SAUDI GROUND SERVICES COMPANY
(A Saudi Joint Stock Company)

FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REPORT

For the year ended 31 December 2019

SAUDI GROUND SERVICES COMPANY
(A Saudi Joint Stock Company)

FINANCIAL STATEMENTS
For the year ended 31 December 2019

INDEX

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License No. 46/11/323 issued 11/3/1992

Independent auditor's report

To the Shareholders of Saudi Ground Services Company

Opinion

We have audited the financial statements of Saudi Ground Services Company ("the Company") which comprise the statement of financial position as at 31 December 2019, the statements of profit or loss and other comprehensive income, changes in shareholders' 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 31 December 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 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 Auditor's 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 year. 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.

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Independent auditor's report

To the Shareholders of Saudi Ground Services Company (continued)

Revenue recognition

Refer to note 3 (m) for the accounting policy relating to revenue recognition and note 18 for the related disclosures.

The key audit matter	How the matter was addressed in our audit
During the year ended 31 December 2019, the Company recognized total revenue of SR 2,540 million (2018: SR 2,554 million). There continues to be pressure on the Company to meet expectations and targets, which may result in a misstatement of revenue. Revenue recognition is considered a key audit matter as there is a risk that management may override controls to misstate revenue transactions and there is a risk of revenue being recognised in contravention of IFRS 15.	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 relevant accounting standards; - Obtained an understanding of the nature of the revenue contracts entered into by the Company and tested a sample of sales contracts to confirm that the revenue recognized is in accordance with IFRS 15; - Assessed the design and implementation, and tested the 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; and - Selected, on a sample basis, revenue transactions and verified the related supporting documents to ensure the accuracy and validity of revenue recognition.

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Independent auditor's report

To the Shareholders of Saudi Ground Services Company (continued)

Impairment assessment of intangible assets and goodwill

Refer to note 3 (e) for the accounting policy relating to intangible assets and goodwill and note 7 for the related disclosures.

The key audit matter	How the matter was addressed in our audit
At 31 December 2019, the carrying value of the Company's intangible assets and goodwill amounted to SR 885 million (2018: SR 891 million). Intangible assets and goodwill were recognized by the Company as a result of business combinations in prior years. For impairment testing, assets are grouped into the smallest group of assets that generates cash flows from continuing use (cash-generating unit or CGU), that are largely independent of cash flows of other assets or other CGUs. The Company's assessment of the recoverable amount of each CGU involves the use of modelling techniques, requiring a significant amount of judgment and estimation uncertainty. It also requires estimates of future cash flows and associated discount and growth rates based on management's view of future business prospects at the time of assessment. We considered the impairment assessment of goodwill and intangible assets as a key audit matter due to the involvement of significant judgments and estimation uncertainty.	Our audit procedures included the following: - Assessed the Company's process in respect of impairment assessment of intangible assets and goodwill; - Assessed the appropriateness of key assumptions used in the management's value-in-use calculations and performed sensitivity analysis on key assumptions, including discount rates and long-term growth rates through the use of our internal valuation specialists; - Compared the key assumptions against industry benchmarks, applied our understanding of the future prospects of the business from internal and external sources and compared forecasts to historical experience; - Checked the accuracy and completeness of the inputs into the model used as the basis of the impairment assessment; and - Assessed adequacy of the disclosures in the financial statements, including disclosures of critical assumptions, judgements and sensitivities.

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Independent auditor's report

To the Shareholders of Saudi Ground Services Company (continued)

Impairment loss on trade receivables

Refer to Note: 3 (c) for the accounting policy relating to trade receivables and note 9 for the related disclosures.

The key audit matter	How the matter was addressed in our audit
At 31 December 2019, gross trade receivables balance was SR 1,136 million (2018: SR 1,487 million) against which an allowance for impairment loss of SR 144 million (2018: SR 179 million) was made. The collectability of trade receivables is a key element of the Company's working capital management, which is managed on an ongoing basis. The Company determines and recognises expected credit loss ('ECL') as required by IFRS 9. Significant judgments, estimates and assumptions have been made by the management in calculation of the ECL. The Company's management applied the simplified ECL model to determine the allowance for impairment loss of trade receivables. We considered this as a key audit matter due to the judgments and estimates involved in the application of the ECL model.	Our audit procedures included the following: - Evaluated the Company's processes and controls in relation to the monitoring of trade receivables and review of credit risk of customers. - Assessed the assumptions used in the calculation of the ECL including the probability of default and incorporation of forward-looking information in the calculation of expected credit losses, and the changes in the loss given default parameter. - Tested the accuracy of ageing of trade receivables generated by the accounting system; and - Evaluated the adequacy of the disclosures included in the accompanying financials statements.

Independent auditor's report

To the Shareholders of Saudi Ground Services 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 auditor's report thereon. The annual report is expected to be made available to us after the date of this auditor's 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, 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 Regulation for Companies, 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 are responsible for overseeing the Company's financial reporting process.

Auditor's 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 auditor's report that includes our opinion. 'Reasonable assurance' is a high level of assurance, but is not a guarantee that an audit conducted in accordance with 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 the 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 judgment 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 auditor's report

To the Shareholders of Saudi Ground Services Company (continued)

Auditor's 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 the 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, we are required to draw attention in our auditor's 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 auditor's 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 Ground Services 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 year and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

For KPMG Al Fozan & Partners
Certified Public Accountants

Ebrahim Oboud Baeshen
License No. 382

Jeddah, 7 Rajab 1441H
Corresponding to 2 March 2020

كي بي إم جي الفوزان وشركاه
محاسبون ومراجعون قانونيون
C.R: 46
س.ت: ٤٦
Certified Public Accountants
KPMG Al Fozan & Partners

SAUDI GROUND SERVICES COMPANY
(A Saudi Joint Stock Company)

STATEMENT OF FINANCIAL POSITION
As at 31 December 2019
(Expressed in thousands of Saudi Arabian Riyals, unless otherwise stated)

	Notes	2019	2018
ASSETS			
Property and equipment	5	**592,538**	635,143
Right-of-use assets	6	**182,996**	--
Intangible assets and goodwill	7	**885,065**	891,266
Equity-accounted investee	8	**141,567**	129,824
Trade receivables	9	**120,037**	--
Prepayments and other receivables	10	**3,776**	4,737
Non-current assets		**1,925,979**	1,660,970
Inventories		**285**	226
Trade receivables	9	**871,592**	1,308,288
Prepayments and other receivables	10	**461,416**	322,549
Investments at fair value through profit or loss (FVTPL)	11	**943,931**	305,038
Cash and cash equivalents	12	**119,849**	309,886
Current assets		**2,397,073**	2,245,987
Total assets		**4,323,052**	3,906,957
SHAREHOLDERS' EQUITY			
Share capital	15	**1,880,000**	1,880,000
Statutory reserve	16	**499,025**	456,690
Retained earnings		**566,863**	539,683
Total shareholders' equity		**2,945,888**	2,876,373
LIABILITIES			
Lease liabilities	6	**129,993**	--
Employee benefits	24	**531,229**	474,390
Non-current liabilities		**661,222**	474,390
Lease liabilities	6	**44,880**	--
Trade payables	13	**21,141**	49,374
Other payables	14	**543,418**	420,568
Accrued Zakat	23	**106,503**	86,252
Current liabilities		**715,942**	556,194
Total liabilities		**1,377,164**	1,030,584
Total shareholders' equity and liabilities		**4,323,052**	3,906,957

Chief Financial Officer   Chief Executive Officer   Chairman

The notes on pages from 11 to 62 form an integral part of these financial statements.

SAUDI GROUND SERVICES COMPANY
(A Saudi Joint Stock Company)

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
For the year ended 31 December 2019
(Expressed in thousands of Saudi Arabian Riyals, unless otherwise stated)

	Notes	2019	2018
Revenue	18	**2,539,760**	2,554,043
Costs of revenue	19	**(1,853,256)**	(1,869,608)
Gross profit		**686,504**	684,435
Other income		**154**	54
Administrative expenses	20	**(238,834)**	(243,584)
Impairment loss on trade receivables	9	**(31,806)**	(69,748)
Operating profit		**416,018**	371,157
Finance costs	21	**(9,231)**	(3,035)
Finance income	22	**35,323**	18,459
Share of profit of investment in equity-accounted investee	8	**11,743**	8,044
Profit before Zakat		**453,853**	394,625
Zakat charge	23	**(30,500)**	(26,200)
Profit for the year		**423,353**	368,425
Other comprehensive income:			
Items that will not be reclassified to profit or loss:			
Remeasurement (loss) / gains on defined benefit obligation	24	**(1,094)**	2,483
Total comprehensive income for the year		**422,259**	370,908
Earnings per share (EPS)			
Basic and diluted (in SR)	17	**2.25**	1.96

Chief Financial Officer　　Chief Executive Officer　　Chairman

The notes on pages from 11 to 62 form an integral part of these financial statements.

SAUDI GROUND SERVICES COMPANY
(A Saudi Joint Stock Company)

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
For the year ended 31 December 2019
(Expressed in thousands of Saudi Arabian Riyals, unless otherwise stated)

	Share capital	Statutory reserve	Retained earnings	Total equity
Balance at 01 January 2018	1,880,000	419,847	572,218	2,872,065
Total comprehensive income:				
Profit for the year	--	--	368,425	368,425
Other comprehensive income for the year	--	--	2,483	2,483
Total comprehensive income for the year	--	--	370,908	370,908
Transactions with owners of the Company:				
Dividends declared (note 15)	--	--	(366,600)	(366,600)
Other transactions:				
Transfer to statutory reserve (note 16)	--	36,843	(36,843)	--
Balance at 31 December 2018	1,880,000	456,690	539,683	2,876,373
Balance at 01 January 2019	1,880,000	456,690	539,683	2,876,373
Impact of adopting IFRS 16 at 1 January 2019 (note 29)	--	--	(14,344)	(14,344)
Adjusted balance at 01 January 2019	1,880,000	456,690	525,339	2,862,029
Total comprehensive income:				
Profit for the year	--	--	423,353	423,353
Other comprehensive loss for the year	--	--	(1,094)	(1,094)
Total comprehensive income for the year	--	--	422,259	422,259
Transactions with owners of the Company:				
Dividends declared (note 15)	--	--	(338,400)	(338,400)
Other transactions:				
Transfer to statutory reserve (note 16)	--	42,335	(42,335)	--
Balance at 31 December 2019	**1,880,000**	**499,025**	**566,863**	**2,945,888**

Chief Financial Officer   Chief Executive Officer   Chairman

The notes on pages from 11 to 62 form an integral part of these financial statements.

SAUDI GROUND SERVICES COMPANY
(A Saudi Joint Stock Company)

STATEMENT OF CASH FLOWS
For the year ended 31 December 2019
(Expressed in thousands of Saudi Arabian Riyals, unless otherwise stated)

	Notes	2019	2018
Cash flows from operating activities:			
Profit for the year		**423,353**	368,425
Adjustments for:			
Depreciation on property and equipment	5	**110,631**	115,595
Depreciation on right-of-use assets	6	**53,973**	--
Amortisation	7	**41,294**	25,082
Share of profit of investment in equity accounted investee	8	**(11,743)**	(8,044)
Loss on disposal of property and equipment		**5**	--
Impairment loss on property and equipment	5	**14,048**	--
Impairment loss on trade receivables	9	**31,806**	69,748
Gain on investments at FVTPL	22	**(22,234)**	(17,327)
Finance costs	21	**9,231**	3,035
Zakat	23	**30,500**	26,200
		680,864	582,714
Changes in:			
Inventories		**(59)**	(226)
Trade receivables		**284,853**	(323,674)
Prepayments and other receivables		**(137,906)**	37,970
Trade payables		**(28,233)**	(14,126)
Other payables		**122,850**	117,321
Employee benefits		**55,745**	44,593
Cash generated from operating activities		**978,114**	444,572
Zakat paid	23	**(10,249)**	(5,536)
Finance costs paid	21	**(1,626)**	(3,035)
Net cash generated from operating activities		**966,239**	436,001
Cash flows from investing activities:			
Additions to property and equipment	5	**(82,079)**	(134,947)
Additions to right-of-use assets	6	**(62,227)**	--
Additions to intangible assets	7	**(35,093)**	(29,024)
Investments at FVTPL	11	**(1,021,659)**	(720,000)
Proceeds from disposal of investments at FVTPL		**405,000**	1,088,093
Net cash (used in) / generated from investing activities		**(796,058)**	204,122
Cash flows from financing activities:			
Dividends paid	15	**(338,400)**	(366,600)
Change in lease liabilities		**(21,818)**	--
Net cash used in financing activities		**(360,218)**	(366,600)
Net (decrease) / increase in cash and cash equivalents		**(190,037)**	273,523
Cash and cash equivalents at beginning of the year		**309,886**	36,363
Cash and cash equivalents at the end of the year	12	**119,849**	309,886

Chief Financial Officer　　Chief Executive Officer　　Chairman

The notes on pages from 11 to 62 form an integral part of these financial statements.

1. REPORTING ENTITY

1.1 Saudi Ground Services Company ("the Company") was registered as a limited liability company in the Kingdom of Saudi Arabia under Commercial Registration number 4030181005 dated 11 Rajab 1429H, (corresponding to 14 July 2008). During 2008, the Company was formed by Saudi Arabian Airlines Corporation ("Saudia"), a 100% Government owned entity, to consolidate the ground support services business (GSS) in the Kingdom of Saudi Arabia.

1.2 The legal name "Saudi Airlines Ground Services Company" was changed to "Saudi Ground Services Company" under the same commercial registration number 4030181005 on 20 Safar 1432H, (corresponding to 24 January 2011). The parent of the Company is Saudi Arabian Airlines Corporation (the "Parent Company"), having 52.5% of shares in the Company. The ultimate parent of the Company is Saudi Holding Company (the "Ultimate Parent Company").

1.3 Pursuant to the Ministerial resolution number -171/R, on 17 Jamadul Thani 1435H, corresponding to 17 April 2014, the Company was converted from a limited liability company to a closed joint stock company.

1.4 After obtaining required approval from the Capital Market Authority, the Company offered 56.4 million shares, with a nominal value of SR 10 each, representing 30% share capital of the Company, to public during subscription period from 3 June 2015 (corresponding to 15 Shabaan 1436H) to 9 June 2015 (corresponding to 21 Shabaan 1436H) The Company's shares started trading on the Saudi Stock Exchange (Tadawul) on 25 June 2015, corresponding to 8 Ramadan 1436H. Accordingly, after successful completion of Initial Public offering (IPO), the Company was declared as a Saudi Joint Stock Company. During the year ended 31 December 2019, the founding shareholders (Attar Ground Handling and Attar Travel (collectively referred as "Attar") and National Aviation Ground Support Company ("NAGS")) disposed off their shareholding in the Company to general public and accordingly the shares subscribed by general public increased to 47.5% (see note 15).

1.5 The Company is engaged in providing aircraft cleaning, passenger handling, fuel, baggage and ground handling services to Saudi Arabian Airlines, other local and foreign airlines at all airports in the Kingdom of Saudi Arabia.

1.6 The Company's registered office is located at the following address:

Saudi Ground Services Company
Nahda District, Henaki Business Centre
Prince Sultan Street
P. O. Box 48154
Jeddah 21572
Kingdom of Saudi Arabia.

As at the reporting date, the Company holds 50% ownership interest in Saudi Amad for Airport Services and Transport Support Company ("SAAS"), a joint venture. Accordingly, the Company has classified its interest in SAAS as a joint venture. SAAS is one of the Company's strategic supplier and is principally engaged in providing transportation services for passengers and crew in the Kingdom of Saudi Arabia.

2. BASIS OF PREPARATION

2.1 Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRS') as endorsed in Kingdom of Saudi Arabia, other standards and pronouncements that are issued by Saudi Organization for Certified Public Accountants ('SOCPA') (hereafter referred to as "IFRS as endorsed in KSA"). This is the first set of Company's annual financial statements in which IFRS 16 "Leases" have been applied. The effect of the application of these standards has been fully explained in note 29.

2.2 Basis of measurement

These financial statements have been prepared under the historical cost basis, except for investments at fair value through profit or loss (FVTPL) that are measured at fair value and employee benefits which are recognized at the present value of future obligation using Projected Unit Credit Method. Further, the financial statements are prepared using the accrual basis of accounting and the going concern assumption.

Comparatives for related party balances have been reclassified to conform to the current period's presentation (see note 25).

2.3 Functional and presentation currency

The accompanying financial statements are presented in Saudi Arabian Riyals ("SR") which is the functional currency of the Company. All numbers are rounded off to the nearest thousand, unless otherwise stated.

2.4 Use of estimates and judgments

The preparation of these financial statements requires management to make judgments, estimates and assumptions that affect the application of the Company's accounting policies and the reported amounts of assets, liabilities, income and expenses and the accompanying disclosures, and the disclosure of contingent liabilities. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future periods. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognized prospectively.

i) Judgments

Information about judgments made in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements is included in the following notes:

2. BASIS OF PREPARATION (continued)

2.4 Use of estimates and judgments (continued)

i) Judgments (continued)

a) *Determining the lease term of contracts with renewal and termination options – Company as lessee*

The Company determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised. The Company has several lease contracts that include extension and termination options. The Company applies judgement in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Company reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew or to terminate.

b) Going concern

The Company's management has assessed its ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Company's ability to continue as a going concern. Therefore, the financial statements continue to be prepared on going concern basis.

ii) Assumptions and estimation uncertainties

Information about the key assumptions and estimation uncertainties that have the most significant effect on the amounts recognized in these financial statements is included in the following notes:

a) Note 3 (h) - impairment in financial assets.

b) Provision for expected credit losses (ECLs) of trade receivables

The Company uses a provision matrix to calculate ECLs for trade receivables. The provision matrix is initially based on the Company's historically observed rates. The Company calibrates the matrix to adjust the historical credit loss experience with forward-looking information. At every reporting date, the historically observed default rates are updated, and changes in the forward-looking estimates are analysed.

The assessment of the correlation between historically observed default rates, forecasted economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Company's historical credit loss experience and forecast of economic conditions may also not be representative of customers' actual default in the future. The information about the ECL on the Company's trade receivables is disclosed in note 31.

2. BASIS OF PREPARATION (continued)

2.4 Use of estimates and judgments (continued)

ii) Assumptions and estimation uncertainties (continued)

c) Impairment of non-financial assets

Impairment exists when the carrying value of an asset or cash generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The fair value less costs of disposal calculations are based on available data from binding sales transactions, conducted at arm's length, for similar assets or observable market prices less incremental costs of disposing of the asset. The value-in-use calculation is based on a DCF model. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Company is not yet committed to or significant future investments that will enhance the performance of the assets of the CGU being tested. The recoverable amount is sensitive to the discount rate used for the DCF model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes.

d) Defined benefit plans (employees' terminal benefits)

The present value of the 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 at each reporting date. The parameter most subject to change is the discount rate. In determining the appropriate discount rate, management considers the market yield on high quality Corporate/Government bonds. The mortality rate is based on publicly available mortality tables for the country. Those mortality tables tend to change only at intervals in response to demographic changes. Future salary increases are based on expected future inflation rates for the country. Further details about employee benefits obligations are provided in note 24. Future salary increases are based on expected future inflation rates, seniority, promotion, demand and supply in the employment market.

e) Useful lives and residual value of property and equipment and intangible assets

The Company's management determines the estimated useful lives of its property and equipment and intangible assets with finite useful lives for calculating depreciation and amortisation. These estimates are determined after considering the expected usage of the assets or physical wear and tear. Management reviews the residual value, depreciation and amortisation methods and useful lives annually and future depreciation and amortisation charges would be adjusted where the management believes the useful lives differ from previous estimates and to ensure that the methods and period of depreciation and amortisation are consistent with the expected pattern of economic benefits from these assets.

f) Leases - Estimating the incremental borrowing rate

The Company cannot readily determine the interest rate implicit in the lease, therefore, it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the Company would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Company 'would have to pay', which requires estimation when no observable rates are available or when they need to be adjusted to reflect the terms and conditions of the lease. The Company estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently, except for the adoption of IFRS 16 “Leases” during the year as disclosed in note 29, in the preparation of these financial statements unless otherwise stated.

(a) Business combinations

The Company accounts for business combinations (other than business combinations under common control) using the acquisition method when control is transferred to the Company. The consideration transferred in the acquisition is generally measured at fair value, as are the identifiable assets acquired. Any goodwill that arises is tested annually for impairment. Any gain on bargain purchase is recognized in the statement of profit or loss and other comprehensive income immediately. Transaction costs are expensed as incurred, except related to the issue of debt or equity securities.

When the Company acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IFRS 9 Financial Instruments, is measured at fair value with the changes in fair value recognised in the statement of profit or loss.

(b) Investments in jointly controlled entity (“equity-accounted investee”)

The Company’s interest in equity-accounted investee comprises of an interest in a joint venture. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

An investment in the equity accounted investee is accounted for using the equity method from the date on which the investee becomes a joint venture. Under the equity method, an investment is initially recognised in the cost and adjusted thereafter to recognise the Company’s share of the profit or loss and other comprehensive income of the equity accounted investee. When the Company’s share of losses of the equity accounted investee exceeds the Company’s interest in that equity accounted investee (which includes any long-term interests that, in substance, form part of the Company’s net investment), the Company discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Company has incurred legal or constructive obligations or made payments on behalf of the equity accounted investee.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Financial Assets

a) Recognition and initial measurement:

The Company's financial assets comprise of cash and cash equivalents, trade and other receivables and investments at FVTPL.

Financial assets are initially recognized when the Company becomes a party to the contractual provisions of the instrument.

A financial asset is initially measured at fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue.

b) Classification and subsequent measurement:

The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Company's business model for managing them. With the exception of trade receivables that do not contain a significant financing component or for which the Company has applied the practical expedient, the Company initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Company has applied the practical expedient are measured at the transaction price determined under IFRS 15 Revenue from contracts with customers.

On initial recognition, a financial asset is classified as measured at
- amortised cost;
- Fair value through other comprehensive income (FVOCI) – debt investment;
- FVOCI – equity investment; or
- Fair value through profit or loss (FVTPL)

Financial assets are not reclassified subsequent to their initial recognition, except if and in the period the Company changes its business model for managing financial assets.

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Financial instruments (continued)

Financial Assets (continued)

b) Classification and subsequent measurement (continued):

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

- the asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- the contractual terms of the financial asset 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 (designated as FVOCI – equity investment). 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. 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.

Financial assets: Business model assessment

The Company makes an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed and the information is provided to management.

Subsequent measurement and gains and losses

Financial assets at 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 de-recognition is recognised in profit or loss.
Debt investments at FVOCI	These assets are subsequently measured at fair value. Interest income under 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 de-recognition, gains and losses accumulated in OCI are reclassified to profit or loss.
Equity investments at 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 not reclassified to profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Financial instruments (continued)

Financial liabilities

Initial recognition and measurement
Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, borrowings, or payables, as appropriate. All financial liabilities are recognised initially at fair value and, in the case of payables, net of directly attributable transaction costs.

The Company's significant financial liabilities include trade and other payables and lease liabilities.

Classification and subsequent measurement
An entity shall classify all financial liabilities as subsequently measured at amortised cost, except for:

a) Financial liabilities at fair value through statement of profit or loss and other comprehensive income.
b) Financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies.
c) Financial guarantee contracts.
d) Commitments to provide a loan at a below-market interest rate.
e) Contingent consideration recognized by as an acquirer in a business combination to which IFRS 3 applies. Such contingent consideration shall subsequently be measured at fair value with changes recognized in the statement of profit or loss and other comprehensive income.

De-recognition

Financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Company's statement of financial position) when:

- The rights to receive cash flows from the asset have expired; or
- The Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either
  (a) the Company has transferred substantially all the risks and rewards of the asset, or
  (b) the Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Financial instruments (continued)

De-recognition (continued

Financial assets (continued)

When the Company has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if, and to what extent, it has retained the risks and rewards of ownership. When it has neither transferred nor retained substantially all of the risks and rewards of the asset, nor transferred control of the asset, the Company continues to recognise the transferred asset to the extent of its continuing involvement. In that case, the Company also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company has retained. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company could be required to repay.

Financial liabilities

The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled, or expire.

The Company also derecognizes a financial liability when its terms are modified, and the cash flows under the modified terms are substantially different. In this case, a new financial liability based on the modified terms is recognized at fair value. The difference between the carrying amount of the financial liability extinguished and the new financial liability with modified terms is recognized in the Statement of Profit or Loss and Other Comprehensive Income.

Offsetting of financial instruments

Financial asset and financial liability 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 recognized amounts; and
- intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Property and equipment

Recognition and measurement
Items of property and equipment are initially recorded at cost less accumulated depreciation and accumulated impairment losses. Cost includes purchase price and any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

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

Gains or losses on disposal of an item of property and equipment are determined by comparing the proceeds from disposal with the carrying amount of property and equipment and are recognized net within other income in the statement of profit or loss and other comprehensive income.

If significant parts of an item of property, plant and equipment have different useful lives, then they are accounted for as separate items of property, plant and equipment. An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use. 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.

Subsequent costs
The cost of replacing a part of an item of property and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company, and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing of property and equipment are recognized in statement of profit or loss and other comprehensive income as incurred.

Depreciation
Depreciation represents the systematic allocation of the depreciable amount of an asset over its estimated useful life. Depreciable amount represents the cost of an asset, or other amount substituted for cost, less its residual value. Depreciation is recognized in the statement of profit or loss and other comprehensive income on a straight-line basis over the estimated useful lives of each part of an item of property and equipment. Leased assets are depreciated over the shorter of their lease terms and useful lives. Land is not depreciated.

The estimated useful lives of property and equipment for the current and comparative periods are as follows:

	Years
Leasehold improvements	5-10
Airport equipment	7-10
Motor vehicles	5
Furniture, fixtures and equipment	4-10
Computer equipment	4

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted prospectively, if required.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(d) Property and equipment (continued)

Capital work in progress
Capital work-in-progress represents all costs relating directly and indirectly towards the purchase of airport equipment and construction in progress and is capitalized as property and equipment when ready for the intended use.

(e) Intangible assets and goodwill

Recognition and measurement
Intangible assets acquired separately are measured on initial recognition at cost. Intangible assets, having no physical existence however separately identifiable and providing future economic benefits, are initially recognized at the purchase price and directly attributable costs. Intangible assets are stated at cost less accumulated amortisation and impairment loss if any.

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the statement of profit or loss and other comprehensive income in the expense category that is consistent with the function of the intangible assets. Gains or losses arising from derecognition of intangible assets are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the statement of profit or loss when the asset is derecognised.

Intangible assets include customer contracts, customer relationships and software that are acquired by the Company and have finite useful lives. These are measured at cost less accumulated amortisation and any accumulated impairment losses.

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business less accumulated impairment losses if any.

Impairment on goodwill is determined by assessing the recoverable amount of each CGU (or group of CGUs) to which the goodwill relates. When the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in the future period.

Subsequent expenditure
Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure, including internally generated goodwill, is recognized in statement of profit or loss and other comprehensive income as incurred.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Intangible assets and goodwill (continued)

Amortisation
Amortisation is calculated to write off the cost of intangible assets using the straight-line method over their estimated useful lives and is recognized in the statement of profit or loss and other comprehensive income. Goodwill is not amortised.

The estimated useful lives for the current and comparative periods are as follows:

	Years
Customer contracts	3-5
Customer relationships	20
Software	3-5

Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

(f) Leases

Policy applicable before 1 January 2019

Agreements with third parties are classified as leases when the arrangement is dependent on the use of a specific asset or assets, and, the arrangement conveys a right to use that asset. The assessment of whether an arrangement contains a lease is made at the inception of the arrangement, being the earlier of the date of the arrangement and the date of commitment by the parties to the principal terms of the arrangement, on the basis of all of the facts and circumstances. A reassessment of whether the arrangement contains a lease after the inception of the arrangement is made only if there is a change in the contractual terms, unless the change only renews or extends the arrangement, or, there is a change in the determination of whether fulfilment is dependent on a specified asset, or, there is a substantial change to the asset.

A lease is classified at the inception date as a finance lease or an operating lease. A lease that transfers substantially all the risks and rewards incidental to ownership to the Company is classified as a finance lease. Finance leases are capitalised at the commencement of the lease at the inception date fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in finance costs in the statement of profit or loss and other comprehensive income.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Leases (continued)

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Company will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership of the asset or assets subject to the lease arrangement. Payments made under operating leases are charged to the statement of profit or loss and other comprehensive income on a straight-line basis throughout the lease. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognized as an expense in the period in which termination takes place.

Lease payments
Payments made under operating leases are recognized in the statement of profit or loss and other comprehensive income on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease.

Policy applicable from 1 January 2019

The Company has initially adopted IFRS 16 Leases from 1 January 2019, the impact of which is explained in note 29.

IFRS 16 introduces a single, on-balance sheet accounting model for lessees. As a result, the Company, as a lessee, has recognised right-of-use assets representing its rights to use the underlying assets and lease liabilities representing its obligations to make lease payments.

The Company has applied IFRS 16 using the modified retrospective approach under which the cumulative effect of initial application is recognised in retained earnings at 1 January 2019. Accordingly, the comparative information presented for 2018 has not been 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.

The Company recognises a right-of-use asset and a lease liability at the lease commencement date.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Leases (continued)

Right-of-use assets
The Company recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Company is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment.

Lease liabilities
At the commencement date of the lease, the Company recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Company and payments of penalties for terminating a lease, if the lease term reflects the Company exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as expense in the period on which the event or condition that triggers the payment occurs.

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

(g) Inventories

Inventories are stated at the lower of cost and net realisable value. The cost is determined using the weighted average basis and includes all cost incurred in the normal course of business in bringing each product to its present condition and location. In the case of work in progress and finished goods, cost includes the purchase cost, the cost of refining and processing including an appropriate proportion of depreciation and production overheads based on normal operating capacity.

The net realisable value of inventories is based on the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Impairment

Financial assets

The Company assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset and a loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that debtors or a group of debtors are experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter into bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as economic conditions that correlate with defaults.

IFRS 9 requires an entity to follow an expected credit loss model for the impairment of financial assets. 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

For trade receivables, the Company applies a simplified approach in calculating ECLs. Therefore, the Company does not track changes in credit risk but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Company has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment. The Company considers evidence of impairment at both a specific asset and collective level. All individually significant financial instruments found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified.

The gross carrying amount of a financial asset is written off when the Company has no reasonable expectations of recovering a financial asset in its entirety or a portion thereof. For individual customers, the Company individually makes an assessment with respect to the timing and amount of write-off based on whether there is a reasonable expectation of recovery. The Company expects no significant recovery from the amount written off. However, financial assets that are written off could still be subject to enforcement activities in order to comply with the Company's procedures for recovery of amounts due.

The Company considers a financial asset to be in default when the debtor is unlikely to repay the outstanding balance to the Company in full, without recourse by the Company to actions such as realizing security (if any is held).

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Impairment (continued)

Non-financial assets

The Company 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 Company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs of disposal and its value in use. The recoverable amount is determined for an individual asset unless the asset does not generate cash inflows that are largely independent of those from other assets or group of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset ls 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 discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value fewer costs of disposal, recent market transactions are taken into account. 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 companies or other available, fair value indicators.

External valuers are involved in the valuation of significant assets. The involvement of external valuers is decided by the Company after discussion with the Company's Audit Committee. Selection criteria include market knowledge reputation, independence and whether professional standards are maintained. The Company decides, after discussions with the external valuers, which valuation techniques and inputs to use for each case. The Company bases its impairment calculation on detailed budgets and forecast calculations.

Impairment losses are recognized in the statement of profit or loss and other comprehensive income. 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 Company 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 Joss 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, had no impairment loss been recognized for the asset in prior years.

Impairment is determined for goodwill by assessing the recoverable amount of each CGU (or group of CGUs) to which the goodwill relates. When the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in the future period.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Cash and cash equivalents

Cash and cash equivalents comprise cash in hand, cash at banks and other short-term bank deposits with banks with an original maturity of three months or less, if any, which are available to the Company without any restrictions.

(j) Segment reporting

An operating segment is a group of assets, operations or entities:
(i) engaged in business activities from which it may earn revenue and incur expenses including revenues and expenses that relate to transactions with any of the Company's other components;
(ii) the results of its operations are continuously analyzed by Chief Operating Decision Maker (CODM) in order to make decisions related to resource allocation and performance assessment; and
(iii) for which financial information is discretely available.

The Company is principally involved in providing ground handling services to airlines in the Kingdom of Saudi Arabia. Accordingly, the management believes that the Company's business activity falls within a single business segment, subject to the same risks and returns.

(k) Employee benefits

Short-term employee benefits

Short term employee benefit obligations are measured on an undiscounted basis and are expensed as the related services are 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 past service provided by the employee and the obligation can be estimated reliably.

Long-term employee benefits

i) Defined benefit plans

The Company's obligation under employee end of service benefits plan is accounted for as an unfunded defined benefit plan and is calculated by estimating the discounted amount of future benefits that employees have earned in the current and prior periods. The calculation of defined benefit obligations is performed annually by a qualified actuary using the projected unit credit method. Remeasurements of the net defined benefit liability, which comprises actuarial gains and losses are recognized immediately in other comprehensive income. The Company determines the net interest expense on the net defined benefit liability for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then-net defined benefit liability, taking into account any changes in the net defined benefit liability during the period as a result of benefit payments. Net interest expense and other expenses related to defined benefit plans are recognized in personnel expenses in statement of profit or loss and other comprehensive income.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Employee benefits (continued)

ii) Other long-term employee benefits

The Company's net obligation in respect of other 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. That benefit is discounted to determine its present value. Remeasurements are recognized in the statement of profit or loss and other comprehensive income in the period in which they arise.

iii) Termination benefits

Termination benefits are recognized as an expense when the Company is committed demonstrably, without realistic possibility of withdrawal, to a formal detailed plan to either terminate employment before the normal retirement date or to provide termination benefits as a result of an offer made to encourage voluntary redundancy. Termination benefits for voluntary redundancies are recognized as an expense if the Company has made an offer of voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably. If benefits are payable more than 12 months after the reporting period, then they are discounted to their present value.

(l) 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 finance costs. A provision for onerous contracts is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of resources embodying economic benefits will be required to settle the obligation, the provision is reversed.

(m) Revenue recognition

The revenue recognition policy outlines a single comprehensive model of accounting for revenue arising from contracts with customers. It establishes the below mentioned five-step, model that will apply to revenue arising from contracts with customers.

(i) Revenue from contracts with customers

The Company recognises revenue from contracts with customers based on a five-step model as set out in IFRS 15:

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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) Revenue recognition (continued)

(i) Revenue from contracts with customers (continued)

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 Company will allocate the transaction price to each performance obligation in an amount that depicts the amount of consideration to which the Company 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 recognises revenue over time if one of the following criteria is met:

a) 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.
b) The Company's performance creates or enhances an asset that the customer controls as the asset is created or enhanced.
c) 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 is met, revenue is recognised at the point in time at which the performance obligation is satisfied.

If the consideration promised in a contract includes a variable amount, the company shall estimate the amount of consideration to which the Company will be entitled in exchange for transferring the promised goods or services to a customer.

An amount of consideration can vary because of discounts, rebates, refunds, credits, price concessions, incentives, performance bonuses, penalties or other similar items. The promised consideration can also vary if the Company's entitlement to the consideration is contingent on the occurrence or non-occurrence of a future event.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) Revenue recognition (continued)

(i) Revenue from contracts with customers (continued)

Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes and duty. The Company assesses its revenue arrangements against specific criteria to determine if it is acting as principal or agent.

Revenue is recognised to the extent it is probable that the economic benefits will flow to the Company and the revenue and costs, if applicable, can be measured reliably.

ii) Aircraft ground handling services

The Company is engaged in providing aircraft cleaning, passenger handling, baggage and ground handling services to the local and international airlines. Revenues from these services are recognized in the period in which services are completed.

Revenue is recorded net of returns, trade discounts, volume rebates, estimates of other variable consideration and amounts collected on behalf of third parties. The consideration payable to a customer is recognised as a reduction of the transaction price and, therefore, of revenue unless the payment to the customer is in exchange for a distinct good or service that the customer transfers to the Company. If consideration payable to the customer is a payment for a distinct good or service from the customer, then the Company record such purchase of the good or service in the same way that it accounts for other purchases from suppliers.

iii) Income from other services

Income from other services that are incidental to ground handling services is recognized when these related services are completed and classified as part of the revenue from these core operating activities.

iv) Sale of goods

Revenue from the sale of goods is recognised 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. The Company considers the following indicators of the transfer of control:

a) The Company has a present right to payment for the asset
b) The customer has legal title to the asset
c) The Company has transferred physical possession of the asset
d) The customer has the significant risks and rewards of ownership of the asset
e) The customer has accepted the asset

The Company recognise as revenue, the amount of the transaction price that is allocated to that performance obligation. Revenue is recorded net of returns, trade discounts, volume rebates, if any.

v) Interest income

Income on Murabaha term deposits with banks is recognized on an effective yield basis.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) Finance income and finance costs

Finance income mainly includes interest income on short term deposits, realized/unrealized gain on fair valuation of investment-FVTPL and unwinding of the discounts on other financial assets.

Finance costs mainly include impairment losses recognized on financial assets (other than trade receivables) and foreign currency losses.

Interest income is recognized using the effective interest method.

(o) Zakat

The Company is subject to Zakat in accordance with the regulations of the General Authority of Zakat and Income Tax ("GAZT"). Provision for Zakat for the Company is charged to the statement of profit or loss and other comprehensive income. Additional amounts payable, if any, at the finalization of final assessments are accounted for in the period in which these are determined.

The Company withholds taxes on transactions with non-resident parties and on dividends paid to foreign shareholders in accordance with GAZT regulations, which is not recognized as an expense being the obligation of the counterparty on whose behalf the amounts are withheld.

(p) Foreign currency translations

Transactions in foreign currencies are translated to the respective functional currency of the Company at exchange rates prevailing at the dates of the respective transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognized in statement of profit or loss and other comprehensive income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

(q) Dividends

Interim dividends are recorded as a liability in the period in which they are approved by the Board of Directors. Final dividends are recorded in the year in which they were approved by the general assembly of shareholders.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(r) Contingencies

Contingent liabilities are not recognised in the financial statements but are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote.

Contingent assets are not recognised in the financial statements but are disclosed when an inflow of economic benefits is probable.

(s) Earnings per share

Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding, for the effects of all dilutive potential ordinary shares.

(t) Expenses

Costs of revenue represent all expenses directly attributable or incidental to the core operating activities of the Company including but not limited to: attributable employee-related costs, depreciation of property plant and equipment, etc. All other expenses are classified as administrative expenses. Allocation of common expenses between costs of revenue and administrative expenses, where required, is made on a reasonable basis with regards to the nature and circumstances of the common expenses.

(u) Current versus non-current classification

Assets
The Company 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 realised or intended to be sold or consumed in the normal operating cycle;
It is held primarily for the purpose of trading;
It is expected to be realised within twelve months after the reporting period; or
It is cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current.

Liabilities
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 Company classifies all other liabilities as non-current.

4. SECONDMENT AGREEMENTS WITH FOUNDING SHAREHOLDERS

On 01 January 2011 the company has entered into a secondment agreement with Saudia that puts forth the terms and conditions for the secondments of Saudia employees to assist the company in the conduct of its business and operations.

During the secondment period, based on the thresholds set out in the secondment agreement, the Company will be responsible for its share of liabilities and obligations of seconded employees, in accordance with their terms of employment with Saudia.

(Expressed in thousands of Saudi Arabian Riyals, unless otherwise stated)

5. PROPERTY AND EQUIPMENT

a) Reconciliation of carrying amounts:

	Land	Leasehold improvements	Airport Equipment	Motor vehicles	Furniture, fixtures & equipment	Computer equipment	Capital work in progress "CWIP"	Total
Cost:								
Balance at 01 January 2018	27,464	36,381	1,167,033	31,844	40,221	35,482	66,120	1,404,545
Additions	--	--	72,827	--	2,379	1,325	58,416	134,947
Transfers from CWIP	--	--	96,754	--	--	--	(96,754)	--
Disposals	--	--	--	--	--	(5)	--	(5)
Balance at 31 December 2018	27,464	36,381	1,336,614	31,844	42,600	36,802	27,782	1,539,487
Balance at 01 January 2019	27,464	36,381	1,336,614	31,844	42,600	36,802	27,782	1,539,487
Additions	--	--	--	250	1,163	2,547	78,119	82,079
Transfers from CWIP	--	--	49,225	--	--	--	(49,225)	--
Disposals	--	--	--	(315)	--	(11)	--	(326)
Balance at 31 December 2019	27,464	36,381	1,385,839	31,779	43,763	39,338	56,676	1,621,240
Accumulated depreciation and impairment losses:								
Balance at 01 January 2018	--	32,924	661,055	28,395	33,703	32,677	--	788,754
Charge for the year	--	2,478	105,269	2,620	3,733	1,495	--	115,595
Disposals	--	--	--	--	--	(5)	--	(5)
Balance at 31 December 2018	--	35,402	766,324	31,015	37,436	34,167	--	904,344
Balance at 01 January 2019	--	35,402	766,324	31,015	37,436	34,167	--	904,344
Charge for the year	--	767	105,382	533	2,505	1,444	--	110,631
Impairment losses	--	--	9,548	--	--	--	4,500	14,048
Disposals	--	--	--	(315)	--	(6)	--	(321)
Balance at 31 December 2019	--	36,169	881,254	31,233	39,941	35,605	4,500	1,028,702
Carrying amounts:								
At 31 December 2018	27,464	979	570,290	829	5,164	2,635	27,782	635,143
At 31 December 2019	**27,464**	**212**	**504,585**	**546**	**3,822**	**3,733**	**52,176**	**592,538**

(Expressed in thousands of Saudi Arabian Riyals, unless otherwise stated)

5. PROPERTY AND EQUIPMENT (continued)

b) Depreciation charge and impairment losses for the year has been allocated as follows:

	2019		2018	
	Impairment	**Depreciation**	Impairment	Depreciation
Costs of revenue (note 19)	**9,548**	**105,315**	--	108,954
Administrative expenses (note 20)	**4,500**	**5,316**	--	6,641
	14,048	**110,631**	--	115,595

c) Capital work in progress relates to the advances made towards the purchase of specialized airport equipment.

d) Impairment losses represent the losses recorded against obsolete assets identified during physical exercise conducted by an external consultant hired by the management.

6. LEASES

a) Right-of-use assets

i) Reconciliation of carrying amounts

	Buildings	**Motor vehicles**	**Total**
Cost:			
Recognised at 01 January 2019 (note 29)	143,827	30,915	174,742
Additions / adjustments	71,569	(9,342)	62,227
Balance at 31 December 2019	215,396	21,573	236,969
Accumulated depreciation:			
Charge for the year	44,004	9,969	53,973
Balance at 31 December 2019	44,004	9,969	53,973
Carrying amounts:			
At 31 December 2019	**171,392**	**11,604**	**182,996**

ii) Depreciation for the year has been allocated as follows:

	2019	2018
Costs of revenue (note 19)	**50,889**	--
Administrative expenses (note 20)	**3,084**	--
	53,973	--

(Expressed in thousands of Saudi Arabian Riyals, unless otherwise stated)

6. LEASES

b) Lease liabilities

	2019
Recognised as at 1 January 2019	**189,086**
Addition / adjustments during the year	**62,227**
Interest expense for the year	**7,605**
Payment / adjustments during the year	**(84,045)**
	174,873

Lease liabilities are presented in statement of financial positions as follows:

	2019
Non-current portion of lease liabilities	**129,993**
Current portion of lease liabilities	**44,880**
	174,873

7. INTANGIBLE ASSETS AND GOODWILL

a) Reconciliation of carrying amounts:

	Goodwill	Customer contracts	Customer relationships	Software	Total
Cost:					
Balance at 1 January 2018	582,816	153,179	468,475	--	1,204,470
Additions	--	--	--	29,024	29,024
Balance at 31 December 2018	582,816	153,179	468,475	29,024	1,233,494
Balance at 1 January 2019	582,816	153,179	468,475	29,024	1,233,494
Additions	--	--	--	35,093	35,093
Balance at 31 December 2019	582,816	153,179	468,475	64,117	1,268,587
Accumulated amortisation:					
Balance at 1 January 2018	--	153,179	163,967	--	317,146
Amortisation	--	--	23,424	1,658	25,082
Balance at 31 December 2018	--	153,179	187,391	1,658	342,228
Balance at 1 January 2019	--	153,179	187,391	1,658	342,228
Amortisation	--	--	23,424	17,870	41,294
Balance at 31 December 2019	--	153,179	210,815	19,528	383,522
Carrying amounts					
At 31 December 2018	582,816	--	281,084	27,366	891,266
At 31 December 2019	**582,816**	**--**	**257,660**	**44,589**	**885,065**

(Expressed in thousands of Saudi Arabian Riyals, unless otherwise stated)

7. INTANGIBLE ASSETS AND GOODWILL (continued)

b) Amortisation charge for the year has been allocated as follows:

	2019	2018
Costs of revenue (note 19)	**2,765**	1,658
Administrative expenses (note 20)	**38,529**	23,424
	41,294	25,082

c) As at 31 December 2019, an independent impairment study was conducted to review the carrying amounts of intangible assets and goodwill to determine whether their carrying values exceed the recoverable amounts. For the impairment testing, assets are grouped into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs (i.e. Company as a single cash-generating unit). Management considers the overall business of the Company as one CGU. The management reviews goodwill for impairment annually for impairment testing.

The recoverable amount of a non-financial asset or CGU is the greater of its value in use and its fair value less costs to sell. The value in use has been estimated based on the income approach to valuation using the discounted cash flow method. Value in use is based on the estimated future cash flows based on 5-year management's approved business plan projected up to the year 2024, discounted to their present value using the following key assumptions:

Goodwill:

Key assumptions	**2019**	2018
Revenue growth rate	1.7%	2%
Projected EBITDA margin (average of next five years)	25.8%	25.1%
Discount rate	10.5%	12%
Terminal value growth rate	2%	2%

Management believes that such growth rate does not exceed the long-term average growth rate for the market in which it operates.

The calculation of value-in-use is most sensitive to the assumptions on revenue growth rate, discount rate applied to cash flow projections and cost of services used to extrapolate cash flows beyond the budgeted period of 5 years, as well as factors used in computing terminal value.

Sensitivity to changes in key assumptions:

With regard to the assessment of the value in use, management believes that no reasonably possible change in any of the key assumptions above would cause the carrying value of the CGU including goodwill to materially exceed its recoverable amount. The implications of changes to the key assumptions are discussed below.

(Expressed in thousands of Saudi Arabian Riyals, unless otherwise stated)

7. INTANGIBLE ASSETS AND GOODWILL (continued)

Goodwill (continued):

Sensitivity to changes in key assumptions (continued):

i) Revenue growth rate:

The revenue growth in the forecasted period has been estimated to be a compound annual growth rate of 1.7% (2018: 2%). If all other assumptions are kept the same, a reduction of this growth rate to 0% would give a value in use equal to SR 3,759 million as compared to carrying amount.

ii) Projected EBITDA margin:

The projected EBITDA margin in the forecasted period has been estimated to be at an average of 25.8% (2018: 25.1%). If all other assumptions kept the same; a reduction of margin to 18.3% would give a value in use equal to the current carrying amount.

iii) Discount rate:

The projected discount rate in the forecasted period has been estimated to be at an average of 10.5% (2018: 12%). If all other assumptions kept the same; an increase in discount rate to 20.8% would give a value in use equal to the current carrying amount.

Customer relationships:

Key assumptions	**2019**	2018
Revenue growth rate	2.1%	2%
Discount rate	10.5%	12%

Sensitivity to changes in key assumptions:

With regard to the assessment of the value in use, management believes that no reasonably possible change in any of the key assumptions above would cause the carrying value of the CGU including customer relationships to materially exceed its recoverable amount. The implications of changes to the key assumptions are discussed below.

i) Revenue growth rate:

The revenue growth in the forecasted period has been estimated to be a compound annual growth rate of 2.1% (2018: 2%). If all other assumptions are kept the same, a reduction of this growth rate to 0% would give a value in use equal to SR 311 million as compared to carrying amount.

ii) Discount rate:

The projected discount rate in the forecasted period has been estimated to be at an average of 10.5% (2018: 12%). If all other assumptions kept the same; an increase in discount rate to 31.6% would give a value in use equal to the current carrying amount.

(Expressed in thousands of Saudi Arabian Riyals, unless otherwise stated)

8. EQUITY ACCOUNTED INVESTEE

a) The investment in SAAS as at 31 December 2019 is as follows:

Name	Country of incorporation	Effective ownership interest (%)		Carrying value	
		2019	2018	**2019**	2018
SAAS	Kingdom of Saudi Arabia	**50%**	50%	**141,567**	129,824

b) The movement summary of an equity accounted investee is as follows:

	2019	2018
Balance at the beginning of the year	**129,824**	121,780
Share of profits	**11,743**	8,044
Balance at the end of the year	**141,567**	129,824

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

c) The following table summarizes the financial information of SAAS as included in its financial statements, adjusted for fair value adjustments at acquisition and differences in accounting policies. The table also reconciles the summarized financial information to the carrying amount of the Company's interest in SAAS.

	2019	2018
Revenue	**161,973**	143,885
Depreciation and amortisation	**19,079**	27,486
Zakat expense	**3,124**	2,029
Profit and total comprehensive income	**23,485**	16,088
Company's share of total comprehensive income (50%)	**11,743**	8,044

	2019	2018
Non-current assets	**77,000**	88,328
Current assets	**315,168**	274,895
Non-current liabilities	**(7,000)**	(5,523)
Current liabilities	**(102,035)**	(98,052)
Net assets (100%)	**283,133**	259,648
Carrying amount of interest in joint venture	**141,567**	129,824

The equity accounted investee applied the same accounting policies as applied by Company in these financial statements. Also, the reporting period of the equity accounted investee is 31 December 2019.

(Expressed in thousands of Saudi Arabian Riyals, unless otherwise stated)

8. EQUITY ACCOUNTED INVESTEE (continued)

The equity accounted investee has a contingent liability related to claim from General Authority for Civil Aviation which is the same as disclosed in these financial statements (see note 27).

9. TRADE RECEIVABLES

	2019	2018
Due from related parties (note 25(a))	**664,877**	820,493
Other trade receivables	**471,157**	666,538
	1,136,034	1,487,031
Less: non-current (note 9.1)	**(120,037)**	--
Current trade receivables	**1,015,997**	1,487,031
Less: allowance for impairment loss (note 9.2)	**(144,405)**	(178,743)
	871,592	1,308,288

The movement in the allowance for impairment loss is as follows:

	2019	2018
Balance at beginning of the year	**178,743**	108,995
Charge for the year	**31,806**	69,748
Written-off during the year	**(66,144)**	--
Balance at end of the year	**144,405**	178,743

9.1 This represents non-current portion of receivables from National Air Services (NAS), in accordance with a settlement agreement entered on 31 December 2019 between the Company and NAS. Based on the settlement agreement, NAS has agreed to settle the outstanding dues over a period of three years staring from 1 January 2020. This amount is carried at the present value of cash flows to be received.

9.2 As at 31 December 2019, allowance for impairment loss includes SR 45 million (2018: SR 54 million) against due from related parties. For the Company’s exposure to credit risk and impairment loss on trade receivables (see note 31).

(Expressed in thousands of Saudi Arabian Riyals, unless otherwise stated)

10. PREPAYMENTS AND OTHER RECEIVABLES

	2019	2018
Due from a related party (note 25(b))	**320,565**	194,092
Prepayments	**48,155**	54,410
Employee loans	**35,379**	42,209
Refundable deposits	**3,562**	3,310
Advance to suppliers	**32,559**	3,117
VAT receivables (note 10.1)	**18,032**	17,327
Others	**6,940**	12,821
	465,192	327,286
Less: non-current (note 10.2)	**(3,776)**	(4,737)
Current prepayment and other receivables	**461,416**	322,549

10.1 This represents refund claimed by the Company from General Authority of Zakat and Tax (GAZT) against excess payments of value added tax as at 31 December 2019.

10.2 This represent employee loans that are long-term in nature.

11. INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS (FVTPL)

Investments at FVTPL mainly comprises investments in the money market – mutual funds and quoted equity securities as follows:

	2019	2018
Mutual funds	**784,470**	305,038
Quoted equity securities	**159,461**	--
	943,931	305,038

Movement in investments at FVTPL investment is as follows:

	2019	2018
Balance at beginning of the year	**305,038**	655,804
Investments made during the year	**1,021,659**	720,000
Disposal of investments during the year	**(402,191)**	(1,076,648)
Unrealized fair value gain during the year (note 11.1)	**19,425**	5,882
Balance at end of the year	**943,931**	305,038

(Expressed in thousands of Saudi Arabian Riyals, unless otherwise stated)

11. INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS (FVTPL) (continued)

11.1 The unrealized gain comprises as follows:

	2019	2018
Mutual funds	**4,723**	5,882
Quoted equity securities	**14,702**	--
	19,425	5,882

At 31 December 2019, the carrying amount of the investment at FVTPL was not significantly different from the market value. For fair values of investments at FVTPL (see note 28).

12. CASH AND CASH EQUIVALENTS

	2019	2018
Cash in hand	**606**	951
Cash at bank - current accounts	**119,243**	8,935
- short term deposits	**--**	300,000
	119,849	309,886

12.1 These deposits are denominated in SAR and held with commercial banks in the Kingdom of Saudi Arabia, denominated and are at prevailing market rates.

13. TRADE PAYABLES

	2019	2018
Due to related parties (note 25(c))	**283**	14,432
Other trade payables	**20,858**	34,942
	21,141	49,374

14. OTHER PAYABLES

	2019	2018
Employee related accruals	**139,177**	110,828
Due to related parties (note 25(d))	**163,476**	142,375
Accrued rent and charges	**87,440**	27,083
Accrued outsourced service charges	**53,802**	33,353
Payable against capital purchases	**42,371**	20,422
Advances from customers	**8,852**	10,436
Accrued legal and professional charges	**6,917**	13,327
Accrued fuel charges	**5,441**	5,517
Other accruals	**35,942**	57,227
	543,418	420,568

(Expressed in thousands of Saudi Arabian Riyals, unless otherwise stated)

15. SHARE CAPITAL

At 31 December 2019, the authorized, issued and paid up share capital of SR 1,880 million consists of 188 million fully paid shares of SR 10 each (2018: SR 1,880 million consists of 188 million shares of SR 10 each).

	2019			2018		
	Number of shares	**%**	**Amount**	Number of shares	%	Amount
Founding shareholders	**98,700,000**	**52.5**	**987,000**	131,600,000	70	1,316,000
General public	**89,300,000**	**47.5**	**893,000**	56,400,000	30	564,000
Total	**188,000,000**	**100**	**1,880,000**	188,000,000	100	1,880,000

During the year ended 31 December 2019, Attar Ground Handling and Attar Travel (collectively referred as "Attar") and National Aviation Ground Support Company ("NAGS") have disposed off their 2.8 percent and 14.7 percent of shareholding in the Company respectively.

Dividends:
During the year ended 31 December 2019, Board of Directors declared and paid dividends at SR 1.8 per share amounting to SR 338.4 million (2018: SR 1.95 per share amounting to SR 366.6 million).

16. STATUTORY RESERVE

In accordance with the Company's By-laws and Regulation for Companies, the Company sets aside 10% of its net income in each year to a statutory reserve until such reserve equals to 30% of the share capital. This reserve is not available for distribution.

17. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share as follows:

	2019	2018
Profit for the year attributable to the shareholders of the Company	**423,353**	368,425
Weighted average number of ordinary shares for the purposes of basic and diluted earnings	**188,000**	188,000
Basic and diluted earnings per share based on profit for the year attributable to shareholders of the Company (in SR)	**2.25**	1.96

Basic earnings per share has been computed by dividing the profit attributable to shareholders of the Company by the weighted average number of shares outstanding.

Diluted earnings per share has been computed by dividing the profit attributable to shareholders of the Company by the weighted average number of shares outstanding adjusted for the effects of all dilutive potential ordinary shares. However, in the absence of any convertible liability, the diluted earnings per share does not differ from the basic earnings per share.

(Expressed in thousands of Saudi Arabian Riyals, unless otherwise stated)

18. REVENUE

The Company's revenue is derived from contracts with customers by providing aircraft cleaning, passenger handling, fuel, baggage and ground handling services to its customers.

	2019	2018
Rendering of services	**2,519,523**	2,535,348
Sale of goods	**20,237**	18,695
	2,539,760	2,554,043

Revenue by the type of customer is as follows:

	2019	2018
Revenue from related parties (note 25(a))	**1,564,775**	1,430,742
Revenue from other airlines	**974,985**	1,123,301
	2,539,760	2,554,043

Revenue by the airport is as follows:

	2019	2018
Jeddah	**889,756**	916,509
Riyadh	**662,738**	655,705
Dammam	**228,212**	248,117
Madina	**210,309**	203,297
Others	**548,745**	530,415
	2,539,760	2,554,043

19. COSTS OF REVENUE

	2019	2018
Employees' related expenses (note 19.1 and 19.2)	**1,223,638**	1,235,599
Operational and handling charges	**330,485**	349,088
Depreciation on property and equipment (note 5(b))	**105,315**	108,954
Depreciation on right-of-use assets (note 6)	**50,889**	--
Repairs and maintenance expenses	**93,925**	90,871
Rent expenses	**--**	37,475
Amortisation (note 7(b))	**2,765**	1,658
Impairment loss on property and equipment (note 5(b))	**9,548**	--
Others	**36,691**	45,963
	1,853,256	1,869,608

19.1 This includes refund related to visa fee for expatriates from Ministry of Labor amounting to SR 8.03 million.

19.2 This includes charge for end of service benefits amounting to SR 69.2 million (2018: SR 64.5 million) (see note 24).

(Expressed in thousands of Saudi Arabian Riyals, unless otherwise stated)

20. ADMINISTRATIVE EXPENSES

	2019	2018
Employees' related expenses (note 20.1)	**121,717**	113,242
IT expenses	**16,130**	30,942
Amortisation (note 7(b))	**38,529**	23,424
Legal and professional expenses	**5,088**	11,350
Impairment loss on property and equipment (note 5(b))	**4,500**	--
Depreciation on right-of-use assets (note 6)	**3,084**	--
Rent expenses	**--**	7,557
Depreciation (note 5(b))	**5,316**	6,641
Training expenses	**7,880**	5,471
Directors' fees	**5,441**	4,771
Insurance expenses	**2,850**	2,128
Repairs and maintenance expenses	**1,542**	2,132
Others	**26,757**	35,926
	238,834	243,584

20.1 This includes charge for end of service benefits amounting to SR 9.3 million (2018: SR 8.1 million) (see note 24).

21. FINANCE COSTS

	2019	2018
Interest on lease liabilities (note 6(b))	**7,605**	--
Bank and other charges	**1,626**	3,035
	9,231	3,035

22. FINANCE INCOME

	2019	2018
Realized gain on disposal of investments at FVTPL	**2,809**	11,445
Unrealized gain on fair valuation of investments at FVTPL (note 11)	**19,425**	5,882
Interest income on short-term deposits	**12,398**	824
Others	**691**	308
	35,323	18,459

(Expressed in thousands of Saudi Arabian Riyals, unless otherwise stated)

23. ZAKAT

a) Zakat expense for the year

The significant components of Zakat base as per relevant GAZT regulations are as follows:

	2019	2018
Share capital	**1,880,000**	1,880,000
Statutory reserves	**456,690**	419,847
Retained earnings	**539,683**	572,218
Adjusted net profit	**552,453**	529,002
Provisions made during the year	**640,200**	573,247
Dividend paid	**(338,400)**	(366,600)
Deduction against equity accounted investee	**(129,824)**	(121,780)
Deduction against the written down value of property and equipment and intangible assets	**(1,477,603)**	(1,526,409)
Zakat base	**2,123,199**	1,959,525
Non-saudi share of Zakat – 47.5%	**1,008,520**	930,774
Zakat @ 2.5% higher of adjusted net profit or Zakat base	**25,213**	23,269
Excess provision made	**5,287**	2,931
Zakat expense for the year	**30,500**	26,200

The differences between the financial and the Zakatable results are due to certain adjustments in accordance with the relevant GAZT regulations.

b) Accrued Zakat

The movement in the accrued Zakat during the year is analysed as under:

	2019	2018
Balance at the beginning of the year	**86,252**	65,588
Charge for the year	**30,500**	26,200
Payments during the year	**(10,249)**	(5,536)
Balance at the end of the year	**106,503**	86,252

c) Status of Zakat

The Company has filed a Zakat declaration up to financial year ended 31 December 2018 with the General Authority of Zakat and Income Tax (GAZT). The Company also obtained Zakat certificate valid until 30 April 2020. The GAZT has issued the final Zakat assessment order for 2008 to 2011 subject to an additional Zakat liability of SR 0.9 million. However, the Company has filed an objection against this assessment.

(Expressed in thousands of Saudi Arabian Riyals, unless otherwise stated)

24. EMPLOYEE BENEFITS

a) General description of the plan

The Company operates an approved unfunded employees' end of service benefits scheme/plan for its permanent employees as required by the Saudi Arabian Labour law. The amount recognized in the statement of financial position is determined as follows:

	2019	2018
Present value of defined benefit obligations	**531,229**	474,390

b) Movement in net defined benefit liability

Net defined benefit liability comprises only of defined benefit obligations. The movement in the defined benefit obligations over the year is as follows:

	2019	2018
Balance at the beginning of year	**474,390**	432,280
Included in statement of profit or loss:		
Current service costs	**56,544**	54,480
Interest costs	**21,993**	18,193
	78,537	72,673
Included in statement of other comprehensive income:		
Remeasurement loss / (gain) arising from:		
- Financial assumptions	**(292)**	(9,811)
- Experience adjustments	**1,386**	7,328
	1,094	(2,483)
Benefits paid	**(22,792)**	(28,080)
Balance at the end of the year	**531,229**	474,390

c) As at 31 December 2019 and 31 December 2018, the valuation for the end of service liabilities was performed by an independent external firm of actuaries using the following key assumptions:

Key assumptions:	**2019**	2018
Discount rate	**3.90%**	4.75%
Future salary growth / Expected rate of salary increase	**3.50%**	4.5%
Mortality rate	**0.1%**	1.14%
Employee turnover/withdrawal rates	**11.21%**	12.23%
Retirement age	**60 years**	60 years

The weighted average duration of the defined benefit obligation is 12.64 years (2018: 12.69 years).

d) End of service benefits charge for the year has been allocated as follows:

	2019	2018
Costs of revenue (note 19.2)	**69,196**	64,547
Administrative expenses (note 20.1)	**9,341**	8,126
	78,537	72,673

(Expressed in thousands of Saudi Arabian Riyals, unless otherwise stated)

24. EMPLOYEE BENEFITS (continued)

e) 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:

		2019		2018	
Assumptions	**Change in the assumption by**	**Increase in liability by**	**Decrease in liability by**	Increase in liability by	Decrease in liability by
Discount rate	**1%**	**61,029**	**(73,253)**	65,758	(54,656)
Future salary growth	**1%**	**63,749**	**(75,262)**	67,564	(57,081)

The sensitivity analyses above have been determined based on a method that extrapolates the impact on the defined benefit obligation as a result of reasonable changes in key assumptions occurring at the end of the reporting period. The sensitivity analyses are based on a change in a significant assumption, keeping all other assumptions constant. The sensitivity analyses may not be representative of an actual change in the defined benefit obligation as it is unlikely that changes in assumptions would occur in isolation from one another.

25. RELATED PARTY TRANSACTIONS AND BALANCES

The Company, in the normal course of business, enters into transactions with other entities that fall within the definition of a related party contained in International Accounting Standard 24. Related parties comprise of founding shareholders of the Company, being parent Companies, their subsidiaries and associates and other companies with common directorship with significant influence on other companies and key management personnel. Transactions with related parties arise mainly from services provided/ received, secondments and various business arrangements and are undertaken at approved contractual terms.

(Expressed in thousands of Saudi Arabian Riyals, unless otherwise stated)

25. RELATED PARTY TRANSACTIONS AND BALANCES (continued)

(a) Due from related parties – significant transactions and balances under trade receivables:

			Amount of transactions		Closing balance	
Name	Relationship	Nature of transactions	**2019**	2018	**2019**	2018
Saudi Arabian Airlines Corporation	Parent Company	Services provided	**1,305,574**	1,257,701	**440,760**	627,974
Saudi Holding Company	Ultimate Parent Company	Services provided	**615**	--	**615**	1,570
Saudi Airlines Cargo Company	Fellow subsidiary	Services provided	**22,608**	20,779	**20,589**	36,608
Saudi Aerospace Engineering Industries	Fellow subsidiary	Services provided	**10,842**	9,205	**--**	4,597
Saudi Airlines Catering Company	Common shareholder	Services provided	**3,554**	3,646	**--**	2,110
Saudi Private Aviation	Fellow subsidiary	Services provided	**17,276**	13,574	**33,041**	36,133
Royal Fleet Services	Fellow subsidiary	Services provided	**91,609**	78,774	**124,006**	87,667
Flyadeal	Fellow subsidiary	Services provided	**108,650**	47,063	**45,866**	23,834
Saudi Amad for Airport Services And Transport Support Company	Joint venture	Services provided	**4,047**	--	--	--
					664,877	820,493

(b) Due from a related party - significant transactions and balances under prepayments and other receivables

			Amount of transactions		Closing balance	
Name	Relationship	Nature of transactions	**2019**	2018	**2019**	2018
Saudi Arabian Airlines Corporation	Parent Company	Recharge of seconded staff cost and other charges	**223,091**	241,944	**320,565**	194,092

(Expressed in thousands of Saudi Arabian Riyals, unless otherwise stated)

25. RELATED PARTY TRANSACTIONS AND BALANCES (continued)

(c) Due to related parties - significant transactions and balances under trade payables:

			Amount of transactions		Closing balance	
Name	Relationship	Nature of transactions	**2019**	2018	**2019**	2018
Saudi Arabian Airlines Corporation	Parent Company	Services received	**1,923**	18,903	**283**	3,659
Saudi Airlines Catering Company	Common shareholder	Services received	**25,195**	44,119	**--**	8,987
Saudi Aerospace Engineering Industries	Fellow subsidiary	Services received	**45,516**	63,740	**--**	1,559
Saudi Amad for Airport Services and Transport Support Company	Joint venture	Services received	**10,141**	10,689	**--**	--
Saudi Airlines Real Estate Development Company	Fellow subsidiary	Services received and other expenses	**353**	920	**--**	--
Saudi Airlines Cargo Company	Fellow subsidiary	Services received	**--**	5	**--**	227
					283	14,432

(Expressed in thousands of Saudi Arabian Riyals, unless otherwise stated)

25. RELATED PARTY TRANSACTIONS AND BALANCES (continued)

(d) Due to related parties – significant transactions and balances under other payables:

			Amount of transactions		Closing balance	
Name	Relationship	Nature of transactions	**2019**	2018	**2019**	2018
Saudi Arabian Airlines Corporation	Parent Company	Saudia staff and other related costs	**44,401**	46,868	**90,488**	86,994
Saudi Amad for Airport Services and Transport Support Company	Joint venture	Payment received on behalf of the Joint venture	**43,545**	52,367	**14,170**	18,843
Saudi Airlines Catering Company	Common shareholder	Services received	**Note 25(c)**	Note 25(c)	**27,221**	15,466
Saudi Aerospace Engineering Industries	Fellow subsidiary	Services received	**Note 25(c)**	Note 25(c)	**29,513**	19,335
Saudi Airlines Cargo Company	Fellow subsidiary	Expense claims	**--**	--	**861**	861
Saudi Arabia Real Estate Development Company	Fellow subsidiary	Expense claims	**Note 25(c)**	Note 25(c)	**1,223**	876
					163,476	142,375

(e) Remuneration:

Name	Nature of transactions	**2019**	2018
Key management personnel	Remuneration	**8,364**	9,416
Board of Directors	Meeting attendance fees	**5,441**	4,228
		13,805	13,644

(Expressed in thousands of Saudi Arabian Riyals, unless otherwise stated)

25. RELATED PARTY TRANSACTIONS AND BALANCES (continued)

(e) Remuneration (continued):

Following is the breakup of key management personnel's remuneration:

	2019	2018
Short term employee benefits	**13,451**	13,295
End of service benefits	**354**	349
	13,805	13,644

The Company's revenues derived from services rendered to Saudi Arabian Airlines Corporation ("Saudia") amounted to approximately 51% (2018: 49%) of the total revenue.

26. OPERATING SEGMENTS

The Company's primary format for segmental reporting is based on business segments. The business segments are determined based on the Company's management and internal reporting structure. The Company is principally involved in providing ground handling services to airlines within the Kingdom of Saudi Arabia. Accordingly, the management believes that the Company's business falls within a single business segment and is subject to similar risks and returns.

27. CONTINGENT LIABILITIES AND COMMITMENTS

In addition to contingencies disclosed in note 23, the Company has provided, in the normal course of business, bank guarantees amounting to SR 17.57 million (2018: SR 14.83 million) to the Ministry of Finance, Saudi Airlines, International Air Transport Association (IATA) and General Authority of Civil Aviation ("GACA"), towards Haj visa, tickets, airline ticket sales and rentals as at 31 December 2019. The Company's bank has earmarked bank balances of SR 0.1 million (2018: SR 0.01 million) as a lien against these guarantees.

Commitments amounting to SR 18.92 million (2018: SR 27.07 million) are in respect of capital expenditure committed but not paid.

In relation to agreements entered on behalf of SAAS, the Company has not received any claim from the General Authority for Civil Aviation ("GACA") regarding contractually agreed fees on each domestic and international trip in King Abdul Aziz International Airport from 1 January 2017 onwards. Currently management is discussing the matter with GACA and has not reached a final conclusion yet. Consequently, it is difficult to estimate the related liability as at the reporting date.

As at 31 December 2019, there are cases filed by labors and subcontractors where the Company is a defendant. Currently, as the legal proceedings are ongoing, it is difficult to estimate the related liability as at the reporting date.

28. FINANCIAL INSTRUMENTS

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Company has access at that date. The fair value of a liability reflects its non-performance risk.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

Fair value hierarchy

The Company's management regularly reviews significant unobservable inputs and valuation adjustments. If third-party information, such as broker quotes or pricing services is used to measure fair values, then the evidence obtained from the third parties is assessed to support the conclusion that these valuations meet the requirements of IFRS, including the level in the fair value hierarchy in which the valuations should be classified.

The Company recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

When quoted prices are available, the Company measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

When measuring the fair value, the Company uses market observable data as far as possible. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows;

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that can be accessed at the measurement date.

Level 2: Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

If the inputs used to measure the fair value of an asset or liability falls into different levels of the fair value hierarchy, then the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest input level that is significant to the entire measurement.

The fair values of financial instruments are not materially different from their carrying values. At 31 December 2019, there were no financial instruments held by the Company that were measured at fair value, apart from investments at FVTPL.

(Expressed in thousands of Saudi Arabian Riyals, unless otherwise stated)

28. FINANCIAL INSTRUMENTS (continued)

Fair value hierarchy (continued)

	Level 1	Level 2	Level 3	Total
2019				
Investments at FVTPL				
- Mutual funds	**--**	**784,470**	**--**	**784,470**
- Equity securities	**159,461**	**--**	**--**	**159,461**
	159,461	**784,470**	**--**	**943,931**
2018				
Investments at FVTPL				
- Mutual funds	--	305,038	--	305,038

There were no transfers between levels of the fair value hierarchy during the year ended 31 December 2019 and 31 December 2018. Additionally, there were no changes in the valuation techniques (refer note 11).

The fair value of investments in mutual funds at level 2 is based on the net assets values communicated by the fund manager and the daily prices are available on Tadawul. The fair value of investments in equity securities at level 1 is based on quoted prices that are available on Tadawul.

The following table shows the carrying amounts and fair values of financial assets and financial liabilities, it does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

2019	**Carrying amount**			
Description:	**Amortised cost**	**Fair value through profit or loss**	**Fair value through other comprehensive income**	**Total**
Financial assets not measured at fair value				
Cash at banks	**119,243**	**--**	**--**	**119,243**
Trade and other receivables	**1,318,920**	**--**	**--**	**1,318,920**
Financial assets measured at fair value				
Investments at FVTPL	**--**	**943,931**	**--**	**943,931**
Financial liabilities not measured at fair value				
Trade and other payables	**555,707**	**--**	**--**	**555,707**
Lease liabilities	**174,873**	**--**	**--**	**174,873**

(Expressed in thousands of Saudi Arabian Riyals, unless otherwise stated)

28. FINANCIAL INSTRUMENTS (continued)

2018	Carrying amount			
Description:	Amortised cost	Fair value through profit or loss	Fair value through other comprehensive income	Total
Financial assets not measured at fair value:				
Cash at banks and short-term deposits	308,935	--	--	308,935
Trade and other receivables	1,513,774	--	--	1,513,774
Financial assets measured at fair value:				
Investments at FVTPL	--	305,038	--	305,038
Financial liabilities not measured at fair value:				
Trade and other payables	459,506	--	--	459,506

29. NEW STANDARDS AND AMENDMENTS TO STANDARDS

The Company has adopted, as appropriate, the following new and amended IASB Standard, effective 1 January 2019.

IFRS 16 Leases

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

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

The Company adopted IFRS 16 using the simple modified method of adoption with the date of initial application of 1 January 2019 and therefore comparative information has not been restated and continues to be reported under IAS 17 and IFRIC 4.

The Company has used the practical expedient of applying IFRS 16 to only those contracts that were previously identified as leases under IAS 17 and IFRIC 4. In adopting IFRS 16, the Company has applied the following practical expedients:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics; and
- exclusion of initial direct costs for the measurement of the right-of-use assets at the date of initial application

(Expressed in thousands of Saudi Arabian Riyals, unless otherwise stated)

29. NEW STANDARDS AND AMENDMENTS TO STANDARDS (continued)

Impact of transition

On transition to IFRS 16, the Company recognised additional right-of-use assets and additional lease liabilities. recognising the difference in retained earnings. The impact on transition is summarised below.

	1 January 2019
Impact on:	
Right-of-use assets	**174,742**
Lease liabilities	**(189,086)**
Retained earnings	**(14,344)**

Reconciliation of lease liability

At the date of initial application, the Company has recognized right-of-use asset and lease liability of SR 174.7 million and SR 189.1 million respectively. The incremental borrowing rate applied is 4%.

Other Amendments / interpretation

A number of other amendments and interpretation are effective from 1 January 2019 but they do not have a material effect on the Company's financial statements:

Amendments / interpretation	***Description***
IFRIC 23	Uncertainty over Income Tax Treatments
Amendments to IFRS 9	Prepayment Features with Negative Compensation
Amendments to IAS 28	Long-term Interest in Associates and Joint Ventures
Amendments to IAS 19	Plan Amendment, Curtailment or Settlement
Amendments to IFRS 3. IFRS 11, IAS 12 and IAS 23	Annual Improvements to IFRS Standards 2015-2017 Cycle

30. STANDARDS ISSUED BUT NOT YET EFFECTIVE

The standards, interpretations and amendments issued but not yet effective as at the reporting date are described below. The Company intends to adapt these standards, where applicable, when they become effective.

Standard / Interpretation	***Description***	***Effective from periods beginning on or after the following date***
Conceptual Framework	Amendments to References to Conceptual Framework in IFRS Standards	1 January 2020
IFRS 3	Definition of a Business (amendments to IFRS 3)	1 January 2020
IAS 1 and IAS 8	Definition of Material (amendments to IAS 1 and IAS 8)	1 January 2020
IFRS 17	Insurance contacts	1 January 2021
IFRS 10 and IAS 28	Sale or contribution of assets between an investor and its associate or joint venture (amendments to IFRS 10 and IAS 28)	Available for optional adoption / effective date deferred indefinitely

30. STANDARDS ISSUED BUT NOT YET EFFECTIVE (continued)

The standards, interpretations and amendments with effective date of 1 January 2020 will not have any material impact on the Company's financial statements, whereas for other above-mentioned standards, interpretations and amendments, the Company is currently assessing the implications on the Company's financial statements on adoption.

31. FINANCIAL RISK MANAGEMENT

The Company has exposure to the following risks arising from financial instruments:

- Credit risk
- Liquidity risk
- Market risk

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

Risk management is carried out by senior management under policies approved by the Board of Directors. Senior management identifies, evaluates and hedges financial risks in close co-operation with the Company's operating units.

The Board of Directors has overall responsibility for establishment and oversight of the Company's risk management framework. The executive management team is responsible for developing and monitoring the Company's risk management policies. The team regularly meets, and any changes and compliance issues are reported to the Board of Directors through the audit committee.

Risk management systems are regularly reviewed by the executive management team to reflect changes in market conditions and the Company's activities. The Company, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The audit committee oversees compliance by management with the Company's risk management policies and procedures and reviews the adequacy of the risk management framework about the risks faced by the Company.

Financial instruments carried on the financial statements include cash and cash equivalents, trade and other receivables, investments at FVTPL and trade and other payables. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item.

(Expressed in thousands of Saudi Arabian Riyals, unless otherwise stated)

31. FINANCIAL RISK MANAGEMENT (continued)

Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company is exposed to risk on its trade and other receivables, investments at FVTPL, cash at banks and short-term deposits.

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

	2019	2018
Trade receivables	**1,136,034**	1,487,031
Other receivables	**331,067**	210,223
Investments at FVTPL	**943,931**	305,038
Cash at banks and short-term deposits	**119,243**	308,935
	2,530,275	2,311,227

Impairment loss

The Company manages credit risk with respect to receivables from customers by monitoring in accordance with defined policies and procedures. To reduce exposure to credit risk, the Company has developed a formal approval process whereby credit limits are applied to its customers. The management also continuously monitors the credit exposure towards the customers and makes provision against those balances considered doubtful of recovery. To mitigate the risk, the Company has a system of assigning credit limits to its customers based on an extensive evaluation based on customer profile and payment history.

The receivables are shown net of allowance for impairment of trade receivables. The Company applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. To measure the expected credit losses, trade receivables have been grouped into low risk, fair risk, doubtful and loss based on shared credit risk characteristics and the days past due. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors (such as GDP forecast and industry outlook) affecting the ability of the customers to settle the receivables such. The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions.

The following table provides information about the exposure to credit risk and expected credit losses for trade receivables.

	Weighted average loss rate	**Gross carrying amount**	**Impairment loss allowance**
2019			
Low risk	**2.98%**	**782,579**	**23,345**
Fair risk	**9.13%**	**145,187**	**13,254**
Doubtful	**44.71%**	**178,367**	**79,746**
Loss	**100%**	**29,901**	**29,901**
		1,136,034	**146,246**

(Expressed in thousands of Saudi Arabian Riyals, unless otherwise stated)

31. FINANCIAL RISK MANAGEMENT (continued)

Credit risk (continued)

Impairment loss (continued)

	Weighted average loss rate	Gross carrying amount	Impairment loss allowance
2018			
Low risk	2.81%	1,065,509	29,940
Fair risk	11.43%	199,974	22,860
Doubtful	47.71%	182,829	87,225
Loss	100%	38,718	38,718
		1,487,031	178,743

With respect to credit risk arising from the other financial assets of the Company, including bank balances and cash, the Company's exposure to credit risk arises from default of the counterparty, with a maximum exposure equal to the carrying amount as disclosed in the statement of financial position. The credit risk in respect of bank balances is considered by management to be insignificant, as the balances are mainly held with reputable banks in the Kingdom of Saudi Arabia and internationally.

Concentration risk

The maximum gross exposure to credit risk for trade receivables including related parties by geographical region at the reporting date was:

	2019	2018
Gulf countries	**940,154**	1,218,679
Other Asian countries	**110,893**	146,891
Europe	**8,669**	9,262
Other regions	**76,318**	112,199
	1,136,034	1,487,031

The Company’s exposure to credit risk for gross trade receivables by type of counterparty mainly includes local and foreign airlines and other related parties (note 25(a)).

At 31 December 2019, trade receivables are mainly due from related parties (note 25(a)) and other trade receivables and are stated at their estimated realisable values. The ten largest customers account for 64% (2018: 48%) of outstanding gross other trade receivables. The financial position of the related parties is stable.

The significant changes in the gross carrying amounts of trade receivables contributed to the changes in the impairment loss allowance during 2019. The reduction in trade receivables is mainly due to decline in business from foreign airlines, increased collections and write-off of trade receivable balances which has resulted in reduction of impairment allowances as at the reporting date.

(Expressed in thousands of Saudi Arabian Riyals, unless otherwise stated)

31. FINANCIAL RISK MANAGEMENT (continued)

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Company's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when they are due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation.

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.

		Contractual cash flows		
Non-derivative financial liabilities	**Carrying amount**	**Less than one year**	**More than one year**	**Total**
2019				
Trade payables	**21,141**	**21,141**	**--**	**21,141**
Other payables (excluding advances)	**534,566**	**534,566**	**--**	**534,566**
Lease liabilities	**174,873**	**44,880**	**145,511**	**190,391**
	730,580	**600,587**	**145,511**	**746,098**
2018				
Trade payables	49,374	49,374	--	49,374
Other payables (excluding advances)	410,032	410,032	--	410,032
	459,406	459,406	--	459,406

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: interest rate risk, currency risk and other price risk.

Interest rate risk

Interest rate risks are the exposures to various risks associated with the effect of fluctuations in the prevailing interest rates on the Company's financial position and cash flows.

The interest rate profile of the Company's interest-bearing financial instruments as reported to the management of the Company is as follows:

	2019	2018
Fixed rate instruments		
Financial assets		
- Short term deposits	**--**	300,000
Variable rate instruments		
Financial assets		
- Investments at FVTPL	**943,931**	305,038

(Expressed in thousands of Saudi Arabian Riyals, unless otherwise stated)

31. FINANCIAL RISK MANAGEMENT (continued)

Market risk (continued)

Fair value sensitivity analysis for fixed interest rate instruments

The Company does not account for any fixed rate financial assets and liabilities at fair value through profit or loss, therefore, a change in interest rates at the reporting date would not affect the statement of profit or loss and other comprehensive income.

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates at the reporting date would have increased / (decreased) profit or loss by SR 9.44 million (2018: SR 3.05 million). This analysis assumes that all other variables, in particular, foreign currency rates, remain constant.

Currency risk

Currency risk 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 Riyals, United States Dollars and Euro. The Company operates internationally and is exposed to foreign exchange risk. Currently, such exposures are mainly related to exchange rate movements between foreign currencies against Euros and United Kingdom Pounds. The Company's management monitors such fluctuations and manages its effect on the financial statements accordingly.

The cash and cash equivalents, trade receivables and trade payables of the Company are denominated in Saudi Arabian Riyals.

Following is the gross financial position exposure classified into separate foreign currency:

	2019	2018
Euro		
Financial assets		
Other payables	**8,699**	19,953

Significant exchange rates applied during the year were as follows:

	2019		2018	
	Average rate	**Spot rate**	Average rate	Spot rate
Foreign currency per Saudi Riyal				
Euro	**0.24**	**0.24**	0.22	0.23

Sensitivity analysis

Every 1% increase or decrease in the exchange rate with all other variables held constant will decrease or increase profit before Zakat and income tax for the year by SR 0.09 million (2018: SR 0.2 million).

31. FINANCIAL RISK MANAGEMENT (continued)

Market risk (continued)

Price risk

The risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all instruments traded in the market. The Company is exposed to price risk which arises from investments at FVTPL. The management of the Company monitors the portfolio on a regular basis and all the significant decisions are approved by the Risk Management Committee.

Sensitivity analysis
Every 5% increase or decrease in the net asset value with all other variables held constant will decrease or increase profit before zakat for the year by SR 47.2 million (2018: SR 15.25 million).

Capital risk management

The Company's objective when managing capital is to safeguard the Company's ability to continue as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders, and to maintain a strong capital base to support the sustained development of its businesses. The Company manages its capital structure by monitoring return on net assets and makes adjustments to it in the light of changes in economic conditions.

32. SUBSEQUENT EVENTS

There have been no significant subsequent events since the year-end that would require any disclosure or adjustment in these financial statements.

33. BOARD OF DIRECTORS' APPROVAL

The financial statements were approved and authorized for issue by the Board of Directors on 6 Rajab 1441H, corresponding to 1 March 2020.

Chief Financial Officer | Chief Executive Officer | Chairman