

iii. Other long-term employee benefits

The Company's obligation in respect of long-term employee benefits is the amount of future benefit that employees have earned in return for their service in the current and prior periods. The benefit is discounted to determine its present value if the impact is material. Remeasurements are recognized in profit or loss in the period in which they arise.

iv. Termination benefits

Termination benefits are expensed at the earlier of when the Company can no longer withdraw the offer of those benefits and when the Company recognizes costs for a restructuring.

f. Zakat and income tax

The Company is subject to regulations issued by the General Authority of Zakat and Tax ("GAZT") in the Kingdom of Saudi Arabia, which is subject to interpretations. Zakat is levied at a fixed rate of 2.5% on the higher of adjusted Zakat profit or based on Zakat base. The Company establishes provisions where appropriate on the basis of amounts expected to be paid to the GAZT and yearly evaluates positions taken in the Zakat returns with respect to any Zakat differences. Zakat is charged to the statement of profit or loss. Additional Zakat liability, if any, related to prior years' assessments arising from GAZT are accounted for in the year in which the final assessments are finalized.

Moreover, certain shareholders in the Company are subject to income tax, which is recognized as an expense in the statement of profit or loss.

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in Financial Statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences and unused tax losses can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference and unused tax losses arises from the initial recognition of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

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4. SIGNIFICANT ACCOUNTING POLICIES (continued)

f. *Zakat and income tax (continued)*

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

The management withholds taxes on transactions with non-resident parties in accordance with GAZT regulations, which is not recognized as an expense being the obligation of the counter party on whose behalf the amounts are withheld.

g. *Segment information*

A segment is a distinguishable component of the Company that engages in business activities from which it earns revenue and incurs costs. The operating segments are used by the management of the Company to allocate resources and assess performance. Operating segments exhibiting similar economic characteristics, product and services, class of customers where appropriate are aggregated and reported as reportable segments.

The Company has the following three strategic divisions, which are reportable segments. These divisions offer different products and services, and are managed separately because of their different fundamentals.

The following summary describes the operations of each reportable segment:

Reportable segments	Operations
Inflight	Inflight catering, airline equipment and business lounge
Retail	Onboard and ground
Catering and Facilities	Remote & Camp management, Business & Industries catering, Security services, Laundry services, Hajj and Umrah & Baggage handling services

The Company's Board reviews the internal management reports of each strategic division at least quarterly.

h. *Contingencies*

Contingent assets are not recognized in the financial statements but are disclosed when an inflow of economic benefits is probable. An assessment is made at each reporting date to recognize contingent liabilities which are probable obligations arising from past events whose existence is confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly under the control of the Company.

i. *Finance income and finance cost*

Interest income or expense is recognised using the effective interest method. Dividend income is recognised in profit or loss on the date on which the Company right to receive payment is established.

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4. SIGNIFICANT ACCOUNTING POLICIES (continued)

j. Operating profit

Operating profit is the result generated from the continuing principal revenue producing activities of the Company as well as other income and expenses related to operating activities. Operating profit excludes net finance costs, share of profit of equity accounted investees and income taxes.

k. Interest income

Interest income is recognized on a time proportion basis using the effective interest method.

l. Rental income

Rental income arising from operating leases on investment properties is accounted for on a straight-line basis over the lease terms and is included in statement of profit or loss.

m. Cash dividends to shareholders

The Company recognizes a liability to make cash distributions to the shareholders when the distribution is authorised and the distribution is no longer at the discretion of the Company. As per the companies regulations of Saudi Arabia, a final distribution is authorized when it is approved by the shareholders and interim dividends are approved by the Board of Directors. A corresponding amount is recognized directly in equity.

n. Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the weighted average principle and includes expenditure incurred in acquiring the inventories and other costs incurred in bringing them to their existing location and condition. Net realisable value is the estimated selling price in the ordinary course of business.

The management determines its allowance for inventory obsolescence based upon historical experience, current condition, and current and future expectations with respect to sales.

o. Current versus non-current classification

The management presents assets and liabilities in the statement of financial position based on current/non-current classification. An asset is current when it is:

- Expected to be realized or intended to be sold or consumed in the normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be realized within twelve months after the reporting period; or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

The management classifies all other assets as non-current.

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4. SIGNIFICANT ACCOUNTING POLICIES (continued)

o. Current versus non-current classification (continued)

A liability is current when:

- It is expected to be settled in the normal operating cycle;
- It is held primarily for the purpose of trading;
- It is due to be settled within twelve months after the reporting period; or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

The management classifies all other liabilities as non-current.

p. Property, plant and equipment

i. Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses.

Expenditure on maintenance and repairs of items of property, plant and equipment is expensed.

If significant parts of an item of property, plant and equipment have different useful lives, then they are accounted for as separate items (major components) of property, plant and equipment.

Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of profit or loss when the asset is derecognized.

Capital work-in-progress represents all costs relating directly to on-going construction projects and are capitalized as a separate component of property, plant and equipment. On completion, the cost of construction is transferred to the appropriate category. Capital work-in-progress is not depreciated.

ii. Subsequent expenditure

Subsequent expenditure is capitalized only if it is probable that the future economic benefits associated with the expenditure will flow to the Company.

iii. Depreciation

Depreciation is calculated to write off the cost of items of property, plant and equipment less their estimated residual values using the straight-line method over the estimated useful lives, and is generally recognized in profit or loss. Land is not depreciated.

The estimated useful lives of the principal classes of assets are as follows:

Building & leasehold improvements	2-30 years
Equipment	3-15 years
Motor vehicles	7-10 Years

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate to ensure that the method and period of depreciation are consistent with the expected pattern of economic benefits arising from items of property and equipment.

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4. SIGNIFICANT ACCOUNTING POLICIES (continued)

q. *Investment property*

Investment property is initially measured at cost and is depreciated over its useful life.

Any gain or loss on disposal of investment property (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognized in profit or loss.

r. *Intangible assets*

Intangible assets acquired separately are measured on initial recognition at cost. Intangible assets comprise software, which have finite useful lives and are measured at cost less accumulated amortization and any accumulated impairment losses.

Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognized in profit or loss as incurred.

Amortisation is calculated to write off the cost of intangible assets using the straight-line method over their estimated useful lives, and is generally recognized in profit or loss. The estimated useful life of software is 5 years.

s. *Share capital*

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares recognized as a deduction from equity.

t. *Earnings per share – EPS*

The management determines basic earnings per share by dividing profit or loss attributable to ordinary equity holders (the numerator) by the weighted average number of ordinary shares outstanding (the denominator) during the year. The weighted average number of ordinary shares outstanding during the year is the number of ordinary shares outstanding at the beginning of the year, adjusted by the number of ordinary shares bought back or issued during the year multiplied by a time-weighting factor. The time-weighting factor is the number of days that the shares are outstanding as a proportion of the total number of days in the year; a reasonable approximation of the weighted average is adequate in many circumstances.

Diluted EPS amounts are calculated by dividing the profit attributable to equity shareholders by the weighted average number of equity shares outstanding during the year plus the weighted average number of equity shares that would be issued on conversion of all the dilutive potential equity shares into equity shares.

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4. SIGNIFICANT ACCOUNTING POLICIES (continued)

u. *Statutory reserve*

In accordance with the Saudi Arabian Regulations for Companies, the Company must transfer 10% of the net income in each year to the statutory reserve until it has built a reserve equal to 30% of the share capital. This reserve is not available for distribution to the shareholders of the Company.

v. *Cash and cash equivalents*

Cash and cash equivalents includes cash in hand, deposits held at call with banks, other short term highly liquid investments with original maturities of three months or less.

w. *Provisions*

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as a finance cost.

x. *Financial Instruments*

i. *Recognition and initial measurement*

Trade receivables issued are initially recognised when they are originated. All other financial assets and financial liabilities are initially recognised when the Company becomes a party to the contractual provisions of the instrument.

A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

ii. *Classification and measurement of financial assets and financial liabilities*

On initial recognition, a financial asset is classified as measured at: amortised cost; FVOCI – debt investment; FVOCI – equity investment; or FVTPL. The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics.

A financial asset is measured at amortised cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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4. SIGNIFICANT ACCOUNTING POLICIES (continued)

A debt investment is measured at FVOCI if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

On initial recognition of an equity investment that is not held for trading, the Company may irrevocably elect to present subsequent changes in the investment's fair value in OCI. This election is made on an investment-by-investment basis.

All financial assets not classified as measured at amortised cost or FVOCI as described above are measured at FVTPL. This includes all derivative financial assets. On initial recognition, the Company may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

The following accounting policies apply to the subsequent measurement of financial assets.

Financial assets at Fair Value Through Profit and Loss (FVTPL)	These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss.
Financial assets at amortised cost	These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognized in profit or loss.
Debt investments at Fair Value through Other Comprehensive Income (FVOCI)	These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other net gains and losses are recognised in OCI. On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss.
Equity investments at Fair Value through Other Comprehensive Income (FVOCI)	These assets are subsequently measured at fair value. Dividends are recognised as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognised in OCI and are never reclassified to profit or loss.

The financial assets at amortised cost consist of trade receivables and cash and cash equivalents.

iii. Financial Liabilities – Classification, subsequent measurement and gain and losses

Financial liabilities are classified as measured at amortised cost or FVTPL. A financial liability is classified as FVTPL if it is classified as held-for-trading, it is a derivative or designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognised in profit or loss. Other financial liabilities are subsequently measured at amortised cost using the effective interest method. Interest expense and foreign exchange gain and losses are recognised in profit or loss. Any gain or loss on derecognition is also recognised in profit or loss.

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4. SIGNIFICANT ACCOUNTING POLICIES (continued)

iv. Derecognition

Financial assets

The management derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Company neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

The Company enters into transactions whereby it transfers assets recognised in its statement of financial position but retains either all or substantially all of the risks and rewards of the transferred assets. In these cases, the transferred assets are not derecognised.

Financial liabilities

The management derecognises a financial liability when its contractual obligations are discharged or cancelled or expire. The management also derecognises a financial liability when its terms are modified and the cash flows of the modified liability are substantially different, in which case a new financial liability based on the modified terms is recognised at fair value.

v. Offsetting

Financial assets and financial liabilities are offset, and the net amount presented in the statement of financial position when, and only when, the Company currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

On derecognition of a financial liability, the difference between the carrying amount extinguished and the consideration paid (including any non-cash assets transferred or liabilities assumed) is recognised in profit or loss.

vi. Impairment of financial assets

The management recognises loss allowances for ECLs on financial assets measured at amortised cost and contract assets. The management measures loss allowances at an amount equal to lifetime ECLs.

Under IFRS 9, loss allowances are measured on either of the following bases:

- 12-month ECLs: these are ECLs that result from possible default events within the 12 months after the reporting date; and
- lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the management considers reasonable and supportable information that is relevant and available without undue cost or effort.

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4. SIGNIFICANT ACCOUNTING POLICIES (continued)

This includes both quantitative and qualitative information and analysis, based on the Company's historical experience and informed credit assessment and including forward-looking information.

The management assumes that the credit risk on a financial asset has increased significantly if it is more than 730 days past due from government and 365 days past due from non-government parties.

The management considers a financial asset to be in default when:

- the debtor is unlikely to pay its credit obligations to the Company in full, without recourse by the Company to actions such as realising security (if any is held); or
- the financial asset is past due as per terms of agreement with customers.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Company expects to receive). ECLs are discounted at the effective interest rate of the financial asset.

Credit-impaired financial assets

At each reporting date, the management assesses whether financial assets carried at amortised cost and debt securities at FVOCI are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable data:

- significant financial difficulty of the debtor;
- a breach of contract such as a default or being more than 365 days past due;
- the restructuring of a loan or advance by the Company on terms that the Company would not consider otherwise;
- it is probable that the debtor will enter bankruptcy or other financial reorganisation; or
- the disappearance of an active market for a security because of financial difficulties.

Presentation of impairment

Allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets. Impairment losses related to Trade receivables and contract assets, including contract assets and finance lease receivables, are presented separately in the statement of profit or loss.

For debt securities at FVOCI, the loss allowance is charged to profit or loss and is recognised in OCI.

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4. SIGNIFICANT ACCOUNTING POLICIES (continued)

y. Impairment

i) Non-financial assets

The management assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the management estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or Company's assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators.

For assets excluding goodwill, an assessment is made at each reporting date to determine whether there is an indication that previously recognized impairment losses no longer exist or have decreased. If such indication exists, the management estimates the asset's or CGU's recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation or amortisation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the statement of profit or loss.

5. NEW STANDARDS, AMENDMENTS ISSUED BUT NOT YET EFFECTIVE

Standards and amendments issued but not yet effective up to the date of issuance of the Company's financial statements are listed below. The Company is currently assessing the implications of the below mentioned standards and amendments on its financial statements, however, it expects that the impact, if any, would not be material to the financial statements.

Effective for annual periods beginning on or after	New Standards or amendments
1 January 2020	Amendments to References to Conceptual Framework in IFRS Standards
	Definition of a Business (Amendments to IFRS 3)
	Definition of Material (Amendments to IAS 1 and IAS 8)
1 January 2021	IFRS 17 Insurance Contracts
Available for optional adoption/effective date deferred indefinitely	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28)

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6. PROPERTY, PLANT AND EQUIPMENT

A. Reconciliation and carrying amount

	Land	Building & leasehold improvements	Equipment	Motor vehicles	Under construction	Total
2019						
Cost:						
Balance at January 1, 2019	33,786,058	257,549,100	181,582,096	93,733,541	170,726,195	737,376,990
Additions	--	2,875,366	9,277,845	319,134	51,023,673	63,496,018
Disposals	--	(856,925)	(9,518,218)	(1,685,059)	--	(12,060,202)
Adjustment finance lease (note 6d)	--	(17,651,803)	--	--	--	(17,651,803)
Transfer from capital work under construction	--	65,941,688	32,727,629	30,267,753	(128,937,070)	--
Balance at December 31, 2019	<u>33,786,058</u>	<u>307,857,426</u>	<u>214,069,352</u>	<u>122,635,369</u>	<u>92,812,798</u>	<u>771,161,003</u>
Accumulated depreciation:						
Balance at January 1, 2019	--	24,418,526	97,279,850	28,969,704	--	150,668,080
Charge for the year	--	34,597,669	28,718,892	13,417,410	--	76,733,971
Disposals	--	(848,906)	(9,013,376)	(1,685,060)	--	(11,547,342)
Adjustment finance lease (note 6d)	--	(4,854,246)	--	--	--	(4,854,246)
Balance at December 31, 2019	--	<u>53,313,043</u>	<u>116,985,366</u>	<u>40,702,054</u>	--	<u>211,000,463</u>
Carrying amounts:						
At December 31, 2019	<u>33,786,058</u>	<u>254,544,383</u>	<u>97,083,986</u>	<u>81,933,315</u>	<u>92,812,798</u>	<u>560,160,540</u>

	Land	Building & leasehold improvements	Equipment	Motor vehicles	Under construction	Total
2018						
Cost:						
Balance at January 1, 2018	33,786,058	298,617,972	170,921,526	104,211,437	101,670,266	709,207,259
Additions	--	1,046,358	5,970,337	1,204,216	84,570,274	92,791,185
Disposals	--	(45,913,928)	(3,781,947)	(14,925,579)	--	(64,621,454)
Transfer from capital work under construction	--	3,798,698	8,472,180	3,243,467	(15,514,345)	--
Balance at December 31, 2018	<u>33,786,058</u>	<u>257,549,100</u>	<u>181,582,096</u>	<u>93,733,541</u>	<u>170,726,195</u>	<u>737,376,990</u>
Accumulated depreciation:						
Balance at January 1, 2018	--	46,527,816	75,406,829	32,810,599	--	154,745,244
Charge for the year	--	23,804,638	25,563,428	11,070,883	--	60,438,949
Disposals	--	(45,913,928)	(3,690,407)	(14,911,778)	--	(64,516,113)
Balance at December 31, 2018	--	<u>24,418,526</u>	<u>97,279,850</u>	<u>28,969,704</u>	--	<u>150,668,080</u>
Carrying amounts:						
At December 31, 2018	<u>33,786,058</u>	<u>233,130,574</u>	<u>84,302,246</u>	<u>64,763,837</u>	<u>170,726,195</u>	<u>586,708,910</u>

B. Capital work in progress

2019

Capital work under construction represents construction works at Saudia City Motel in Jeddah, welcome lounges at King Khalid International Airport (Terminals 1, 2 and 5) in Riyadh and Alfursan Lounge at King Abdulaziz International Airport (New Airport).

There are no restrictions on any asset neither any asset have been pledged as security to any party

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6. PROPERTY, PLANT AND EQUIPMENT

C. Depreciation for the year ended December 31 was allocated as follows:

	<u>2019</u>	<u>2018</u>
Cost of sales	66,753,458	51,913,346
General and administrative expenses	<u>8,215,333</u>	<u>8,525,603</u>
	<u>74,968,791</u>	<u>60,438,949</u>

D. Subleased assets adjustments

As result of the adoption of IFRS 16 and as explained under note 9A, the management transferred some assets that are subleased from the property, plant and equipment.

The cost and accumulated depreciation of the transferred assets are as follows:

	<u>December 31, 2019</u>
Cost of the asset sub-leased	17,651,803
Accumulated depreciation as at January 1, 2019	<u>(3,089,066)</u>
Depreciation reversed for the year ended December 31, 2019	<u>(1,765,180)</u>
Total Right of use assets	<u>12,797,557</u>

7. INTANGIBLE ASSET

Reconciliation and carrying amount

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
<u>Cost</u>		
Balance at January 1	3,820,824	3,820,824
Addition	<u>1,885,091</u>	<u>--</u>
Balance at December 31	<u>5,705,915</u>	<u>3,820,824</u>
<u>Accumulated amortization</u>		
Balance at January 1	3,562,555	2,538,640
Amortisation	<u>297,170</u>	<u>1,023,915</u>
Balance at December 31	<u>3,859,725</u>	<u>3,562,555</u>
<u>Carrying amounts</u>	<u>1,846,190</u>	<u>258,269</u>

Amortisation

The amortisation is included in general and administrative expenses.

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8. INVESTMENT PROPERTY

A. The investment property is part of a building constructed by the Company and is being leased to a related party in Dammam.

B. Reconciliation and carrying amount

	December 31, <u>2019</u>	December 31, <u>2018</u>
<u>Cost</u>		
Balance at January 1	42,876,890	42,876,890
Balance at December 31	<u>42,876,890</u>	<u>42,876,890</u>
<u>Accumulated depreciation</u>		
Balance at January 1	4,539,456	2,590,507
Charge for the year	1,948,950	1,948,949
Balance at December 31	<u>6,488,406</u>	<u>4,539,456</u>
<u>Carrying amounts</u>	<u>36,388,484</u>	<u>38,337,434</u>

C. Depreciation amount

The depreciation is included in general and administrative expenses.

9. LEASES

A. Right -of-use assets

The reconciliation and carrying amount of the right-of-use assets is as follows:

<u>Cost:</u>	<u>Commercial Building Lease</u>	<u>Land Lease</u>	<u>Residential Lease</u>	<u>Car Lease</u>	<u>Total</u>
January 1, 2019	400,178,454	59,814,366	136,844,270	14,763,450	611,600,540
December 31, 2019	<u>400,178,454</u>	<u>59,814,366</u>	<u>136,844,270</u>	<u>14,763,450</u>	<u>611,600,540</u>
<u>Accumulated Depreciation</u>					
January 1, 2019	--	--	--	--	--
Charge for the year	65,153,375	2,757,836	10,250,167	3,693,392	81,854,770
December 31, 2019	<u>65,153,375</u>	<u>2,757,836</u>	<u>10,250,167</u>	<u>3,693,392</u>	<u>81,854,770</u>
Carrying amounts as at December 31, 2019	<u>335,025,079</u>	<u>57,056,530</u>	<u>126,594,103</u>	<u>11,070,058</u>	<u>529,745,770</u>

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9. LEASES (continued)

Depreciation for the year has been allocated as follows:

	<u>Note</u>	<u>2019</u>
Cost of sales	24	70,233,696
General and administrative expenses	26	11,621,074
		<u>81,854,770</u>

B. Lease Liabilities

Lease liabilities as at December 31 are as follows:

December 31, 2019

	<u>Future Minimum Lease Payment</u>	<u>Interest</u>	<u>Present Value of Minimum Lease Payment</u>
Commercial Building Lease	419,039,611	67,045,396	351,994,215
Land Lease	92,137,202	38,494,314	53,642,888
Residential Lease	189,923,806	69,298,880	120,624,926
Car Lease	8,081,542	477,393	7,604,149
As at December 31, 2019	<u>709,182,161</u>	<u>175,315,983</u>	<u>533,866,178</u>

January 1, 2019

	<u>Future Minimum Lease Payment</u>	<u>Interest</u>	<u>Present Value of Minimum Lease Payment</u>
Commercial Building Lease	466,394,940	85,057,514	381,337,426
Land Lease	101,037,161	41,222,795	59,814,366
Residential Lease	207,233,572	75,665,772	131,567,800
Car Lease	15,776,221	1,012,771	14,763,450
As at January 1, 2019	<u>790,441,894</u>	<u>202,958,852</u>	<u>587,483,042</u>

At December 31, the lease liabilities are presented in the statement of financial position as follows:

	<u>2019</u>	<u>2018</u>
Current portion	117,364,903	--
Non-current portion	416,501,275	--
	<u>533,866,178</u>	<u>--</u>

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9. **LEASES (continued)**

C. Subleased assets

	December 31, 2019
Less than one year	12,105,955
One to five years	15,377,950
More than five years	--
Total undiscounted lease receivables	<u>27,483,905</u>
Unearned finance income	<u>2,098,748</u>
Net investment in the lease	<u><u>25,385,157</u></u>

It is presented in the statement of financial position as follows:

	December 31, 2019
Non-current portion	12,858,734
Current portion	<u>12,526,423</u>
	<u><u>25,385,157</u></u>

Lease receivables as at December 31, 2019 are as follows:

2019

	Future Minimum Lease Payment	Interest	Present Value of Minimum Lease Payment
Commercial Building Lease	<u>27,117,280</u>	<u>1,732,123</u>	<u>25,385,157</u>
As at December 31, 2019	<u><u>27,117,280</u></u>	<u><u>1,732,123</u></u>	<u><u>25,385,157</u></u>

2018

	Future Minimum Lease Payment	Interest	Present Value of Minimum Lease Payment
Commercial Building Lease	<u>31,369,124</u>	<u>3,069,251</u>	<u>28,299,872</u>
As at December 31, 2018	<u><u>31,369,124</u></u>	<u><u>3,069,251</u></u>	<u><u>28,299,872</u></u>

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9. LEASES (continued)

D. Operating lease

The Company leases out its investment property. The management has classified these leases as operating leases because they do not transfer substantially all the risks and rewards incidental to the ownership of the assets.

Rental income recognized by the management during 2019 was SR. 3.4 million (2018: SR. 2.9 million).

The following table sets out a maturity analysis of lease payments showing the undiscounted lease payments to be received after the reporting date.

2019 – Operating Lease under IFRS 16

Less than one year	18,956,821
One to five years	94,784,105
More than five years	75,827,284
	<u>189,568,210</u>

2018 – Operating Lease under IAS17

Less than one year	134,545,692
One to five years	663,587,920
More than five years	379,955,384
	<u>1,178,088,996</u>

iii. Amount recognized in profit or loss

2019 – Lease under IFRS 16

Interest on lease liabilities	27,642,871
Income from sub-leasing right of use assets	1,337,128
Rent expense relating to short term lease	56,897,540
Rent relating to lease of low value assets	--

2018 – Operating Leases under IAS17

Lease expense	160,208,020
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10. EQUITY ACCOUNTED INVESTEE

A. Investment in associate

The Company has a 40% shareholding in Saudi French Company for Duty Free Operations and Management.

B. The balances of the investment in associate as at December 31 is as follows:

<u>Name</u>	<u>Country of incorporation</u>	<u>Effective ownership interest (%)</u>		<u>Carrying value</u>	
		<u>December 31, 2019</u>	<u>December 31, 2018</u>	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Saudi French Company for Duty Free Operations and Management (Limited Liability Company)	Kingdom of Saudi Arabia	<u>40%</u>	<u>40%</u>	<u>11,588,345</u>	<u>15,125,813</u>

C. The movement in the investment in associate during the year was as follows:

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Opening balance	<u>15,125,813</u>	20,642,074
Share in net loss	<u>(3,355,121)</u>	(5,406,251)
Share in other comprehensive loss	<u>(182,347)</u>	(110,010)
Closing balance	<u>11,588,345</u>	<u>15,125,813</u>

At the date of the financial statements, the associate had not issued audited financial statements. Accordingly, the financial data below and the share of loss for the year ended December 31, 2019 is based on internal management draft financial statements.

Share in net assets

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Non current assets	<u>158,408,508</u>	31,405,421
Current assets	<u>78,753,777</u>	79,893,590
Total assets	<u>237,162,285</u>	<u>111,299,011</u>
Non current liabilities	<u>109,334,455</u>	819,847
Current liabilities	<u>98,856,968</u>	72,664,632
Total liabilities	<u>208,191,423</u>	<u>73,484,479</u>
Net assets	<u>28,970,862</u>	<u>37,814,532</u>
Company's share in net assets (40%)	<u>11,588,345</u>	<u>15,125,813</u>

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10. EQUITY ACCOUNTED INVESTEE (continued)

Share in loss

	Year ended December 31, <u>2019</u>	Year ended December 31, <u>2018</u>
Revenue	290,271,279	242,844,499
Net loss for the year	(2,919,708)	(13,515,627)
Other adjustment	(5,468,095)	--
Revised net loss for the year	(8,387,803)	(13,515,627)
Other comprehensive loss	(455,867)	(275,025)
Company's share of loss for the year (40%)	(3,355,121)	(5,406,251)
Company's share of other comprehensive loss (40%)	(182,347)	(110,010)

The Company has a call option by which it has the right to purchase 11% of the total shares of the associate from one of the shareholders subject to fulfilling legal requirements and obtaining certain approvals. If the Company succeeded to fulfill all the requirements and purchased the 11% shares, its shares in the investee will reach 51% and accordingly will have control over the investee and will then start consolidating.

At the date of the financial statements, the management has not exercised the call option.

i) Impairment test of associate

The recoverable amount of this equity accounted investee is estimated using discounted cash flows. The fair value measurement was categorized as a level 3 fair value based on the inputs in the valuation technique used.

The key assumptions used in the estimation of the recoverable amount are set out below. The values assigned to the key assumptions represent management's assessment of future trends in the relevant industries and have been based on historical data from both external and internal sources.

	<u>2019</u>	<u>2018</u>
Discount rate	7%	7%
Terminal value growth rate	3%	0%
Growth rate (average of next five years)	18%	(2%)

Management of the Company has assessed in detail the carrying value of Saudi French Company for Duty Free Operations and Management as at December 31 on the basis of above assumptions and concluded that the associate is not impaired.

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11. FINANCIAL ASSETS AT AMORTIZED COST

	December 31, <u>2019</u>	December 31, <u>2018</u>
Letters of guarantee	<u>19,754,026</u>	<u>29,991,692</u>
	<u>19,754,026</u>	<u>29,991,692</u>

12. INVENTORIES

A. Inventories comprise the following:

	December 31, <u>2019</u>	December 31, <u>2018</u>
Retail items	106,838,242	96,582,463
Catering items	44,068,578	32,195,629
Spare parts	7,854,963	6,803,367
Packing and other materials	6,118,042	2,842,744
	<u>164,879,825</u>	<u>138,424,203</u>
Provision for slow-moving and obsolete inventories	<u>(11,087,867)</u>	<u>(13,396,325)</u>
	<u>153,791,958</u>	<u>125,027,878</u>

B. Movement in provision for slow moving and obsolete inventories for the year was as follows:

	December 31, <u>2019</u>	December 31, <u>2018</u>
Balance at beginning of the year	13,396,325	4,339,108
Charge for the year	10,827,783	9,667,440
Reversal during the year	(2,232,212)	(421,247)
Write-off during the year	(10,904,029)	(188,976)
Balance at end of the year	<u>11,087,867</u>	<u>13,396,325</u>

Provision for slow-moving and obsolete inventories is based on the nature of inventories, sales expectations, historic trends and other qualitative factors.

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13. TRADE AND OTHER RECEIVABLES

A. Trade and other receivables comprise the following:

	<u>Note</u>	December 31, 2019	December 31, 2018
Trade receivables due from related parties (net of purser provision)	22-C	652,808,496	722,310,992
Trade receivables – third parties		<u>263,063,165</u>	<u>268,417,405</u>
		915,871,661	990,728,397
Less: Allowance for expected credit losses	13-C	<u>(47,730,401)</u>	<u>(40,502,850)</u>
		<u>868,141,260</u>	<u>950,225,547</u>

- Trade receivables disclosed above are classified as loans and receivables and are measured at amortized cost.
- The Company does not have any collateral over receivables and are unsecured. Unimpaired trade receivables are expected on the basis of past experience, to be fully recoverable.
- 74% of the trade receivables is due from government or semi-government entities (2018: 76%)

B. The ageing analysis of trade receivable is as follows:

	<i>Up to three months</i>	<i>Above three and up to six months</i>	<i>Above six months</i>	Total
December 31, 2019	<u>519,897,497</u>	<u>81,603,427</u>	<u>314,370,737</u>	915,871,661
December 31, 2018	<u>562,221,239</u>	<u>124,244,582</u>	<u>304,262,576</u>	<u>990,728,397</u>

C. Movements summary in expected credit losses for receivables for the year ended December 31 is as follows:

	December 31, 2019	December 31, 2018
Balance at beginning of the year	40,502,850	53,427,618
Charged for the year	7,242,993	--
Write-off during the year	(15,442)	(538,781)
Reversal during the year	--	<u>(12,385,987)</u>
Balance at end of the year	<u>47,730,401</u>	<u>40,502,850</u>

D. Movements summary in allowance for related parties balance (purser provision) for the year ended December 31 are as follows:

	December 31, 2019	December 31, 2018
Balance at beginning of the year	4,026,001	4,476,079
Charged for the year	243,876	388,045
Write-off during the year	--	(17,284)
Reversal during the year	<u>(374,525)</u>	<u>(820,839)</u>
Balance at end of the year	<u>3,895,352</u>	<u>4,026,001</u>

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14. PREPAYMENTS AND OTHER ASSETS

Prepayments and other assets at December 31 comprise the following:

	December 31, 2019	December 31, 2018
Prepayments	69,632,981	108,903,942
Unbilled receivables	21,279,521	18,677,239
VAT Input tax	6,391,692	46,914,574
Margin deposits with banks	6,075,999	4,010,586
Advances to suppliers	3,601,382	12,462,620
Advances to employees	1,578,176	1,888,412
	<u>108,559,751</u>	<u>192,857,373</u>

- Unbilled receivables represents billing not yet approved by customers. As at December 31, 2019 there were Nil unbilled receivable outstanding for more than 1 year.

15. CASH AND CASH EQUIVALENTS

Cash and cash equivalents at December 31 comprise the following:

	December 31, 2019	December 31, 2018
Cash at bank - current accounts	188,174,435	145,997,345
Cash in hand	729,108	1,255,398
	<u>188,903,543</u>	<u>147,252,743</u>

16. SHARE CAPITAL

A. Share capital

	December 31, 2019	December 31, 2018
In issue at beginning of the year (number of shares)	82,000,000	82,000,000
Issued for cash	--	-
In issue at end of the year– fully paid (number of shares)	<u>82,000,000</u>	<u>82,000,000</u>
Issued – par value SAR 10	<u>820,000,000</u>	<u>820,000,000</u>

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16. SHARE CAPITAL (continued)

B. At December 31 the shareholders and their percentage interests in the share capital of the Company are as follows:

2019

<u>Shareholder</u>	<u>No. of shares</u>	<u>Value in SR</u>	<u>%</u>
Saudi Arabian Airlines Corporation	29,274,000	292,740,000	35.7
Strategic Catering Company Limited	7,041,379	70,413,790	8.6
Abdulmohsen Alhokair Group for Tourism and Development	7,711,256	77,112,560	9.4
General public	37,973,365	379,733,650	46.3
	<u>82,000,000</u>	<u>820,000,000</u>	<u>100</u>

2018

<u>Shareholder</u>	<u>No. of shares</u>	<u>Value in SR</u>	<u>%</u>
Saudi Arabian Airlines Corporation	29,274,000	292,740,000	35.7
Strategic Catering Company Limited	7,641,379	76,413,790	9.3
Abdulmohsen Alhokair Group for Tourism and Development	7,111,256	71,112,560	8.7
General public	37,973,365	379,733,650	46.3
	<u>82,000,000</u>	<u>820,000,000</u>	<u>100</u>

C. Ordinary shares

Holders of these shares are entitled to dividends as declared from time to time and are entitled to one vote per share at general meetings of the Company.

17. STATUTORY RESERVE

In accordance with the new Company's bylaws approved by the General Assembly meeting dated April 17, 2017 and the Saudi Arabian Regulations for Companies, the Company sets aside 10% of its profit each year as statutory reserve until such reserve equals to 30% of the share capital.

The Company has transferred an amount in excess of 30% to the statutory reserve in previous years.

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18. DIVIDENDS

A. The following dividends were declared by the Company during the year ended December 31.

	<u>2019</u>
February 27, 2019: SR 1.30 per ordinary share (Income tax adjusted)	105,141,497
May 09, 2019: SR 1.30 per ordinary share (Income tax adjusted)	104,278,586
August 06, 2019: SR 1.35 per ordinary share (Income tax adjusted)	108,311,685
November 05, 2019: SR 1.50 per ordinary share (Income tax adjusted)	<u>120,489,602</u>
	<u>438,221,370</u>
	<u>2018</u>
March 27, 2018: SR 1.30 per ordinary share (Income tax adjusted)	104,673,521
May 05, 2018: SR 1.35 per ordinary share (Income tax adjusted)	108,541,626
August 02, 2018: SR 1.40 per ordinary share (Income tax adjusted)	111,932,975
November 06, 2018: SR 1.50 per ordinary share (Income tax adjusted)	<u>120,202,953</u>
	<u>445,351,075</u>

B. The movement in the dividends payable for the year ended December 31 is as follows:

	December 31, <u>2019</u>	December 31, <u>2018</u>
Balance at beginning of the year	123,229,981	3,120,329
Declared during the year	438,221,370	445,351,075
Paid during the year	<u>(560,028,592)</u>	<u>(325,241,423)</u>
Balance at end of the year	<u>1,422,759</u>	<u>123,229,981</u>

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19. EMPLOYEE BENEFITS

	<u>Notes</u>	December 31, 2019	December 31, <u>2018</u>
Employees' end-of-service benefits	19.A	172,719,112	165,023,832
Accrued bonus - long term	19.B	4,031,202	2,400,000
		<u>176,750,314</u>	<u>167,423,832</u>

A. Defined benefit obligations

i) Movement in defined benefit liability

The following table shows a reconciliation from the opening balance to the closing balance for the employees' end-of- service benefits.

	December 31, 2019	December 31, <u>2018</u>
Balance at January 1	165,023,832	168,998,200
Current service cost included in profit or loss		
Service cost	17,890,880	14,860,779
Finance cost	6,653,165	5,256,820
	<u>24,544,045</u>	<u>20,117,599</u>
Included in OCI		
Actuarial loss/ (gain) arising from:	<u>3,749,353</u>	<u>(4,690,707)</u>
- Demographic assumptions	--	1,489,821
- Financial assumptions	(3,239,941)	9,855,947
- Experience adjustment	6,989,294	(16,036,475)
	<u>3,749,353</u>	<u>(4,690,707)</u>
Other		
Benefits paid	(20,598,118)	(19,401,260)
Employees' end of service benefits.	<u>172,719,112</u>	<u>165,023,832</u>

ii) Actuarial assumptions

The following were the principal actuarial assumptions at the reporting date (expressed as weighted averages).

	December 31, 2019	December 31, <u>2018</u>
Discount rate	2.25%	4.30%
Future salary growth	2.25%	4.30%
Voluntary turnover rate	6.6%	6.6%
In -voluntary turnover rate	10.45%	10.45%
Retirement age	<u>60 years</u>	<u>60 years</u>

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19. EMPLOYEE BENEFITS (continued)

iii) Sensitivity analysis

Reasonably possible changes at the reporting date to one of the relevant actuarial assumptions, holding other assumptions constant, would have affected the defined benefit obligation by the amounts shown below.

	<u>December 31, 2019</u>		<u>December 31, 2018</u>	
	<u>Increase</u>	<u>Decrease</u>	<u>Increase</u>	<u>Decrease</u>
Discount rate (1% movement)	164,300,183	182,061,852	157,239,801	173,646,972
Future salary growth (1% movement)	<u>182,869,970</u>	<u>163,402,198</u>	<u>174,390,781</u>	<u>156,412,913</u>

Although the analysis does not take account of the full distribution of cash flows expected under the plan, it does provide an approximation of the sensitivity of the assumptions shown.

B. Accrued bonus - long term

The movement in accrued bonus-long term during the year was as follows:

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Balance at January 1	2,400,000	--
Provision for the year	1,810,092	2,400,000
Benefits paid	(178,890)	--
	<u>4,031,202</u>	<u>2,400,000</u>

20. ZAKAT AND INCOME TAX LIABILITIES

The following is the breakdown of the zakat and income tax liability as at December 31:

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Zakat payable	29,696,293	28,259,464
Income tax payable	4,485,885	2,050,550
Zakat and income tax liabilities as at December 31	<u>34,182,178</u>	<u>30,310,014</u>

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20. ZAKAT AND INCOME TAX LIABILITIES (continued)

A. Zakat and income tax provision

i) The movement summary in Zakat provision is as follows:

	December 31, 2019	December 31, 2018
Balance at beginning of the year	28,259,464	29,522,917
Charge for the year	29,696,293	28,259,464
Adjustment related to prior years	176,917	(426,233)
Payments during the year	<u>(28,436,381)</u>	<u>(29,096,684)</u>
Balance at end of the year	<u>29,696,293</u>	<u>28,259,464</u>

ii) The movement in income tax provision is as follows:

	December 31, 2019	December 31, 2018
Balance at beginning of the year	2,050,550	1,667,170
Charge for the year	9,085,638	9,024,271
Adjustment related to prior year	175,243	256,675
Payments during the year	<u>(6,825,546)</u>	<u>(8,897,566)</u>
Balance at end of the year	<u>4,485,885</u>	<u>2,050,550</u>

iii) Charge of the year ended December 31 is as follows:

	2019	2018
Zakat charge for the year	29,696,293	28,259,464
Zakat prior year adjustment	176,917	(426,233)
	<u>29,873,210</u>	<u>27,833,231</u>
Income tax charge of the year	9,085,638	9,024,271
Income tax prior year adjustment	175,243	256,675
	<u>9,260,881</u>	<u>9,280,946</u>
Total Zakat and income tax of the year	<u>39,134,091</u>	<u>37,114,177</u>

B. Zakat components

	December 31, 2019	December 31, 2018
Non-current assets	1,172,342,089	670,422,118
Non-current liabilities	593,251,589	167,423,832
Total equity	1,305,651,941	1,301,455,457
Profit before Zakat and income tax	<u>503,067,494</u>	<u>496,395,061</u>

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20. ZAKAT AND INCOME TAX LIABILITIES (continued)

C. Zakat assessments

The Company has submitted its Zakat and tax declarations for the years from 2009 to 2014. It has received queries from GAZT which it has responded to and is currently waiting for GAZT's reply to these responses.

The Company has also submitted its Zakat and tax declarations for the years 2015 to 2018 which are currently under review by GAZT. The Company has obtained a certificate until April 30, 2020.

21. TRADE AND OTHER PAYABLES

Trade payables at December 31 comprise the following:

	<u>Note</u>	<u>December 31,</u> <u>2019</u>	<u>December 31,</u> <u>2018</u>
Trade payables – third parties		253,728,178	212,663,835
Trade payables – related parties	22-C	28,032,006	35,434,408
Accrued expenses		169,225,261	186,889,388
Dividend payable		1,422,759	123,229,981
VAT Output Tax		1,406,209	28,378,744
		<u>453,814,413</u>	<u>586,596,356</u>

22. RELATED PARTIES DISCLOSURES

A. Related parties include the Company's shareholders, associated companies and directors and key management personnel of the Company. Terms and conditions of these transactions at agreed rates are approved by the Company's management.

B. Transactions with key management personnel

Key management personnel compensation comprised the following:

	<u>2019</u>	<u>2018</u>
Short term employee benefits	7,081,174	6,536,196
Post-employment benefits	243,776	145,800
Termination benefits	776,632	332,292
	<u>8,101,582</u>	<u>7,014,288</u>

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22. RELATED PARTIES DISCLOSURES (continued)

C. Related parties' transactions and balances

Significant related parties transactions and balances arising there from are as follows:

	<u>Relationship</u>	<u>Transaction values for the year</u>		<u>Balances</u>	
		<u>December 31, 2019</u>	<u>December 31, 2018</u>	<u>December 31, 2019</u>	<u>December 31, 2018</u>
i) <u>Sale of goods and services (under trade and other receivables)</u>					
Saudi Arabian Airlines Corporation*	Shareholder/ fellow subsidiaries	1,456,963,495	1,409,449,802	598,827,070	663,009,364
Alhokair Company Joint Stock Company	Shareholder	257,775	98,168	17,448	(159,913)
Saudi Airlines Cargo Company	Fellow subsidiary	13,804,912	14,718,896	11,197,020	14,176,765
Saudi Ground Services Company	Fellow subsidiary	45,245,311	45,144,079	33,004,466	32,527,902
Saudi French Company for Duty Free Operations and Management	Associate	5,498,078	9,855,414	8,958,552	12,338,822
Saudi Airlines Real Estate Development Company	Fellow subsidiary	413,261	--	803,940	418,052
Total				<u>652,808,496</u>	<u>722,310,992</u>

	<u>Relationship</u>	<u>Transaction values for the year</u>		<u>Balances</u>	
		<u>December 31, 2019</u>	<u>December 31, 2018</u>	<u>December 31, 2019</u>	<u>December 31, 2018</u>
i) <u>Purchase of goods (under trade and other payables)</u>					
Saudi Airlines Real Estate Development Company	Fellow subsidiary	5,308,280	13,397,623	16,133,360	21,150,466
Saudi Ground Services Company	Fellow subsidiary	5,422,554	1,207,643	6,504,477	1,422,838
Newrest Company Holding S.L.	Shareholder	9,821,076	11,390,614	2,778,232	(29,850)
Gulfvest Company Limited	Common shareholder	4,401,978	7,925,799	1,245,670	829,168
Saudi Arabian Airlines Corporation*	Shareholder/ fellow subsidiaries	4,616,779	4,050,650	986,213	4,606,589
Saudi Airlines Cargo Company	Fellow subsidiary	275,530	--	279,668	7,455,197
Alhokair Company Joint Stock Company	Shareholder	104,386	27,213	104,386	--
Total				<u>28,032,006</u>	<u>35,434,408</u>

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22. RELATED PARTIES DISCLOSURES (continued)

C. Related parties' transactions and balances (continued)

*Transactions with Saudi Arabian Airlines Corporation includes transaction with the entities which are wholly owned by Saudi Arabian Airlines. The entities includes Saudia Airlines Company, Saudi Private Aviation, Saudi Royal Vip, Saudia Royal Fleet, Saudia Aerospace Engineering, Saudia Medical Service, Prince Sultan Aviation and Flyadeal.

23. REVENUE

	<u>2019</u>	<u>2018</u>
In-flight catering	1,524,966,840	1,460,605,418
Non-airlines	231,532,777	189,958,393
Business lounge	182,814,245	170,831,566
Retail revenue	176,688,018	177,717,238
Other operating revenues		
Camp facilities sales (staff feeding & accommodation)	22,600,193	26,580,696
Exclusivity purchase income & services to suppliers	17,664,182	10,064,619
	<u>2,156,266,255</u>	<u>2,035,757,930</u>

24. COST OF SALES

	Note	<u>2019</u>	<u>2018</u>
Cost of materials and goods		674,720,073	645,382,870
Personnel costs		297,992,825	295,906,356
Depreciation on property, plant and equipment	6C	66,753,458	51,913,346
Depreciation on right-of-use assets	9a	70,233,696	--
Rent and maintenance of production units		65,774,166	151,697,845
Other operating costs			
Manpower and transportation cost		74,108,158	72,411,142
Supplies and expandable items		34,982,638	35,611,666
Communication and utilities		24,005,244	30,389,765
Other operational costs		60,763,969	55,965,468
		<u>1,369,334,227</u>	<u>1,339,278,458</u>

25. OTHER INCOME

	<u>2019</u>	<u>2018</u>
Management fee income	4,474,487	3,442,000
Medical ex - gratia income	2,391,616	2,334,400
Commission income	80,887	790,500
Others	2,004,641	5,788,751
	<u>8,951,631</u>	<u>12,355,651</u>

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26. GENERAL AND ADMINISTRATIVE EXPENSES

	<u>Notes</u>	<u>2019</u>	<u>2018</u>
Personnel costs		140,507,382	116,594,906
Depreciation	6,8,9	21,785,357	10,474,553
Management fee		12,021,546	8,310,558
Professional and technical fee		11,143,936	3,985,034
Service agreement fee		10,859,439	10,547,099
Travelling		7,980,117	9,172,082
Utilities		7,363,177	6,905,430
Rent		6,253,978	24,034,737
Marketing and promotional		6,163,198	7,004,925
Insurance		3,904,834	4,217,009
Board of Directors' fee		3,166,213	3,442,171
Stationary and printing		936,903	414,027
Repairs and maintenance		731,212	271,342
Amortization	7	297,170	1,023,915
Other		12,424,218	8,051,579
		<u>245,538,680</u>	<u>214,449,367</u>

27. OTHER EXPENSES

	<u>2019</u>	<u>2018</u>
Bank commissions	2,193,687	1,519,378
Foreign currency exchange loss	1,150,545	--
Loss on sale of property, plant and equipment	506,880	105,341
	<u>3,851,112</u>	<u>1,624,719</u>

28. FINANCE INCOME

	<u>2019</u>	<u>2018</u>
Interest income on sublease assets	1,337,128	--
Interest income on financial asset classified as amortised cost	--	1,478,314
Finance income	<u>1,337,128</u>	<u>1,478,314</u>
Finance income recognised in profit or loss	<u>1,337,128</u>	<u>1,478,314</u>

29. FINANCE COST

	<u>2019</u>	<u>2018</u>
Interest from lease liabilities	27,642,871	--
Interest on employees' end-of-service benefits	6,653,165	5,256,820
	<u>34,296,036</u>	<u>5,256,820</u>

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30. EARNINGS PER SHARE

A. *Basic earnings per share*

The calculation of basic earnings per share has been based on the following profit attributable to ordinary shareholders and weighted average number of ordinary shares outstanding.

i. Profit attributable to ordinary shareholders (basic)

	<u>2019</u>	<u>2018</u>
Profit for the year	<u>463,933,403</u>	<u>459,280,884</u>

ii. Weighted-average number of ordinary shares (basic)

	<u>2019</u>	<u>2018</u>
Weighted-average number of ordinary shares during the year	<u>82,000,000</u>	<u>82,000,000</u>

iii. Earnings per share – basic

	<u>2019</u>	<u>2018</u>
Earnings per share	<u>5.66</u>	<u>5.60</u>

B. *Diluted earnings per share*

There were no diluted shares during the year, accordingly, the diluted earnings per share will be the same as the basic earnings per share.

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31. OPERATING SEGMENTS

A. Information about reportable segments

December 31, 2019

	<u>Inflight</u>	<u>Retail</u>	<u>Catering and facilities</u>	<u>Total reportable segments</u>	<u>All other segments</u>	<u>Head office</u>	<u>Total</u>
External revenue	1,707,122,865	176,688,018	197,278,132	2,081,089,015	75,177,240	--	2,156,266,255
Inter-segment revenue	59,378,164	--	6,300,459	65,678,623	309,484,117	--	375,162,740
Segment revenue	1,766,501,029	176,688,018	203,578,591	2,146,767,638	384,661,357	--	2,531,428,995
Segment profit / (loss) before zakat and tax	883,636,366	2,417,136	2,034,621	888,088,123	(385,020,629)	--	503,067,494
Depreciation and amortization	100,844,835	3,867,056	11,038,566	115,750,457	43,319,223	--	159,069,680
Assets:							
Segment assets	1,193,205,347	162,322,774	156,002,167	1,511,530,288	346,891,052	--	1,858,421,340
Other assets	--	--	--	--	--	645,843,684	645,843,684
Total	1,193,205,347	162,322,774	156,002,167	1,511,530,288	346,891,052	645,843,684	2,504,265,024
Liabilities:							
Segment liabilities	444,995,950	70,369,381	33,712,813	549,078,144	210,081,921	--	759,160,065
Other liabilities	--	--	--	--	--	439,453,018	439,453,018
Total	444,995,950	70,369,381	33,712,813	549,078,144	210,081,921	439,453,018	1,198,613,083

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31. OPERATING SEGMENTS (continued)

A. Information about reportable segments (continued)

December 31, 2018

	<u>Inflight</u>	<u>Retail</u>	<u>Catering and facilities</u>	<u>Total reportable segments</u>	<u>All other segments</u>	<u>Head office</u>	<u>Total</u>
External revenue	1,627,855,878	177,748,465	156,360,923	1,961,965,266	73,792,664	--	2,035,757,930
Inter-segment revenue	51,961,185	--	5,637,198	57,598,383	307,652,069	--	365,250,452
Segment revenue	1,679,817,063	177,748,465	161,998,121	2,019,563,649	381,444,733	--	2,401,008,382
Segment profit / (loss) before zakat and tax	865,413,923	4,521,120	1,288,147	871,223,190	(374,828,129)	--	496,395,061
Depreciation and amortization	29,789,112	3,093,594	6,708,308	39,591,014	23,820,799	--	63,411,813
Assets:							
Segment assets	993,812,786	135,197,557	129,933,166	1,258,943,509	288,923,247	--	1,547,866,756
Other assets	--	--	--	--	--	537,918,903	537,918,903
Total	993,812,786	135,197,557	129,933,166	1,258,943,509	288,923,247	537,918,903	2,085,785,659
Liabilities:							
Segment liabilities	291,189,683	46,047,245	22,060,478	359,297,406	137,470,212	--	496,767,618
Other liabilities	--	--	--	--	--	287,562,584	287,562,584
Total	291,189,683	46,047,245	22,060,478	359,297,406	137,470,212	287,562,584	784,330,202

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31. OPERATING SEGMENTS (continued)

B. Reconciliations of information on reportable segments to IFRS measures

I. Revenue

	December 31, <u>2019</u>	December 31, <u>2018</u>
Total revenue for reportable segments	2,146,767,638	2,019,563,649
Revenue for other segments	384,661,357	381,444,733
Elimination of intersegment revenue	<u>(375,162,740)</u>	<u>(365,250,452)</u>
Total revenue	<u>2,156,266,255</u>	<u>2,035,757,930</u>

II. Profit

	December 31, <u>2019</u>	December 31, <u>2018</u>
Total profit for reportable segments	888,088,123	871,223,190
Profit for other segments	<u>(385,020,629)</u>	<u>(374,828,129)</u>
Total profit	<u>503,067,494</u>	<u>496,395,061</u>

III. Assets

	December 31, <u>2019</u>	December 31, <u>2018</u>
Total assets for reportable segments	1,511,530,288	1,258,943,509
Assets for other segments	346,891,052	288,923,247
Head office	<u>645,843,684</u>	<u>537,918,903</u>
Total assets	<u>2,504,265,024</u>	<u>2,085,785,659</u>

Other unallocated amounts principally related to cash and cash equivalents, investment securities and prepayment and other currents assets.

IV. Liabilities

	December 31, <u>2019</u>	December 31, <u>2018</u>
Total liabilities for reportable segments	549,078,144	359,297,406
Liabilities for other segments	210,081,921	137,470,212
Head office	<u>439,453,018</u>	<u>287,562,584</u>
Total liabilities	<u>1,198,613,083</u>	<u>784,330,202</u>

Head office amounts principally related to trade and other payables, current zakat and tax liabilities and employee benefits.

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31. OPERATING SEGMENTS (continued)

V. Geographical information

– Revenue	December 31, <u>2019</u>	December 31, <u>2018</u>
Kingdom of Saudi Arabia	2,093,009,467	1,959,119,018
<i>All foreign countries</i>		
Egypt – Cairo	<u>63,256,788</u>	<u>76,638,912</u>
Total revenue	<u>2,156,266,255</u>	<u>2,035,757,930</u>

C. Major customer

Revenue from one customer of the Company's Airline segment represented approximately 60% of the Company's total revenue.

32. CAPITAL MANAGEMENT

The Company's objective when managing capital is to safeguard the Company's ability as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and to maintain an efficient capital base so as to maintain investor, creditor and market confidence and to sustain the future development of its businesses.

The Company manages the Capital structure in the context of economic conditions and risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may, for example, opt for short term or loan term loans.

The Company monitors return on capital employed and makes adjustment to it in the light of changes in economic conditions. In order to maintain or adjust the capital structure, the Company may obtain short term or loan term loans. The Company monitors capital using a debt equity ratio.

	December 31, <u>2019</u>	December 31, <u>2018</u>
Total liabilities	1,198,613,083	784,330,202
Less: cash and cash equivalents	<u>(188,903,543)</u>	<u>(147,252,743)</u>
Net debt	<u>1,009,709,540</u>	<u>637,077,459</u>
Total equity	<u>1,305,651,941</u>	<u>1,301,455,457</u>
Net debt to total equity ratio	<u>77%</u>	<u>49%</u>

The debt equity ratio for 2019 deteriorated due to the application of IFRS 16, whereby the inclusion of the lease liability has increased the total liabilities by SR 534 million at December 31, 2019.

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33. FINANCIAL INSTRUMENTS – FAIR VALUES AND RISK MANAGEMENT

A. Measurement of fair values

Except for the investment property, the fair values of the Company's financial assets and liabilities approximate their carrying amounts.

B. Financial risk management

The Company's activities expose it to a variety of financial risks: market risk (cash flow and interest rate risk), credit risk and liquidity risk.

The Company's overall risk management program focuses on robust liquidity management as well as monitoring of various relevant market variables, thereby consistently seeking to minimize potential adverse effects on the Company's financial performance.

Risk management framework

The Board of Directors has put in place appropriate structures to ensure risk governance and monitoring across the Company. The Company's overall financial risk management focuses on the unpredictability of financial markets and the clients' payment behavior and seeks to minimize potential adverse effects on the Company's financial performance.

The principles of overall financial risk management, as well as policies covering specific areas such as credit risk and the investment of excess liquidity exist and are formally documented.

Cash flow and interest rate risk

As the Company has no significant interest-bearing assets, the Company's income and associated operating cash inflows are substantially independent of changes in market interest rates. The Company has no interest-bearing liabilities.

Currency risk

Currency is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates for its transactions principally in Saudi Riyal, US Dollar, Egyptian Pound, Euro, British Pound and Swiss Franc. The Company has foreign suppliers and also operates in Cairo and therefore exposed to foreign exchange risk. The Company's management monitors such fluctuations and manages its effect on the consolidation financial statements accordingly.

Following is the exposure classified into separate foreign currencies:

	<u>2019</u>	<u>2018</u>
<u>Trade Payable:</u>		
US Dollar	4,750,195	6,631,481
Egyptian Pound	8,441,729	8,699,375
Euro	2,172,879	2,359,475
British Pound	137,574	231,926
UAE Dirhams	66,077	--
Swiss Franc	--	8,310

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33. FINANCIAL INSTRUMENTS – FAIR VALUES AND RISK MANAGEMENT (continued)

Currency risk (continued)

Following is the exposure classified into separate foreign currencies:

	<u>Average Rate</u>		<u>Spot Rate</u>	
	<u>2019</u>	<u>2018</u>	<u>2019</u>	<u>2018</u>
Foreign currency per Saudi Riyal				
US Dollar	3.750	3.751	3.749	3.747
Egyptian Pound	0.228	0.208	0.233	0.209
Euro	4.168	4.130	4.198	4.285
British Pound	4.889	4.881	4.917	4.755
Swiss Franc	--	3.628	3.861	3.805
UAE Dirhams	1.015	--	1.021	--

Sensitivity analysis

Every 1% increase or decrease in exchange rate with all other variables held constant will decrease or increase profit before zakat and income tax for the year by SR. 0.3 million (December 31, 2018 = SR. - 0.4 million).

Credit risk

Credit risk reflects the risk that a counterparty will default on its contractual obligations, resulting in financial loss to the Company. The credit risk arising from cash and cash equivalents and deposits with banks and financial institutions are limited because the counterparties are banks and financial institutions which, in general, have an investment grade rating assigned by international credit rating agencies.

The Company's gross maximum exposure to credit risk at the reporting date is as follows:

	<u>December 31,</u> <u>2019</u>	<u>December 31,</u> <u>2018</u>
Financial assets		
Due from related parties	656,703,848	726,336,993
Trade receivables	263,063,165	268,417,405
Balances with banks	188,174,435	145,997,345
Other receivables	27,355,520	22,687,824
Investment in sub-lease	25,385,157	--
Financial asset at amortized cost	19,754,026	29,991,692
	<u>1,180,436,151</u>	<u>1,193,431,259</u>

Credit risk on receivable and bank balances is limited as:

- Cash balances are held with banks with sound credit ratings ranging from A3 to A1 based on Moody's credit rating and BBB+ based on Fitch credit rating. All bank accounts are held with banks within Saudi Arabia and Cairo.
- The Company currently does not obtain security / collateral from its customers.

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33. FINANCIAL INSTRUMENTS – FAIR VALUES AND RISK MANAGEMENT (continued)

Concentration Risk

As at December 31, 2019, 5 largest customers (December 31, 2018: 5 largest customers) account for approximately 71% (31 December 2018: 78%) of gross outstanding trade receivables

Liquidity risk

Prudent liquidity risk management includes maintaining sufficient cash and the availability of funding from an adequate amount of committed credit facilities. The Company maintain flexibility in funding by maintaining sufficient availability of cash and cash equivalent instruments. The Company does not have any credit facilities in place and monitor risk to a shortage of funds by reviewing short-term cash forecasts on a continuous basis and by undertaking mid-term cash forecasts during the year.

Fair value of assets and liabilities

The following table shows the carrying amount of the financial assets and financial liabilities at December 31, 2018 and 2019. The Company does not have any assets measured at FVTPL or FVOCI at December 31, 2018 and 2019.

Financial assets classified as amortised cost
Carrying value:

	December 31, <u>2019</u>	December 31, <u>2018</u>
Due from related parties	652,808,496	722,310,992
Trade and other receivables	215,332,764	227,914,555
Balances with banks	188,174,435	145,997,345
Other receivables	27,335,520	22,687,824
Investment in sub-lease	25,385,157	--
Financial asset at amortized cost	<u>19,754,026</u>	<u>29,991,692</u>
	<u>1,128,790,398</u>	<u>1,148,902,408</u>

Financial liabilities as at amortised cost

Carrying amount:

	December 31, <u>2019</u>	December 31, <u>2018</u>
Trade and other payables	451,870,275	558,217,612
Lease liabilities	<u>533,866,178</u>	<u>--</u>

All the financials assets and liabilities mentioned above are at amortised cost and are not subject to fair value assessment.

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33. FINANCIAL INSTRUMENTS – FAIR VALUES AND RISK MANAGEMENT (continued)

Exposure to liquidity risk

The following are the remaining contractual maturities of financial liabilities at the reporting date. The amounts are gross and undiscounted, and include contractual interest payments and exclude the impact of netting agreements.

<u>December 31, 2019</u>	<i>Carrying amount</i>	<i>Total</i>	<i>less than one year</i>	<i>More than one year</i>
Liabilities				
Trade and other payables	451,870,275	451,870,275	451,870,275	--
Lease liabilities	533,866,178	533,866,178	117,364,903	416,501,275
<u>December 31, 2018</u>	<i>Carrying amount</i>	<i>Total</i>	<i>less than one year</i>	<i>More than one year</i>
Liabilities				
Trade and other payables	558,217,612	558,217,612	558,217,612	--

The inflows / (outflows) disclosed in the above table represent the contractual undiscounted cash flows relating to financial liabilities which are not usually closed out before contractual maturity.

34. COMMITMENTS AND CONTINGENCIES

As at December 31, the Company had the following commitments and contingencies:

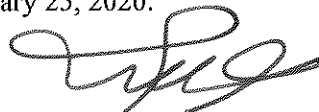
	December 31, 2019	December 31, 2018
Capital commitments	114,492,477	81,609,125
Letter of guarantees	48,827,369	39,590,143

Letters of guarantee are issued by a bank on behalf of the Company to a supplier and promises to meet any financial obligations to the supplier in the event of default and this requires the Company to place cash with the bank. As at December 31, 2019, the Company fully paid the amount against letters of guarantee, hence no further financial charges are payable.

The Company had a credit facility with SABB from April 2018 for the new bank guarantee issued on behalf of the Company to a supplier with the year-to-date issued amount of SR. 22,997,344.

35. DATE OF AUTHORISATION FOR ISSUE

These financial statements were approved by the Board of Directors on Rajab 1, 1441H, corresponding to February 25, 2020.


Chief Financial Officer


Chief Executive Officer


Authorized Board of Directors
Member