SAUDI AIRLINES CATERING COMPANY
(A Saudi Joint Stock Company)

FINANCIAL STATEMENTS
For the year ended December 31, 2018
with
INDEPENDENT AUDITORS' REPORT

KPMG

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

Independent auditors' report

To the Shareholders of Saudi Airlines Catering Company

Opinion

We have audited the financial statements of Saudi Airlines Catering Company ("the Company"), which comprise the statement of financial position as at December 31, 2018, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, to the financial statements comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2018, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS) that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by the Saudi Organization for Certified Public Accountants (SOCPA).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the professional code of conduct and ethics that are endorsed in the Kingdom of Saudi Arabia that are relevant to our audit of the financial statements, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

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

Independent auditors' report

To the Shareholders of Saudi Airlines Catering Company

Revenue recognition

Refer to notes 4 and 5 for the accounting policy and note 23 for the related disclosure.

Key audit matter	How the matter was addressed in our audit
As at December 31, 2018, the Company recognized total revenue of SR 2,036 million (2017: SR 1,953 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 misapplication of the new accounting standard.	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 ; ▪ Reviewed management's IFRS 15 assessment to verify the reasonableness and the accuracy and completeness of the impact on the financial statements of the Company. ▪ 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; ▪ Developed an expectation of the current year revenue balance for different segments based on trend analysis or other available information, taking into account sales volume, average prices and our understanding of the market. We then compared this expectation to actual revenue and, where relevant, completed further inquiries and testing; ▪ Selected, on a sample basis, revenue transactions and verified the related supporting documents to ensure the accuracy and validity of revenue recognition. ▪ Obtained an understanding of the nature of the revenue contracts entered into by the Company for each significant revenue stream, tested a sample of sales contracts to confirm our understanding and assessed whether or not management's application of IFRS 15 requirements was in accordance with the standard.

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Independent auditors' report

To the Shareholders of Saudi Airlines Catering Company

First time adoption of IFRS 9 – "Financial Instruments"

Refer to note 5 for the accounting policy.

Key audit matter

As at December 31, 2018, the Trade Receivables balance was SAR 950 million (2017: SAR 855 million)

The Company adopted IFRS 9 on its effective date of 1 January 2018 superseding the requirements of IAS 39 "Financial Instruments – recognition and measurement"

Management assessed that the key changes arising from adoption of IFRS 9 related to the recognition and measurement of the impairment allowance on financial assets carried at amortized cost.

The Company assesses at each reporting date whether the financial assets carried at amortized cost are credit impaired, and consequently measures impairment allowances based on the Expected Credit Loss (ECL) model as envisaged in IFRS 9, rather than the incurred losses model details in IAS 39.

The Company's management applied the simplied expected credit loss ('ECL") model to determine the allowance for impairment of trade receivables. Further, the Company applied the exemption provided by IFRS 9 not to restate the comparative periods as a result of the adoption of IFRS 9.

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

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

How the matter was addressed in our audit

We performed the following procedures in relation to the implementation of IFRS 9:

- Reviewed management's assessment of the impact of IFRS 9 in terms of the classification and measurement of its financial assets and liabilities, and understood the approach taken towards implementation.
- Considered and evaluated the validity of management's conclusion that the main area of impact was in respect of trade receivables impairment, using our experience and knowledge of entities operating in similar industries.
- Tested significant assumptions, including those related to future economic events that were used to calculate the likelihood of default and the expected loss on default and tested the arithmetical accuracy of the ECL model.
- We also evaluated the adequance of the disclosures included in the accompanying financials statements.

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Independent auditors' report

To the Shareholders of Saudi Airlines Catering Company

Other Information

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

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

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

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

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. 'Reasonable assurance' is a high level of assurance, but is not a guarantee that an audit conducted in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia, will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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

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

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

Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation. We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit of **Saudi Airlines Catering Company** ("the Company").

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

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

For KPMG Al Fozan & Partners
Certified Public Accountants

Ebrahim Oboud Baeshen
License No: 382

Jeddah, Jumada Al Thani 29, 1440H
Corresponding to March 6, 2019

SAUDI AIRLINES CATERING COMPANY
(A Saudi Joint Stock Company)

STATEMENT OF FINANCIAL POSITION
As at December 31, 2018
(Expressed in Saudi Arabian Riyals)

	Note	**December 31, 2018**	December 31, 2017
Assets			
Property, plant and equipment	7	**586,708,910**	554,462,015
Intangible assets	8	**258,269**	1,282,184
Investment property	9	**38,337,434**	40,286,383
Equity accounted investee	10	**15,125,813**	20,642,074
Other financial asset	11	**29,991,692**	73,620,570
Non-current assets		**670,422,118**	690,293,226
Inventories	12	**125,027,878**	109,980,916
Trade and other receivables	13	**950,225,547**	854,926,157
Prepayments and other assets	14	**192,857,373**	126,213,452
Cash and cash equivalents	15	**147,252,743**	101,547,658
Current assets		**1,415,363,541**	1,192,668,183
Total assets		**2,085,785,659**	1,882,961,409
Equity			
Share capital	16	**820,000,000**	820,000,000
Statutory reserve	17	**353,835,879**	353,835,879
Retained earnings		**127,619,578**	109,109,072
Total equity		**1,301,455,457**	1,282,944,951
Liabilities			
Employee benefits	19	**167,423,832**	168,998,200
Non-current liabilities		**167,423,832**	168,998,200
Zakat and income tax liabilities	20	**30,310,014**	31,190,087
Trade and other payables	21	**586,596,356**	399,828,171
Current liabilities		**616,906,370**	431,018,258
Total liabilities		**784,330,202**	600,016,458
Total equity and liabilities		**2,085,785,659**	1,882,961,409

The accompanying notes 1 through 34 form an integral part of these financial statements.

Chief Financial Officer	Chief Executive Officer	Authorized Board of Directors Member

SAUDI AIRLINES CATERING COMPANY
(A Saudi Joint Stock Company)

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended December 31, 2018
(Expressed in Saudi Arabian Riyals)

	Note	2018	2017
Revenue	23	2,035,757,930	1,952,564,940
Cost of sales	24	(1,339,278,458)	(1,229,772,985)
Gross profit		696,479,472	722,791,955
Reversal of impairment of trade receivables	13	12,818,781	15,683,701
General and administrative expenses	26	(214,449,367)	(207,274,828)
Other expenses	27	(1,624,719)	(2,845,620)
Other income	25	12,355,651	7,046,674
Operating profit		505,579,818	535,401,882
Finance income	28	1,478,314	2,966,542
Finance costs	19	(5,256,820)	(4,845,600)
Net finance costs		(3,778,506)	(1,879,058)
Share of loss of equity accounted investee	10	(5,406,251)	(10,115,526)
Profit before zakat and income tax		496,395,061	523,407,298
Zakat and income tax expense	20	(37,114,177)	(41,669,319)
Profit for the year		459,280,884	481,737,979
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Remeasurement of defined benefit liability	19	4,690,707	(12,973,100)
Share of other comprehensive loss of associate	10	(110,010)	--
Other comprehensive gain/(loss) for the year		4,580,697	(12,973,100)
Total comprehensive income for the year		463,861,581	468,764,879
Earnings per share			
Basic earnings per share	29	5.60	5.87
Diluted earnings per share	29	5.60	5.87

The accompanying notes 1 through 34 form an integral part of these financial statements.

Chief Financial Officer

Chief Executive Officer

Authorized Board of Directors Member

SAUDI AIRLINES CATERING COMPANY
(A Saudi Joint Stock Company)

STATEMENT OF CHANGES IN EQUITY

For the year ended December 31, 2018
(Expressed in Saudi Arabian Riyals)

	Note	Share capital	Statutory reserve	Retained earnings	Total
Balance at January 1, 2017		820,000,000	340,714,074	99,875,473	1,260,589,547
Total comprehensive income					
Profit for the year		--	--	481,737,979	481,737,979
Other comprehensive loss		--	--	(12,973,100)	(12,973,100)
Total comprehensive income		--	--	468,764,879	468,764,879
Transactions with owners of the Company					
Contributions and distributions					
Dividends declared	18	--	--	(446,409,475)	(446,409,475)
Transfer to statutory reserve		--	13,121,805	(13,121,805)	--
Balance at December 31, 2017		820,000,000	353,835,879	109,109,072	1,282,944,951
Balance at January 1, 2018		**820,000,000**	**353,835,879**	**109,109,072**	**1,282,944,951**
Total comprehensive income					
Profit for the year		--	--	**459,280,884**	**459,280,884**
Other comprehensive income		--	--	**4,580,697**	**4,580,697**
Total comprehensive income		--	--	**463,861,581**	**463,861,581**
Transactions with owners of the Company					
Contributions and distributions					
Dividends declared	18	--	--	**(445,351,075)**	**(445,351,075)**
Balance at December 31, 2018		**820,000,000**	**353,835,879**	**127,619,578**	**1,301,455,457**

The accompanying notes 1 through 34 form an integral part of these financial statements.

Chief Financial Officer | Chief Executive Officer | Authorized Board of Directors Member

SAUDI AIRLINES CATERING COMPANY
(A Saudi Joint Stock Company)

STATEMENT OF CASH FLOWS
For the year ended December 31, 2018
(Expressed in Saudi Arabian Riyals)

	Note	2018	2017
Cash flows from operating activities			
Profit for the year		459,280,884	481,737,979
Adjustments for:			
Zakat and tax		37,114,177	41,669,319
Depreciation	7 & 9	62,387,898	56,286,987
Amortization	8	1,023,915	1,198,904
(Reversal) / allowance for doubtful debts, net	13	(12,818,781)	(15,683,701)
Provision / (reversal) of slow-moving inventory, net	12	9,246,193	(3,983,676)
Finance income	28	(1,478,314)	(2,966,542)
Finance cost	19	5,256,820	4,845,600
Share of loss in equity accounted investees	10	5,406,251	10,115,526
Loss on sale of property, plant and equipment	27	105,341	171,470
Employees' benefits service cost	19	14,860,779	12,010,400
Provision for accrued bonus - long term	19	2,400,000	--
		582,785,163	585,402,266
Changes in:			
Inventories		(24,293,155)	19,533,738
Trade and other receivables		(82,480,609)	(108,550,589)
Prepayments and other assets		(66,696,926)	16,887,763
Trade and other payables		66,658,533	(34,773,501)
Cash generated from operating activities		475,973,006	478,499,677
Payment of accrued bonus - long term		--	(3,789,782)
Employees' benefits paid	19	(19,401,260)	(16,487,400)
Zakat & income tax paid	20	(37,994,250)	(37,579,584)
Net cash from operating activities		418,577,496	420,642,911
Cash flows from investing activities			
Interest income received		1,531,319	1,436,785
Proceeds from sale of investments	11	40,000,000	86,251,529
Proceed from finance assets - letter of guarantee		3,628,878	8,638,106
Additions to property, plant and equipment and investment property	7	(92,791,185)	(89,918,144)
Acquisition of equity accounted investee	10	--	(30,757,600)
Net cash used in investing activities		(47,630,988)	(24,349,324)
Cash flow from financing activities			
Dividends paid	18	(325,241,423)	(446,456,974)
Net cash used in financing activities		(325,241,423)	(446,456,974)
Net increase/(decrease) in cash and cash equivalents		45,705,085	(50,163,387)
Cash and cash equivalents at beginning of the year		101,547,658	151,711,045
Cash and cash equivalents at end of the year	15	147,252,743	101,547,658

The accompanying notes 1 through 34 form an integral part of these financial statements.

Chief Financial Officer	Chief Executive Officer	Authorized Board of Directors Member

1. REPORTING ENTITY

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

The Company has obtained the amended commercial registration and the amended By-laws reflecting the public offering.

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

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

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

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

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

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

2. BASIS OF ACCOUNTING

a) *Statement of compliance*

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

According to the announcement of the Capital Market Authority (CMA) dated October 16, 2016, the Company has to apply the cost method for the measurement of the property, plant and equipment, investment properties and intangible assets for 3 years from the date of applying IFRS.

b) *Basis of Measurement*

These financial statements have been prepared under the historical cost basis, except for the defined benefit obligation which is recognized at the present value of future obligation using the projected unit credit method. Further, the financial statements are prepared using the accrual basis of accounting and going concern concept.

c) *Functional and presentation currency*

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

3. USE OF JUDGEMENTS AND ESTIMATES

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

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

A. Judgements

Management exercise its judgement in applying the accounting policies that have the most significant effects on the amounts recognized in the financial statements.

Revenue recognition

Revenue is measured based on the consideration specified in a contract with a customer and is recognized at a point of time when the control of goods is transferred to the customers.

Management exercise its judgement on whether it acts as a principal or agent in its contractual agreements and recognizes revenue on gross or net basis accordingly.

3. USE OF JUDGEMENTS AND ESTIMATES (continued)

B. Assumptions and estimation uncertainty

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

Inventories obsolescence provision

Inventories are held at the lower of cost and net realisable value. When inventories become old or obsolete, an estimate is made of their net realisable value. For individually significant amounts, this estimation is performed on an individual basis. Amounts which are not individually significant, but which are old or obsolete, are assessed collectively and a provision applied according to the inventory type and the degree of ageing or obsolescence.

At the reporting date, gross inventories were SR 138 million (December 31, 2017: SR 114 million) with a provision for obsolete and slow-moving inventories amounting to SR 13.4 million (December 31, 2017: SR 4.3 million). Any difference between the amounts actually realized in future periods and the amounts expected will be recognized in the statement of profit or loss.

Defined Benefit Obligation

The present value of Company's obligation under defined benefit plans is determined using actuarial valuation. This involves making various assumptions that may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, mortality rates and employees' turnover rate. Due to the complexities involved in the valuation and its long-term nature, a defined benefit obligation is sensitive to changes in these assumptions. All assumptions are reviewed annually. Future salary increases are based on expected future inflation rates, seniority, promotion, demand and supply in the employment market

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

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

Impairment of associates

The Company exercises judgement to consider the impairment of associate as well as their underlying assets. This includes the assessment of objective evidence which causes other than temporary decline in the value of investments. Any significant and prolonged decline in the fair value below its cost is considered as objective evidence for the impairment. The determination of what is 'significant' and 'prolonged' requires judgement. The Company also considers impairment to be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.

4. SIGNIFICANT ACCOUNTING POLICIES

a. *Investments in Associates*

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

The Company investments in its associate is accounted for using the equity method.

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

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

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

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

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

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

b. *Foreign currency transactions*

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

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

c. *Revenue*

The Company recognizes revenue at the amount of the transaction price that is allocated to that performance obligation. Revenue is recorded net of returns, trade discounts, volume rebates, estimates of other variable consideration and amounts collected on behalf of third parties.

The Company recognizes revenue from contracts with customers based on a five step model as set out in IFRS 15- Revenue from Contracts with Customers. Revenue is measured based on the consideration specified in a contract with a customer and is recognized at a point of time when the control of goods is transferred to the customers.

Generally, the Company considers the following indicators of the transfer of control:

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

Catering revenue

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

Airline equipment

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

Business lounges

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

Sales of goods - Retail

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

d. *Employee benefits*

i. Short-term employee benefits

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

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

d. Employee benefits (continued)

ii. Defined benefit plans

Provision is made for amounts payable to employees under the Saudi Labour Law and employee contracts. This liability, which is unfunded, represents the amount payable to each employee on a going concern basis.

The Company provides end of service benefits to employees. These benefits are unfunded. The cost of providing benefits is determined using the projected unit credit method as amended by IAS 19.

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

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

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

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

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

iii. Other long-term employee benefits

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

iv. Termination benefits

Termination benefits are expensed at the earlier of when the Company can no longer withdraw the offer of those benefits and when the Company recognizes costs for a restructuring. If benefits are not expected to be settled wholly within 12 months of the reporting date, then they are discounted.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

e. Zakat and income tax

The Company is subject to Regulations of Saudi General Authority of Zakat and Income Tax ("GAZT") in the Kingdom of Saudi Arabia. Zakat and income tax are provided on an accruals basis. The Zakat charge is computed on the Zakat base. Income tax is computed on adjusted net income. The amount of Zakat and income tax is the best estimate of the Zakat and income tax amount expected to be paid or received that reflects uncertainty related to income taxes, if any. It is measured using Zakat and tax rates enacted or substantially enacted at the reporting date.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax assets are recognized for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Future taxable profits are determined based on business plans of the Company and the reversal of temporary differences. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized; such reductions are reversed when the probability of future taxable profits improves. Unrecognized deferred tax assets are reassessed at each reporting date and recognized to the extent that it has become probable that future taxable profits will be available against which they can be used.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

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 counter party on whose behalf the amounts are withheld.

f. Segment information

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

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

The following summary describes the operations of each reportable segment:

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

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

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

g. *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.

h. *Finance income and finance cost*

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

i. *Operating profit*

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

j. *Interest income*

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

k. *Rental income*

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

l. *Inventories*

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

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

m. *Current versus non-current classification*

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

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

m. Current versus non-current classification (continued)

The Company classifies all other assets as non-current.

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.

n. Property, plant and equipment

i. Recognition and measurement

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

Expenditure on maintenance and repairs of items of Property, plant and equipment is expensed, while expenditure for betterment is capitalized.

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

Any gain or loss on disposal of an item of property, plant and equipment is recognized in the profit or loss.

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

ii. Subsequent expenditure

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

iii. Depreciation

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

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

n. Property, plant and equipment (continued)

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

Leasehold improvements	2-30 years
Equipment	3-15 years
Motor vehicles	7-10 Years

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

o. Investment property

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

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

Rental income from investment property is recognized as revenue on a straight-line basis over the term of the lease. Lease incentives granted are recognized as an integral part of the total rental income, over the term of the lease.

Rental income from other property is recognized as other income

p. Intangible assets

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

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

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

q. Non-derivative financial instruments

i. Non-derivative financial assets and financial liabilities - Recognition and derecognition

The Company initially recognizes loans and receivables, deposits and debt securities issued on the date when they are originated. All other financial assets and financial liabilities are initially recognized on the trade date when the entity becomes a party to the contractual provisions of the instrument.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

q. *Non-derivative financial instruments (continued)*

The Company derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred, or it neither transfers nor retains substantially all of the risks and rewards of ownership and does not retain control over the transferred asset. Any interest in such derecognized financial assets that is created or retained by the Company is recognized as a separate asset or liability.

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

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

ii. Non-derivative financial assets - Measurement

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 recognized in profit or loss. Any gain or loss on derecognition is recognized in profit or loss.

Financial assets at fair value through profit or loss

These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognized in profit or loss.

iii. Non-derivative financial liabilities

Non-derivative financial liabilities are initially measured at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these liabilities are measured at amortised cost using the effective interest method.

r. *Share capital*

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

s. *Cash and cash equivalents*

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

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

t. *Provisions*

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

u. *Leases*

i) *Determining whether an arrangement contains a lease*

At inception of an arrangement, the Company determines whether such an arrangement is or contains a lease. A specific asset is the subject of a lease if fulfilment of the arrangement is dependent on the use of that specified asset. An arrangement conveys the right to use the asset if the arrangement conveys to the Company the right to control the use of the underlying asset.

At inception or on reassessment of the arrangement, the Company separates payments and other consideration required by such an arrangement into those for the lease and those for other elements on the basis of their relative fair values. If the Company concludes for a finance lease that it is impracticable to separate the payments reliably, an asset and a liability are recognized at an amount equal to the fair value of the underlying asset. Subsequently the liability is reduced as payments are made and an imputed finance charge on the liability is recognized using the Company's incremental borrowing rate.

ii) *Leased assets*

Leases of property, plant and equipment that transfer to the Company substantially all of the risk and rewards of ownership are classified as finance leases. The leased assets are measured initially at an amount equal to the lower of their fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the assets are accounted for in accordance with the accounting policy applicable to that asset.

Assets held under other leases are classified as operating leases and are not recognized in the Company's statement of financial position.

iii) *Lease payments*

Payments made under operating leases are recognized in profit or loss 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.

5. CHANGES IN SIGNIFICANT ACCOUNTING POLICIES

a. *IFRS 15 Revenue from Contracts with Customers*

The Company adopted IFRS 15: Revenue from Contracts with Customers effective from January 1, 2018.

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaced IAS 18 Revenue, IAS 11 Construction Contracts and related interpretations. The Company recognizes revenue when a customer obtains controls of the goods at a point in time i.e. on delivery and acknowledgment of goods, which is in line with the requirements of IFRS 15.

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

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

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

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

Step 4 – Allocate the transaction price to the performance obligations in the contract: For a contract that has more than one performance obligation, the Company allocates 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 recognizes revenue over time, if one of the following criteria is met:

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

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

5. CHANGES IN SIGNIFICANT ACCOUNTING POLICIES (continued)

a. *IFRS 15 Revenue from Contracts with Customers (continued)*

There was no material effect of adopting 'IFRS 15 Revenue from Contracts with Customers' except for the recognition of Airline Equipment revenue. Previously the Company accounted for the airline equipment revenue on the gross basis, however according to the IFRS 15, the entity should control the specified goods or services to be accounting as gross basis and act as a principal. The Company is acting on behalf of purchaser by procuring equipment based on the their yearly approved equipment forecast and in return, receives a fixed commission over and above of the costs incurred. The Company does not control the goods before it is transferred to purchaser, and the obligation of the Company is to arrange for another party to provide the goods, therefore, the Company is acting as agent and should recognize revenue on a net basis. The Company has adopted IFRS 15 using the retrospective effect method and has presented the impact on its profit and loss for the year ended December 31, 2017 and 2018 as follows:

Year ended December 31, 2018	*As per IFRS 15*	*As per old policy*	*Impact of adoption of IFRS 15*
Revenue	2,035,757,930	2,266,674,821	(230,916,891)
Cost of sales	1,339,278,458	1,570,195,349	(230,916,891)
Net profit	459,280,884	459,280,884	--

Year ended December 31, 2017	*As per IFRS 15*	*As per old policy*	*Impact of adoption of IFRS 15*
Revenue	1,952,564,940	2,223,394,348	(270,829,408)
Cost of sales	1,229,772,985	1,500,602,393	(270,829,408)
Net profit	481,737,979	481,737,979	--

5. CHANGES IN SIGNIFICANT ACCOUNTING POLICIES (continued)

a. *IFRS 15 Revenue from Contracts with Customers (continued)*

The details of the new significant accounting policies and the nature of the changes to previous accounting policies in relation to the Company's revenue segments are set out below.

Type of Product	Nature, timing of satisfaction on performance obligations, significant payment terms	Nature of change in accounting policy
Inflight Catering, Remote & Camp management, Business & Industries catering, Laundry Services and Hajj & Umrah	Revenue from catering and other services is recognized when the services are rendered to the customer. Invoices are generated and revenue is recognized at that point in time. Invoices are generated and recognized as revenue, net off applicable discounts which relate to the items sold. No customer loyalty points are offered to customers and therefore there is no deferred revenue to be recognized for the items sold. For contracts that permit the customer to return an item, under IFRS 15 revenue is recognized to the extent that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur. Therefore, the amount of revenue recognized is adjusted for actual returns. The revenue is recognized at the point of time.	There is no impact from adopting IFRS 15. Revenue from catering and other services is recognized when the services are rendered to the customer. There are no returns for these services.
Airline Equipment	The Company is acting as an agent on behalf of the customer by procuring equipment and receives a commission over and above the costs incurred. The Company does not control the goods before it is transferred to the customer and the revenue is recognized at a point of time when the equipment is received from the supplier.	Income is recognized when the control over the equipment is transferred to the customer on a net basis, representing the commission.

5. CHANGES IN SIGNIFICANT ACCOUNTING POLICIES (continued)

a. *IFRS 15 Revenue from Contracts with Customers (continued)*

Type of Product	Nature, timing of satisfaction on performance obligations, significant payment terms	Nature of change in accounting policy
Business Lounges	The Company recognizes revenue when passengers access the business lounges at a point of time at fixed rates based on contracts with airline companies.	There is no impact from adoption of IFRS 15.
Onboard & Ground Retail	This revenue stream represents normal retail trade of skysales. The obligation is satisfied when the goods are purchased at a point of time.	There is no impact from adoption of IFRS 15. Revenue from the sale of goods is recognized when the Company satisfies the performance obligation by transferring the promised goods (asset) to the customer. An asset is transferred when the customer obtains control of that asset.

b. *IFRS 9 Financial Instruments*

The Company adopted IFRS 9 effective from January 1, 2018.

IFRS 9 sets out requirements for recognizing and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 Financial Instruments Recognition and Measurement.

The details of new significant accounting policies and the nature and effect of the changes to previous accounting policies are set out below.

i. Classification and measurement of financial assets and financial liabilities

IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities. However, it eliminates the previous IAS 39 categories for financial assets held to maturity, loans and receivables and available for sale.

The adoption of IFRS 9 has not had a significant effect on the accounting policies related to financial liabilities and derivatives financial instruments. The impact of IFRS 9 on the classification and measurement of financial assets is set out below.

Under IFRS 9, on the initial recognition, a financial asset is classified as measured at amortised cost; FVOCI-debt investment; FVOCI-equity investment; or FVTPL. The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. Derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never separated. Instead, the hybrid financial instrument as a whole is assessed for classification.

5. CHANGES IN SIGNIFICANT ACCOUNTING POLICIES (continued)

b. IFRS 9 Financial Instruments (continued)

i. Classification and measurement of financial assets and financial liabilities (continued)

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

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

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

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

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

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

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

5. CHANGES IN SIGNIFICANT ACCOUNTING POLICIES (continued)

b. IFRS 9 Financial Instruments (continued)

i. Classification and measurement of financial assets and financial liabilities (continued)

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

Financial assets at FVTPL	These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognized 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 (see (ii) below). Interest income, foreign exchange gains and losses and impairment are recognized in profit loss. Any gains or loss on derecognition is recognized in profit or loss.
Debt investments at FVOCI	These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognized in profit or loss. Other net gains and losses are recognized in OCI. On derecognition, 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 recognized as income in profit or loss the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognized in OCI and are never reclassified to profit or loss.

The effect of adopting IFRS 9 on the carrying amounts in financial assets at 1 January 2018 relates solely to the new impairment requirements, as described further below.

The following table and the accompanying notes below explain the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for the class of the Company's financial assets as at January 1, 2018.

	Original Classification under IAS 39	New Classification under IFRS 9	Original carrying amount under IAS 39	New carrying amount under IFRS 9
Other financial assets	Loans and Receivables/Held to Maturity	Amortised Cost	73,620,570	73,620,570
Trade Receivables	Loans and Receivables	Amortised Cost	854,926,157	869,792,668
Cash and bank balances	Loans and Receivables	Amortised Cost	101,547,658	101,547,658
Total			**1,030,094,385**	**1,044,960,896**

5. CHANGES IN SIGNIFICANT ACCOUNTING POLICIES (continued)

b. IFRS 9 Financial Instruments (continued)

ii) Impairment of financial assets

IFRS 9 replaces the 'incurred loss' model in IAS 39 with an 'expected credit loss' (ECL) model. The new impairment model applies to financial assets measured at amortised cost, contract assets and debt investments at FVOCI, but not to investment in equity instruments. Under IFRS9, credit losses are recognized earlier than IAS 39.

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

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

The Company measures loss allowances at an amount equal to lifetime ECLs.

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

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

Furthermore, the majority of the trade receivables are due from the major shareholder in the Company and government and semi-government entities. As a result, the Company has reversed an impairment of trade receivables amounting to SR 12.8 million. The Company adopted IFRS 9 prospectively, therefore the Company have not restated the comparative figures.

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

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

iii) Transition

The Company has taken an exemption not to restate comparative information for prior periods with respect to classification and measurement (including impairment) requirements. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are not recognized in retained earnings as at 1 January 2018. Accordingly, the information presented for 2017 does not generally reflect the requirements of IFRS 9 but rather those of IAS 39.

5. CHANGES IN SIGNIFICANT ACCOUNTING POLICIES (continued)

b. IFRS 9 Financial Instruments (continued)

iii) Transition (continued)

The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application.

- The determination of the business model within which a financial asset is held.
- The designation and revocation of previous designations of certain financial assets.
- The designation of certain investments in equity instruments not held for trading as at FVOCI.

c. New standards

Standards issued but not yet effective up to the date of issuance of the Company's financial statements are listed below.

Effective for annual periods beginning on or after	Standard, amendment or interpretation	Summary of requirements
Annual reporting periods beginning on or after January 1, 2019, early adoption is permitted	IFRS 16 Leases	IFRS 16 changes fundamentally the accounting for leases by lessees. It eliminates the current IAS 17 dual accounting model, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases and, instead, introduces a single, on-balance sheet accounting model that is similar to current finance lease accounting. Lessor accounting remains similar to current practice – i.e. lessors continue to classify leases as finance and operating leases. Sale-and-leaseback is effectively eliminated as an off-balance sheet financing structure.
1 January 2019	(2015-2017 annual improvements cycle) IFRS 3, IAS 12 and IAS 23	The standards affected under the 2015-2017 annual improvements cycle, and the subjects of the amendments are: - IFRS 3 business combinations and IFRS 11 Joint arrangements - previously held interest in a joint operation. - IAS 12 Income Taxes - income tax consequences of payments on financial instruments classified as equity. - IAS 23 Borrowing Costs - borrowing costs eligible for capitalisation.
1 January 2019	Amendments to IAS 28	The amendments clarify that the Company applies IFRS 9 Financial Instruments to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). This clarification is relevant because it implies that the expected credit loss model in IFRS 9 applies to such long-term interests.

5. CHANGES IN SIGNIFICANT ACCOUNTING POLICIES (continued)

c. *New standards (continued)*

Effective for annual periods beginning on or after	Standard, amendment or interpretation	Summary of requirements
1 January 2019	Amendments to IFRS 9	Under IFRS 9, a debt instrument can be measured at amortised cost or at fair value through other comprehensive income, provided that the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding' (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to IFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract.

d. *Impairment*

i) 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 cash-generating unit's (CGU) fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or Company's assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

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

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

Intangible assets with indefinite useful lives are tested for impairment annually and when circumstances indicate that the carrying value may be impaired.

6. OPERATING SEGMENTS

A. Information about reportable segments

December 31, 2018

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

6. OPERATING SEGMENTS (continued)

A. Information about reportable segments

December 31, 2017

	Inflight	Retail	Catering and Facilities	Total revenue for reportable segments	All other segments	Head office	Total
External revenue	1,508,122,708	261,503,197	119,889,814	1,889,515,719	63,049,221	--	1,952,564,940
Inter-segment revenue	46,399,516	32,805	3,914,868	50,347,189	283,315,605	--	333,662,794
Segment revenue	**1,554,522,224**	**261,536,002**	**123,804,682**	**1,939,862,908**	**346,364,826**	--	**2,286,227,734**
Segment profit / (loss) before zakat and tax	846,178,734	30,961,744	2,766,509	879,906,987	(356,499,689)	--	523,407,298
Depreciation and amortization	25,759,854	2,897,364	6,616,891	35,274,109	22,211,782	--	57,485,891
Assets:							
Segment assets	897,173,262	122,050,788	117,298,312	1,136,522,362	260,828,011	--	1,397,350,373
Other assets	--	--	--	--	--	485,611,036	485,611,036
Total	**897,173,262**	**122,050,788**	**117,298,312**	**1,136,522,362**	**260,828,011**	**485,611,036**	**1,882,961,409**
Liabilities:							
Segment liabilities	222,761,538	35,226,369	16,876,374	274,864,281	105,165,388	--	380,029,669
Other liabilities	--	--	--	--	--	219,986,789	219,986,789
Total	**222,761,538**	**35,226,369**	**16,876,374**	**274,864,281**	**105,165,388**	**219,986,789**	**600,016,458**

6. OPERATING SEGMENTS (continued)

B. Reconciliations of information on reportable segments to IFRS measures

I. Revenue

	December 31, 2018	December 31, 2017
Total revenue for reportable segments	2,019,563,649	1,939,862,908
Revenue for other segments	381,444,733	346,364,826
Elimination of intersegment revenue	(365,250,452)	(333,662,794)
Total revenue	2,035,757,930	1,952,564,940

II. Profit

	December 31, 2018	December 31, 2017
Total profit for reportable segments	871,223,190	879,906,987
Profit for other segments	(374,828,129)	(356,499,689)
Total profit	496,395,061	523,407,298

III. Assets

	December 31, 2018	December 31, 2017
Total assets for reportable segments	1,258,943,509	1,136,522,362
Assets for other segments	288,923,247	260,828,011
Other unallocated amounts	537,918,903	485,611,036
Total assets	2,085,785,659	1,882,961,409

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

IV. Liabilities

	December 31, 2018	December 31, 2017
Total liabilities for reportable segments	359,297,406	274,864,281
Liabilities for other segments	137,470,212	105,165,388
Other unallocated amounts	287,562,584	219,986,789
Total liabilities	784,330,202	600,016,458

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

6. OPERATING SEGMENTS (continued)

V. Geographical information

– Revenue	December 31, 2018	December 31, 2017
Kingdom of Saudi Arabia	**1,959,119,018**	1,864,015,152
All foreign countries		
Egypt – Cairo	**76,638,912**	88,549,788
Total revenue	**2,035,757,930**	1,952,564,940

C. Major customer

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

7. PROPERTY, PLANT AND EQUIPMENT

A. Reconciliation and carrying amount

	Land	Leasehold improvements	Equipment	Motor vehicles	Under construction	Total
Cost:						
Balance at January 1, 2018	33,786,058	298,617,972	170,921,526	104,211,437	101,670,266	709,207,259
Additions	--	1,046,358	5,970.337	1,204,216	84,570,274	92,791,185
Disposal	--	(45,913,928)	(3,781,947)	(14,925,579)	--	(64,621,454)
Transfer from capital work under construction	--	3,798,698	8,472,180	3,243,467	(15,514,345)	--
Balance at December 31, 2018	33,786,058	257,549,100	181,582,096	93,733,541	170,726,195	737,376,990
Accumulated depreciation:						
Balance at January 1, 2018	--	46,527,816	75,406,829	32,810,599	--	154,745,244
Charge for the year	--	23,804,638	25,563,428	11,070,883	--	60,438,949
Disposals	--	(45,913,928)	(3,690,407)	(14,911,778)	--	(64,516,113)
Balance at December 31, 2018	--	24,418,526	97,279,850	28,969,704	--	150,668,080
Carrying amounts:						
At December 31, 2018	33,786,058	233,130,574	84,302,246	64,763,837	170,726,195	586,708,910

	Land	Leasehold improvements	Equipment	Motor vehicles	Under construction	Total
Cost:						
Balance at January 1, 2017	33,786,058	228,941,864	132,399,306	101,122,372	134,964,588	631,214,188
Additions	--	1,374,056	19,818,698	3,350,888	59,515,164	84,058,806
Disposal	--	(206,068)	(4,915,630)	(944,037)	--	(6,065,735)
Transfer from capital work under construction	--	68,508,120	23,619,152	682,214	(92,809,486)	–
Balance at December 31, 2017	33,786,058	298,617,972	170,921,526	104,211,437	101,670,266	709,207,259
Accumulated depreciation:						
Balance at January 1, 2017	--	26,960,355	56,453,446	22,687,920	--	106,101,721
Charge for the year	--	19,739,343	23,731,729	11,066,716	--	54,537,788
Disposals	--	(171,882)	(4,778,346)	(944,037)	--	(5,894,265)
Balance at December 31, 2017	--	46,527,816	75,406,829	32,810,599	--	154,745,244
Carrying amounts:						
At December 31, 2017	33,786,058	252,090,156	95,514,697	71,400,838	101,670,266	554,462,015

7. PROPERTY, PLANT AND EQUIPMENT (continued)

2018
Capital work under construction represents construction works at Saudia City Motel in Jeddah, Jeddah Alfursan Lounge at King Abdulaziz International Airport (New Airport) and the Riyadh Single Camp Project.

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

2017
Capital work under construction represents construction works on welcome lounges at King Khalid International Airport (Terminals 1, 2 and 5) in Riyadh.

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

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

	Note	2018	2017
Cost of sales	24	**51,913,346**	47,570,477
General and administrative expenses	26	**8,525,603**	6,967,311
		60,438,949	54,537,788

8. INTANGIBLE ASSET

A. Intangible Asset

Intangible asset represents system software that the Company implemented during 2015.

B. Reconciliation and carrying amount

	December 31, 2018	December 31, 2017
Cost		
Balance at January 1	**3,820,824**	3,820,824
Balance at December 31	**3,820,824**	3,820,824
Accumulated amortization		
Balance at January 1	**2,538,640**	1,339,736
Amortisation	**1,023,915**	1,198,904
Balance at December 31	**3,562,555**	2,538,640
Carrying amounts	**258,269**	1,282,184

C. Amortisation

The amortisation is included in 'General and administrative expenses'.

9. INVESTMENT PROPERTY

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

B. Reconciliation and carrying amount

	December 31, 2018	December 31, 2017
Cost		
Balance at January 1	**42,876,890**	37,017,552
Additions	--	5,859,338
Balance at December 31	**42,876,890**	42,876,890
Accumulated depreciation		
Balance at January 1	**2,590,507**	841,308
Charge for the year	**1,948,949**	1,749,199
Balance at December 31	**4,539,456**	2,590,507
Carrying amounts	**38,337,434**	40,286,383

10. EQUITY ACCOUNTED INVESTEE

A. Investment in associate

On May 10, 2017, the Company invested an amount of SR 30,757,600 in Saudi French Company for Duty Free Operations and Management representing 40% of its share capital.

The Company started to record its share in the losses of the associate from May 10, 2017.

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

Name	Country of incorporation	Effective ownership interest (%)		Carrying value	
		December 31, 2018	December 31, 2017	**December 31, 2018**	December 31, 2017
Saudi French Company For Duty Free Operations and Management (Limited Liability Company)	Kingdom of Saudi Arabia	**40%**	40%	**15,125,813**	20,642,074

10. EQUITY ACCOUNTED INVESTEE (continued)

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

	December 31, 2018	December 31, 2017
Opening balance	**20,642,074**	--
Capital contribution	**--**	30,757,600
Share in net loss	**(5,406,251)**	(10,115,526)
Share in other comprehensive loss	**(110,010)**	--
Ending balance	**15,125,813**	20,642,074

D. Below is the summary of the financial information of the investee as at December 31, 2018 and December 31, 2017:

At the date of the financial statements, the associate had not issued audited financial statements. Accordingly the financial data below and the share of loss for the year ended December 31, 2018 is based on internal management draft financial statements.

i) Share in net assets

	December 31, 2018	December 31, 2017
Non current assets	**31,405,421**	26,055,824
Current assets	**79,893,590**	95,903,344
Total assets	**111,299,011**	121,959,168
Non current liabilities	**819,847**	550,029
Current liabilities	**72,664,632**	69,803,954
Total liabilities	**73,484,479**	70,353,983
Net assets	**37,814,532**	51,605,185
Company's share in net assets (40%)	**15,125,813**	20,642,074

ii) Share in loss

	Year ended December 31, 2018	From May 10, 2017 to December 31, 2017
Revenue	**242,844,499**	106,170,470
Net loss for the year/period	**(13,515,627)**	(25,288,816)
Other comprehensive loss	**(275,025)**	--
Company's share of loss for the year/ period (40%)	**(5,406,251)**	(10,115,526)
Company's share of other comprehensive loss (40%)	**(110,010)**	--

10. EQUITY ACCOUNTED INVESTEE (continued)

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

At the date of the financial statements, the Company was unable to practice the call option due to legal formalities and accordingly was unable to obtain control and management continued to account for this investment as an associate.

iii) Impairment test of associate

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

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

	2018	2017
Discount rate	7%	7%
Terminal value growth rate	0%	0%
Budgeted EBITDA growth rate (average of next five years)	(2%)	(2%)

Management of the Company has assessed in detail the carrying value of Saudi French Company for Duty Free Operations and Management as at December 31 on the basis of above assumptions and concluded that there is no impairment in the associate that needs to be recognized.

11. OTHER FINANCIAL ASSETS

	Note	December 31, 2018	December 31, 2017
Financial assets measured at amortized cost:			
Investment in Saudi British Bank Sukuk	11-A	--	40,000,000
Letters of guarantee		29,991,692	33,620,570
		29,991,692	73,620,570

A. Investment in Saudi British Bank Sukuk

The Saudi British Bank (SABB) Sukuk ("Sukuk II") carries a return of SIBOR plus a margin of 1.4 percent calculated semi-annually. The Sukuk II was to be liquidated in 2020 but the Company had the option to redeem the Sukuk in 2018. The Company exercised the option to redeem the full Sukuk amount on December 17, 2018.

12. INVENTORIES

A. Inventories comprise the following:

	December 31, 2018	December 31, 2017
Catering items	32,195,629	28,344,428
Retails items (formerly Skysales)	96,582,463	78,296,188
Spare parts	6,803,367	4,535,592
Packing and other materials	2,842,744	3,143,816
	138,424,203	114,320,024
Provision for slow-moving and obsolete inventories	(13,396,325)	(4,339,108)
	125,027,878	109,980,916

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

	December 31, 2018	December 31, 2017
Balance at beginning of the year	4,339,108	8,322,784
Charge for the year	9,667,440	1,850,871
Utilised during the year	(421,247)	(5,743,586)
Write-off during the year	(188,976)	(90,961)
Balance at end of the year	13,396,325	4,339,108

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

13. TRADE AND OTHER RECEIVABLES

A. Trade and other receivables at December 31 comprise the following:

	Note	December 31, 2018	December 31, 2017
Trade receivables due from related parties (net of purser provision)	22-C	722,310,992	705,084,445
Trade receivables - third parties		268,417,405	203,269,330
		990,728,397	908,353,775
Less: Allowance for expected credit losses	13-C	(40,502,850)	(53,427,618)
		950,225,547	854,926,157

- Trade receivables disclosed above are classified as loans and receivables and are measured at amortized cost.
- The Company does not have any collateral over receivables and the vast majority are, therefore, unsecured. Unimpaired trade receivables are expected on the basis of past experience, to be fully recoverable.
- 72% of the trade receivables is due from government or semi-government entities (2017: 76%)

13. TRADE AND OTHER RECEIVABLES (continued)

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

	Up to three months	*Above three and up to six months*	*Above six months*	Total
December 31, 2018	**761,740,746**	**147,567,845**	**81,419,806**	**990,728,397**
December 31, 2017	625,923,887	191,306,341	91,123,547	908,353,775

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

	December 31, 2018	December 31, 2017
Balance at beginning of the year	**53,427,618**	65,717,195
Charged for the year	**--**	18,711,515
Write-off during the year	**(538,781)**	(750,000)
Reversal during the year	**(12,385,987)**	(30,251,092)
Balance at end of the year	**40,502,850**	53,427,618

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

	December 31, 2018	December 31, 2017
Balance at beginning of the year	**4,476,079**	8,620,203
Charged for the year	**388,045**	455,204
Write-off during the year	**(17,284)**	--
Reversal during the year	**(820,839)**	(4,599,328)
Balance at end of the year	**4,026,001**	4,476,079

14. PREPAYMENTS AND OTHER ASSETS

Prepayments and other assets at December 31 comprise the following:

	December 31, 2018	December 31, 2017
Prepayments	**108,903,942**	92,318,604
Vat Input tax	**46,914,574**	--
Unbilled receivables	**18,677,239**	28,413,467
Advances to suppliers	**12,462,620**	1,628,106
Margin deposits with banks	**4,010,586**	1,417,540
Advances to employees	**1,888,412**	2,435,735
	192,857,373	126,213,452

- Unbilled receivables represented is billing not yet approved by customers. As at December 31, 2018 there were no significant unbilled receivable outstanding for more than 1 year.

15. CASH AND CASH EQUIVALENTS

Cash and cash equivalents at December 31 comprise the following:

	December 31, 2018	December 31, 2017
Cash at bank - current accounts	145,997,345	100,402,166
Cash in hand	1,255,398	1,145,492
	147,252,743	101,547,658

16. SHARE CAPITAL

A. Share capital

	December 31, 2018	December 31, 2017
In issue at January 1, 2018 (number of shares)	82,000,000	82,000,000
Issued for cash	-	-
In issue at December 31, 2018 - fully paid (number of shares)	82,000,000	82,000,000
Issued – par value SAR 10	820,000,000	820,000,000

B. At December 31, 2018 and 2017 the shareholders and their percentage interests in the share capital of the Company are as follows:

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

C. Ordinary shares

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

17. STATUTORY RESERVE

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

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

18. DIVIDENDS

A. i The following dividends were declared by the Company during the year ended December 31, 2018.

	December 31, 2018
March 27, 2018: SR 1.30 per ordinary share after Zakat and before tax deduction (Income tax adjusted)	**104,673,521**
May 5, 2018: SR 1.35 per ordinary share after Zakat and before tax deduction (Income tax adjusted)	**108,541,626**
August 2, 2018: SR 1.40 per ordinary share after Zakat and before tax deduction (Income tax adjusted)	**111,932,975**
November 6, 2018: SR 1.50 per ordinary share after Zakat and before tax deduction (Income tax adjusted)	**120,202,953**
	445,351,075

Subsequent to year end the Company announced dividend of SR 1.30 per ordinary share with an amount of SR 106.6 million.

ii The following dividends were declared by the Company during the year ended December 31, 2017.

	December 31, 2017
January 26, 2017: SR 1.30 per ordinary share after Zakat and before tax deduction (Income tax adjusted)	104,674,258
May 3, 2017: SR 1.25 per ordinary share after Zakat and before tax deduction (Income tax adjusted)	100,452,959
August 14, 2017: SR 1.50 per ordinary share after Zakat and before tax deduction (Income tax adjusted)	120,372,941
November 2, 2017: SR 1.50 per ordinary share after Zakat and before tax deduction (Income tax adjusted)	120,909,317
	446,409,475

18. DIVIDENDS (continued)

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

	December 31, 2018	December 31, 2017
Balance at beginning of the year	**3,120,329**	3,167,828
Declared during the year	**445,351,075**	446,409,475
Paid during the year	**(325,241,423)**	(446,456,974)
Balance at end of the year	**123,229,981**	3,120,329

19. EMPLOYEES' BENEFITS

	Notes	**December 31, 2018**	December 31, 2017
Employees' end-of-service benefits	19.A	**165,023,832**	168,998,200
Accrued bonus - long term	19.B	**2,400,000**	--
		167,423,832	168,998,200

A. Defined benefit obligations

i) Movement in defined benefit liability

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

	December 31, 2018	December 31, 2017
Balance at January 1	**168,998,200**	155,656,500
Current service cost included in profit or loss		
Service cost	**14,860,779**	12,010,400
Finance cost	**5,256,820**	4,845,600
	20,117,599	16,856,000
Included in OCI		
Actuarial (gain)/ loss arising from:	**(4,690,707)**	12,973,100
- Demographic assumptions	**1,489,821**	--
- Financial assumptions	**9,855,947**	(2,779,500)
- Experience adjustment	**(16,036,475)**	15,752,600
Remeasurement (gain)/loss:	**(4,690,707)**	12,973,100
Other		
Benefits paid	**(19,401,260)**	(16,487,400)
Employees' end-of- service benefits.	**165,023,832**	168,998,200

19. EMPLOYEES' BENEFITS (continued)

ii) Actuarial assumptions

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

	December 31, 2018	December 31, 2017
Discount rate	**4.30%**	3.50%
Future salary growth	**4.30%**	2.25%
Voluntary turnover rate	**6.6%**	11% to 18%
In -voluntary turnover rate	**10.45%**	3%
Retirement age	**60 years**	60 years

iii) Sensitivity analysis

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

	December 31, 2018		December 31, 2017	
	Increase	**Decrease**	Increase	Decrease
Discount rate (0.5% movement)	**161,034,306**	**(169,222,795)**	164,574,500	(173,688,500)
Future salary growth (0.5% movement)	**169,607,321**	**(160,629,165)**	173,714,400	(164,509,000)

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

B. Accrued bonus - long term

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

	December 31, 2018	December 31, 2017
Balance at January 1	--	7,616,142
Provision for the year	**2,400,000**	--
Transfer to short term bonus	--	(3,826,360)
Benefits paid	--	(3,789,782)
	2,400,000	--

The amount represents the first year of the second cycle of long term bonus incentive for senior management. No payment will be made in the next year, accordingly the whole balance is classified as long-term.

20. ZAKAT AND INCOME TAX LIABILITIES

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

	December 31, 2018	December 31, 2017
Zakat payable	**28,259,464**	29,522,917
Income tax payable	**2,050,550**	1,667,170
Zakat and income tax liabilities as at December 31	**30,310,014**	31,190,087

A. Zakat and income tax provision

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

	December 31, 2018	December 31, 2017
Balance at beginning of the year	**29,522,917**	26,716,426
Charge for the year	**28,259,464**	29,522,916
Adjustment related to prior years	**(426,233)**	3,455,137
Payments during the year	**(29,096,684)**	(30,171,562)
Balance at end of the year	**28,259,464**	29,522,917

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

	December 31, 2018	December 31, 2017
Balance at beginning of the year	**1,667,170**	383,926
Charge for the year	**9,024,271**	9,041,633
Adjustment related to prior year	**256,675**	(350,367)
Payments during the year	**(8,897,566)**	(7,408,022)
Balance at end of the year	**2,050,550**	1,667,170

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

	2018	2017
Zakat charge for the year	**28,259,464**	29,522,916
Zakat prior year adjustment	**(426,233)**	3,455,137
	27,833,231	32,978,053
Income tax charge of the year	**9,024,271**	9,041,633
Income tax prior year adjustment	**256,675**	(350,367)
	9,280,946	8,691,266
Total Zakat and income tax of the year	**37,114,177**	41,669,319

20. ZAKAT AND INCOME TAX LIABILITIES (continued)

B. Zakat components

	December 31, 2018	December 31, 2017
Non-current assets	**670,422,118**	690,293,226
Non-current liabilities	**167,423,832**	168,998,200
Shareholders' equity	**1,301,455,457**	1,282,944,951
Profit before Zakat and income tax	**496,395,061**	523,407,298

C. Zakat assessments

The Company has submitted its Zakat and tax declarations for the years from 2009 to 2014 and paid the amounts due according to the declarations and received queries from GAZT which it has responded to and currently waiting for GAZT review of these responses.

The Company has also submitted its Zakat and tax declarations for the years 2015 to 2017 which are currently under review by GAZT. The Company has obtained a certificate until April 30, 2019.

21. TRADE AND OTHER PAYABLES

Trade payables at December 31 comprise the following:

	Note	December 31, 2018	December 31, 2017
Trade payables due to related parties	22-C	**35,434,408**	39,809,203
Other trade payables		**212,663,835**	181,873,105
Accrued expenses		**186,889,388**	175,025,534
Dividend payable		**123,229,981**	3,120,329
VAT Output Tax		**28,378,744**	--
		586,596,356	399,828,171

22. RELATED PARTIES DISCLOSURES

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

B. Transactions with key management personnel

Key management personnel compensation comprised the following:

	2018	2017
Short term employee benefits	**6,536,196**	5,775,814
Post employment benefits	**145,800**	145,800
Termination benefits	**332,292**	339,819
	7,014,288	6,261,433

22. RELATED PARTIES DISCLOSURES (continued)

C. Related parties' transactions and balances

Significant related parties' transactions for the year ended December 31 and balances arising-there from are described as under:

	Transaction values for the year		Balances	
	December 31, 2018	December 31, 2017	December 31, 2018	December 31, 2017
i) Sale of goods and services (under trade and other receivables)				
Parent of the Company:				
Saudi Arabian Airlines Corporation	1,409,449,802	1,282,577,412	663,009,364	633,139,064
Shareholder:				
Alhokair Company Joint Stock Company	98,168	11,595	(159,913)	93,175
Affiliates:				
Saudi Airlines Cargo Company	14,718,896	17,433,516	14,176,765	29,128,050
Saudi Ground Services Company	45,144,079	57,423,404	32,527,902	25,611,471
Saudi French Company for Duty Free Operations and Management	9,855,414	21,226,426	12,338,822	16,658,845
Saudi Airlines Real Estate Development Company	--	72,022	418,052	453,840
Total			722,310,992	705,084,445
ii) Purchase of goods (under trade and other payables)				
Parent of the Company:				
Saudi Arabian Airlines Corporation	4,050,650	8,317,109	4,606,589	9,766,970
Shareholders:				
Newrest Company Holding S.L.	11,390,614	11,779,983	(29,850)	35,168
Alhokair Company Joint Stock Company	27,213	191,325	--	307,140
Affiliates:				
Saudi Airlines Real Estate Development Company	13,397,623	16,252,858	21,150,466	21,155,603
Saudi Airlines Cargo Company	--	--	7,455,197	7,455,197
Saudi Ground Services Company	1,207,643	71,830	1,422,838	215,194
Gulfwest Company Limited	7,925,799	3,545,045	829,168	873,931
Total			35,434,408	39,809,203

23. REVENUE

	2018	2017
In-flight catering revenue	**1,460,605,418**	1,335,680,421
Retail revenue	**177,717,238**	261,503,197
Business lounge revenue	**170,831,566**	169,773,018
Non-airlines revenue	**189,958,393**	164,457,456
Other operating revenues		
Camp facilities sales (staff feeding & accommodation)	**26,580,696**	18,308,385
Exclusivity purchase income & services to suppliers	**10,064,619**	2,842,463
	2,035,757,930	1,952,564,940

24. COST OF SALES

	Note	2018	2017
Cost of materials and goods		**645,382,870**	665,986,421
Personnel costs		**295,906,356**	254,854,248
Rent and maintenance of production units		**151,697,845**	126,876,905
Depreciation	7.B	**51,913,346**	47,570,477
Other operating costs			
Manpower and transportation cost		**72,411,142**	61,769,881
Supplies and expandable items		**35,611,666**	32,556,695
Communication and utilities		**30,389,765**	21,888,066
Other operational costs		**55,965,468**	18,270,292
		1,339,278,458	1,229,772,985

25. OTHER INCOME

	2018	2017
Management fee income	**3,442,000**	1,911,986
Medical ex - gratia income	**2,334,400**	1,780,000
Commission Income	**790,500**	633,535
Others	**5,788,751**	2,721,153
	12,355,651	7,046,674

26. GENERAL AND ADMINISTRATIVE EXPENSES

	Notes	2018	2017
Amortization	8	**1,023,915**	1,198,904
Board of Directors' fee		**3,442,171**	3,029,932
Depreciation	7,9	**10,474,553**	8,716,510
Insurance		**4,217,009**	3,007,110
Management fee		**8,310,558**	10,007,867
Marketing and promotional		**7,004,925**	6,540,566
Personnel costs		**116,594,906**	119,887,957
Professional and technical fee		**3,985,034**	5,047,742
Rent		**24,034,737**	21,054,942
Repairs and maintenance		**271,342**	260,036
Service agreement fee		**10,547,099**	10,267,786
Stationary and printing		**414,027**	501,353
Travelling		**9,172,082**	4,171,112
Utilities		**6,905,430**	5,694,480
Other		**8,051,579**	7,888,531
		214,449,367	207,274,828

27. OTHER EXPENSES

	2018	2017
Bank commissions	**1,519,378**	1,476,710
Loss on sale of property, plant and equipment	**105,341**	171,470
Foreign currency exchange loss	**--**	1,197,440
	1,624,719	2,845,620

28. FINANCE INCOME

	2018	2017
Interest income on financial asset classified as amortised cost	**1,478,314**	1,436,785
Other interest income	**--**	1,529,757
Finance income	**1,478,314**	2,966,542
Finance income recognised in profit or loss	**1,478,314**	2,966,542

29. EARNINGS PER SHARE

A. *Basic earnings per share*

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

i. Profit attributable to ordinary shareholders (basic)

	2018	2017
Profit for the year, attributable to the owners of the Company	459,280,884	481,737,979

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

	2018	2017
Issued ordinary shares at January 1	82,000,000	82,000,000
Effect of shares issued	--	--
Weighted-average number of ordinary shares at December 31	82,000,000	82,000,000

B. *Diluted earnings per share*

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

30. CAPITAL MANAGEMENT

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

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

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

	December 31, 2018	December 31, 2017
Total liabilities	784,330,202	600,016,458
Less: cash and cash equivalents	(147,252,743)	(101,547,658)
Net debt	637,077,459	498,468,800
Total equity	1,301,455,457	1,282,944,951
Net debt to total equity ratio	49%	39%

31. FINANCIAL INSTRUMENTS - FAIR VALUES AND RISK MANAGEMENT

A. Measurement of fair values

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

B. Financial risk management

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

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

Risk management framework

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

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

Cash flow and interest rate risk

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

Credit risk

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

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

	December 31, 2018	December 31, 2017
Financial assets		
Other financial asset	**29,991,692**	73,620,570
Trade receivables	**223,888,554**	145,365,633
Due from related parties	**726,336,993**	709,560,524
Other receivables	**22,687,824**	29,831,007
Balances with banks	**145,997,345**	100,402,166
	1,148,902,408	1,058,779,900

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

Credit risk (continued)

Credit risk on receivable and bank balances is limited as:

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

Concentration Risk

As at December 31, 2018, 5 largest customers (December 31, 2017: 5 largest customers) account for approximately 75% (31 December 2017: 78%) of gross outstanding trade receivables

Liquidity risk

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

Fair value of assets and liabilities

The following table shows the carrying amount of the financial assets and financial liabilities at December 31, 2017 and 2018. The Company does not have any assets measured at FVTPL or FVOCI at December 31, 2017 and 2018.

Financial assets classified as amortised cost ***Carrying value:***	**December 31, 2018**	December 31, 2017
Other financial assets	**29,991,692**	73,620,570
Trade and other receivables	**227,914,555**	149,841,712
Due from related parties	**722,310,992**	705,084,445
Other receivables	**22,687,824**	29,831,007
Balances with banks	**145,997,345**	100,402,166
	1,148,902,408	1,058,779,900

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

Financials liabilities as at amortised cost

Carrying amount:	**December 31, 2018**	December 31, 2017
Trade and other payables	**586,596,356**	399,828,171

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

Exposure to liquidity risk

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

December 31, 2018 **Liabilities**	***Carrying amount***	***Total***	***less than one year***	***More than one year***
Trade and other payables	**586,596,356**	**586,596,356**	**586,596,356**	--

December 31, 2017 Liabilities	*Carrying amount*	*Total*	*less than one year*	*More than one year*
Trade and other payables	399,828,171	399,828,171	399,828,171	--

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

32. COMMITMENTS AND CONTINGENCIES

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

	December 31, 2018	December 31, 2017
Capital commitments	**81,609,125**	89,896,802
Letter of guarantees	**39,590,143**	35,038,109

Letters of guarantee are issued by a bank on behalf of the Company to a supplier and promises to meet any financial obligations to the supplier in the event of default and this requires the Company to place cash with the bank. As at December 31, 2018, the Company fully paid the amount against letters of guarantee, hence no further financial charges are payable.

The Company had a credit facility with SABB from April 2018 for the new bank guarantee issued on behalf of the Company to a supplier with the year-to-date issued amount of SR. 5,587,866.

33. OPERATING LEASE

The Company has offices under operating leases for various periods with an option to renew the leases after that date. Lease payments are negotiated annually to reflect market rates. In addition, the Company has various cancellable operating leases, which provide for annual renewal

Future rental commitments at under operating leases are as follows:

	December 31, 2018	December 31, 2017
Not later than one year	**134,545,692**	118,935,653
Later than one year but not later than five years	**663,587,920**	589,555,356
More than five years	**379,955,384**	406,325,384
	1,178,088,996	1,114,816,393

34. DATE OF AUTHORISATION FOR ISSUE

These financial statements were approved by the Board of Directors on Jumada Al Thani 29, 1440H, corresponding to March 6, 2019.

Chief Financial Officer | Chief Executive Officer | Authorized Board of Directors Member