

**SAUDI GROUND SERVICES COMPANY**  
(A Saudi Joint Stock Company)

**UNAUDITED INTERIM  
FINANCIAL STATEMENTS**

For the three-months and nine-months periods ended  
September 30, 2016

with

**INDEPENDENT AUDITORS' REVIEW REPORT**

**SAUDI GROUND SERVICES COMPANY**  
(A Saudi Joint Stock Company)  
For the period ended September 30, 2016

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## REVIEW REPORT ON INTERIM FINANCIAL STATEMENTS

The Shareholders  
Saudi Ground Services Company  
(A Saudi Joint Stock Company)  
Jeddah, Kingdom of Saudi Arabia.

### Scope of review

We have reviewed the accompanying interim balance sheet of Saudi Ground Services Company ("the Company") as at September 30, 2016, the related interim statement of income for three-months and nine months periods then ended, the interim statements of cash flows and changes in shareholders' equity for the nine months period then ended and the attached notes from 1 through 14 which form an integral part of the interim financial statements. These interim financial statements are the responsibility of the Company's management and have been prepared by them and submitted to us together with all the information and explanations which we required. Our responsibility is to provide a conclusion on the review of these interim financial statements based on our review.

We conducted our review in accordance with Auditing Standard on Review of Interim Financial Reporting issued by the Saudi Organization for Certified Public Accountants (SOCPA). A review consists principally of analytical procedures applied to financial data and information and making inquiries of Company's personnel responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion on the financial statements taken as a whole. Accordingly, we do not express such an opinion.

### Review conclusion

Based on our review, we are not aware of any material modifications that should be made to the accompanying interim financial statements for them to be in conformity with the accounting standards generally accepted in the Kingdom of Saudi Arabia.

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

Ebrahim Oboud Baeshen  
License No. 382



Jeddah, Muharram 17, 1438H  
Corresponding to October 18, 2016

**SAUDI GROUND SERVICES COMPANY**  
(A Saudi Joint Stock Company)

**INTERIM BALANCE SHEET (UNAUDITED)**  
As at September 30, 2016  
(Expressed in Saudi Arabian Riyals)

	Notes	2016	2015
<b>ASSETS</b>			
<b>Current assets:</b>			
Cash and cash equivalents	4	718,255,828	609,796,850
Investment held for trading	5	152,389,561	—
Accounts receivable	6	1,073,842,503	975,345,390
Prepayments and other current assets		258,072,736	291,877,757
<b>Total current assets</b>		<b>2,202,560,628</b>	<b>1,877,019,997</b>
<b>Non-current assets:</b>			
Investment in an equity accounted investee	7	94,201,063	67,688,910
Property and equipment		473,611,324	488,496,905
Intangible assets	8	916,604,096	947,107,546
<b>Total non-current assets</b>		<b>1,484,416,483</b>	<b>1,503,293,361</b>
<b>Total assets</b>		<b>3,686,977,111</b>	<b>3,380,313,358</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>Current liabilities:</b>			
Accounts payable		50,896,628	31,831,577
Accrued expenses and other current liabilities		344,983,420	251,214,331
Accrued Zakat		42,222,137	19,421,063
<b>Total current liabilities</b>		<b>438,102,185</b>	<b>302,466,971</b>
<b>Non-current liabilities:</b>			
Employees' end of service benefits		300,193,469	254,547,377
<b>Total liabilities</b>		<b>738,295,654</b>	<b>557,014,348</b>
<b>SHAREHOLDERS' EQUITY</b>			
Share capital	9	1,880,000,000	1,880,000,000
Statutory reserve		359,625,371	284,226,276
Retained earnings		709,056,086	659,072,734
<b>Total shareholders' equity</b>		<b>2,948,681,457</b>	<b>2,823,299,010</b>
<b>Total liabilities and shareholders' equity</b>		<b>3,686,977,111</b>	<b>3,380,313,358</b>

  
Chief Financial Officer

  
Chief Executive Officer

  
Chairman

The attached notes 1 to 14 form an integral part of these interim financial statements.

**SAUDI GROUND SERVICES COMPANY**

(A Saudi Joint Stock Company)

**INTERIM STATEMENT OF INCOME (UNAUDITED)**

For the three months and nine months periods ended September 30, 2016

(Expressed in Saudi Arabian Riyals)

Notes	For the three-months period ended September 30,		For the nine-months period ended September 30,	
	2016	2015	2016	2015
Revenue	741,271,821	661,141,468	2,119,486,814	1,891,473,466
Operating costs	(490,335,443)	(440,370,052)	(1,355,729,346)	(1,293,319,646)
<b>Gross profit</b>	<b>250,936,378</b>	<b>220,771,416</b>	<b>763,757,468</b>	<b>601,153,820</b>
General and administrative expenses	(60,555,451)	(54,970,426)	(180,934,883)	(169,722,338)
Realized gain on disposal of investment held for trading	1,021,042	--	1,021,042	--
Unrealized gain from valuation of investment held for trading	230,168	--	1,368,519	--
Share of profit from an equity accounted investee	7 6,000,000	5,495,949	18,000,000	25,607,165
<b>Operating income</b>	<b>197,632,137</b>	<b>171,296,939</b>	<b>603,212,146</b>	<b>457,038,647</b>
Finance income	4,572,190	--	6,876,064	--
Other income – net	704,651	1,453,628	4,884,275	12,260,555
Finance charges	(707,567)	(44,056)	(825,167)	(233,808)
<b>Income before Zakat</b>	<b>202,201,411</b>	<b>172,706,511</b>	<b>614,147,318</b>	<b>469,065,394</b>
Zakat	(9,000,000)	(5,625,000)	(29,037,492)	(16,875,000)
<b>Net income for the period</b>	<b>193,201,411</b>	<b>167,081,511</b>	<b>585,109,826</b>	<b>452,190,394</b>
<b>Earnings per share (Saudi Riyals):</b>				
- Operating income	11 1.05	0.91	3.21	2.43
- Net income for the period	11 1.03	0.89	3.11	2.41

  
Chief Financial Officer

  
Chief Executive Officer

  
Chairman

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**SAUDI GROUND SERVICES COMPANY**  
(A Saudi Joint Stock Company)

**INTERIM STATEMENT OF CASH FLOWS (UNAUDITED)**

For the nine months period ended September 30, 2016  
(Expressed in Saudi Arabian Riyals)

	Notes	2016	2015
<b>Cash flows from operating activities</b>			
Income before Zakat		614,147,318	469,065,394
Adjustments for:			
Share of profit from an equity accounted investee	7	(18,000,000)	(25,607,165)
Depreciation		72,250,917	73,262,447
Amortization of intangible assets		17,567,813	38,806,913
Provision for employees' end of service benefits		44,197,856	36,955,451
Provision for doubtful debts		21,950,000	5,369,890
Unrealized gain from investment held for trading	5	(1,368,519)	--
Realized gain on sale of investment held for trading		(1,021,042)	--
(Gain) - loss on disposal of property and equipment		(11,670)	103,001
		<u>749,712,673</u>	<u>597,955,931</u>
Changes in operating assets and liabilities:			
Increase in accounts receivable		(286,354,793)	(262,499,886)
Increase in prepayments and other current assets		(81,176,431)	(179,623,103)
(Decrease) - increase in accounts payable		(894,958)	1,125,766
Increase in accrued expenses and other current liabilities		<u>142,468,820</u>	<u>67,154,911</u>
Employees' end of service benefits paid		(9,272,063)	(4,664,374)
Zakat paid		(12,674,299)	(21,435,869)
Net cash provided by operating activities		<u>501,808,949</u>	<u>198,013,376</u>
<b>Cash flows from investing activities</b>			
Purchase of property and equipment		(72,722,510)	(20,754,777)
Proceeds from disposal of property and equipment		11,670	2,088,529
Investment held for trading	5	(500,000,000)	--
Proceeds from disposal of investment held for trading		350,000,000	--
Dividend received from an equity accounted investee	7	--	24,497,579
Net cash used in investing activities		<u>(222,710,840)</u>	<u>5,831,331</u>
<b>Cash flows from financing activity</b>			
Dividend paid		(340,280,000)	(113,467,667)
Net (decrease)/ increase in cash and cash equivalents		(61,181,891)	90,377,040
Cash and cash equivalents at the beginning of the period		<u>779,437,719</u>	<u>519,419,810</u>
Cash and cash equivalents at the end of the period	4	<u>718,255,828</u>	<u>609,796,850</u>

  
Chief Financial Officer

  
Chief Executive Officer

  
Chairman

The attached notes 1 to 14 form an integral part of these interim financial statements.

**SAUDI GROUND SERVICES COMPANY**  
(A Saudi Joint Stock Company)

**INTERIM STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY (UNAUDITED)**  
For the nine months period ended September 30, 2016  
(Expressed in Saudi Arabian Riyals)

	<u>Share capital</u>	<u>Statutory reserve</u>	<u>Retained earnings</u>	<u>Total</u>
Balance at January 1, 2015	1,880,000,000	239,007,237	365,569,046	2,484,576,283
Net income	--	--	452,190,394	452,190,394
Dividend	--	--	(113,467,667)	(113,467,667)
Transfer to statutory reserve	--	45,219,039	(45,219,039)	--
Balance at September 30, 2015 (Unaudited)	<u>1,880,000,000</u>	<u>284,226,276</u>	<u>659,072,734</u>	<u>2,823,299,010</u>
Balance at January 1, 2016	1,880,000,000	301,114,388	522,737,243	2,703,851,631
Net income	--	--	585,109,826	585,109,826
Dividend	--	--	(340,280,000)	(340,280,000)
Transfer to statutory reserve	--	58,510,983	(58,510,983)	--
Balance at September 30, 2016 (Unaudited)	<u>1,880,000,000</u>	<u>359,625,371</u>	<u>709,056,086</u>	<u>2,948,681,457</u>

  
Chief Financial Officer

  
Chief Executive Officer

  
Chairman

The attached notes 1 to 14 form an integral part of these interim financial statements.

**SAUDI GROUND SERVICES COMPANY**  
(A Saudi Joint Stock Company)

**NOTES TO THE INTERIM FINANCIAL STATEMENTS (UNAUDITED)**

For the nine months period ended September 30, 2016

(Expressed in Saudi Arabian Riyals)

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**1. ORGANIZATION AND PRINCIPLE ACTIVITIES**

- 1.1 Saudi Ground Services Company ("the Company") was registered as a limited liability company in the Kingdom of Saudi Arabia under Commercial Registration number 4030181005 dated Rajab 11, 1429H, (corresponding to July 14, 2008). The Company was formed by Saudi Arabian Airlines Corporation ("Saudia"), a 100% Government owned entity, in 2008 to consolidate the ground support services business (GSS) in the Kingdom of Saudi Arabia.
- 1.2 On February 7, 2010, Saudia signed a Shareholders' Agreement (the "Agreement" or the "Shareholders' Agreement") with Attar Ground Handling and Attar Travel (collectively referred as "Attar") and the shareholders of National Handling Services ("NHS") to acquire their ground handling businesses. As a result of this agreement, the Company acquired the Ground Supporting Services Division of Saudia, ground handling business of Attar and the 100% issued capital of NHS. NHS is liquidated and accordingly not consolidated in these financial statements. The amended Articles of Association reflecting the above changes were approved by the Ministry of Commerce and Industry on Muharram 23, 1432H (December 29, 2010). The effective date of the above-mentioned acquisition and transfer was agreed between the shareholders as of January 1, 2011. The legal name "Saudi Airlines Ground Services Company" was changed to "Saudi Ground Services Company" under the same commercial registration number 4030181005 on Safar 20, 1432H, (corresponding to January 24, 2011).
- 1.3 The Company on Jamadul Thani 17, 1435H, corresponding to April 17, 2014, has converted from a limited liability to a closed joint stock company pursuant to Ministerial resolution number 171/R on Jumadul Thani 17, 1435H, corresponding to April 17, 2014.
- 1.4 As decided by the shareholders of the Company, the Company offered 56.4 million shares, with a nominal value of SR 10 each, representing 30% share capital of the Company, to public during subscription period from June 3, 2015 (corresponding to Shabaan 15, 1436H) to June 9, 2015 (corresponding to Shabaan 21, 1436H) after obtaining required approval from the Capital Market Authority. The Company's shares started trading on the Saudi Stock Exchange (Tadawul) on June 25, 2015, corresponding to Ramadan 8, 1436H.
- 1.5 The Company is engaged in providing aircraft cleaning, passenger handling, baggage and ground handling services to Saudi Arabian Airlines, other local and foreign airlines at all airports in the Kingdom of Saudi Arabia.
- 1.6 The Company's registered office is located at the following address:
- Saudi Ground Services Company  
Khalidiyah District, Saudia City  
P. O. Box 48154  
Jeddah 21572  
Kingdom of Saudi Arabia.

**SAUDI GROUND SERVICES COMPANY**  
(A Saudi Joint Stock Company)

**NOTES TO THE INTERIM FINANCIAL STATEMENTS (UNAUDITED)**

For the nine months period ended September 30, 2016

(Expressed in Saudi Arabian Riyals)

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**2. BASIS OF PREPARATION**

**(a) Statement of compliance**

The accompanying interim financial statements have been prepared in accordance with the Saudi Accounting Standard for Interim Financial Information issued by the Saudi Organization for Certified Public Accountants (SOCPA). These interim financial statements do not contain all information and disclosures required for full financial statements prepared in accordance with accounting standards generally accepted in the Kingdom of Saudi Arabia and should be read in conjunction with the Company's audited financial statements for the year ended December 31, 2015.

**(b) Basis of measurement**

The accompanying interim financial statements have been prepared on historical cost basis, except for investment held for trading which are stated at fair value; using the accrual basis of accounting and the going concern concept.

**(c) Functional and presentation currency**

These interim financial statements are presented in Saudi Arabian Riyals (SR) which is the functional currency of the Company.

**(d) Use of estimates and judgements**

The preparation of interim financial statements requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Significant areas requiring management judgement and estimates are as follows:

**i) Provision for doubtful debts**

A provision for impairment of accounts receivable is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments are considered indicators that the account receivable is impaired. For significant individual amounts, assessment is made on an individual basis. Amounts which are not individually significant, but are overdue, are assessed collectively and a provision is recognized considering the length of time considering past recovery rates.

**SAUDI GROUND SERVICES COMPANY**  
(A Saudi Joint Stock Company)

**NOTES TO THE INTERIM FINANCIAL STATEMENTS (UNAUDITED)**

For the nine months period ended September 30, 2016

(Expressed in Saudi Arabian Riyals)

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**2. BASIS OF PREPARATION (continued)**

**(d) Use of estimates and judgements (continued)**

*ii) Useful lives of property and equipment*

The management determines the estimated useful lives of property and equipment for calculating depreciation. These estimates are determined after considering expected usage of the assets and physical wear and tear. Management reviews the residual value and useful lives annually and future depreciation charges are adjusted where management believes the useful lives differ from previous estimates.

*iii) Impairment of non-financial assets*

The Company assesses, at each reporting date or more frequently if events or changes in circumstances indicate, 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 assets or cash-generating units (CGU) fair value less cost to sell, and its value in use, and is determined for the individual asset, unless the asset does not generate cash inflows which are largely independent to those from other assets or groups. 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 the fair value less costs to sell, an appropriate source is used, such as observable market prices or, if no observable market prices exist, estimated prices for similar assets or if no estimated prices for similar assets prevail, or it is based on discounted future cash flow calculations.

Impairment for goodwill is determined by assessing the recoverable amount of each cash-generating unit (or group of cash generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than their carrying amount an impairment loss is recognized. Impairment losses relating to goodwill cannot be reversed in future periods for subsequent increases in its recoverable amount in future periods.

*iv) Accruals for services provided by Saudia and its affiliates*

Accruals made by the Company for services rendered by Saudia and its affiliates based on the contractual terms and in certain cases on a valid expectation. Those amounts are provided for to the extent that the Company has a present obligation (legal or constructive) arising as a result of a past event and it is probable that an outflow of resources will be required to settle the obligation which can be reliably estimated. This requires the exercise of judgment by management based on prior experience, application of contract terms and relationship with Saudia and its affiliates.

*v) Going concern*

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

**SAUDI GROUND SERVICES COMPANY**  
(A Saudi Joint Stock Company)

**NOTES TO THE INTERIM FINANCIAL STATEMENTS (UNAUDITED)**

For the nine months period ended September 30, 2016

(Expressed in Saudi Arabian Riyals)

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**3. SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies set out below have been applied consistently to all periods presented in the interim financial statements and are consistent with those used in the preparation of the annual financial statements.

**(a) Cash and cash equivalent**

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

**(b) Accounts receivable**

Trade receivables are carried at original invoice amount less provisions made for any uncollected amounts. A provision against doubtful debts is established when there is significant doubt that the Company will not be able to collect the amounts due according to the original terms of agreement. Bad debts are written off against its related provisions. The provisions are charged to statement of income and any subsequent recovery of receivable amounts previously written off are credited to income.

**(c) Investment held for trading**

Investment held for trading are initially recorded at cost and then re-measured and stated in the balance sheet at market value and included under current assets. Realized gain or loss on sale of investment held for trading and changes in market value at balance sheet date are credited or charged to statement of income.

**(d) Investments in an equity accounted investee**

The Company's investment in equity accounted investee represents investment in an entity over whose activities the Company has joint control, established by contractual arrangements and requiring unanimous consent for strategic financial and operating decisions. Investment in equity accounted investee is accounted for using the equity method of accounting together with any long-term interests that, in substance, form part of the investor's net investment in the equity accounted investee. Under the equity method, the investment in the equity accounted investee is carried in the balance sheet at cost plus post-acquisition changes in the Company's share of net assets of the equity accounted investee less impairment loss, if any. When the Company's share of losses exceeds its interest in an equity accounted investee, the carrying amount of Company's investment is reduced to nil and recognition of further losses is discontinued except to the extent that the Company has incurred legal or constructive obligations or made payments on behalf of an equity accounted investee.

**SAUDI GROUND SERVICES COMPANY**  
(A Saudi Joint Stock Company)

**NOTES TO THE INTERIM FINANCIAL STATEMENTS (UNAUDITED)**

For the nine months period ended September 30, 2016

(Expressed in Saudi Arabian Riyals)

**3. SIGNIFICANT ACCOUNT POLICIES (continued)**

**(e) Property and equipment**

Property and equipment are stated at cost less accumulated depreciation and accumulated impairment losses, if any. Land is not depreciated. Cost includes expenditure that is directly attributable to the acquisition of asset. Finance cost on borrowings to finance the construction of the asset is capitalized during the period of time that is required to complete and prepare the asset for its intended use.

Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the item of property and equipment. Expenditures for maintenance and repairs that do not materially extend the asset's life are included in expenses for the period. Depreciation is charged to the statement of income on a straight-line basis over the estimated useful lives of assets as follows:

	<u>Years</u>
Leasehold improvements	5-10
Airport equipment	7-10
Motor vehicles	5
Furniture, fixtures and equipment	4-10
Computer equipment and software	4

**(f) Intangible assets**

**i) Goodwill**

Goodwill represents the excess cost of investments over the fair value of the net assets acquired in a business combination. Goodwill is tested annually for impairment and is carried at cost net of accumulated impairment losses. Gains or losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Company's cash generating units that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to these units.

**ii) Other intangible assets**

Other intangible assets represents the customer contracts and customer relationships.

Customer contracts refer to existing contracts that the Company has with its customers that are ongoing in nature and have expiration dates after the balance sheet date. Customer contract are amortized using the straight-line method over the related estimated economic lives not exceeding five years.

Customer relationships represents intangible asset arising from the fact that the Company has established relationship with various customers over the years and that this relationship is the factor in the renewal of contracts and customer retentions. Customer relationships are amortized using the straight-line method over the related estimated economic lives not exceeding twenty years.

**SAUDI GROUND SERVICES COMPANY**  
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**NOTES TO THE INTERIM FINANCIAL STATEMENTS (UNAUDITED)**  
For the nine months period ended September 30, 2016  
(Expressed in Saudi Arabian Riyals)

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**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(g) Impairment of assets**

Financial assets, property and equipment and other non-current assets are reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss, if any, is recognized for the amount by which the carrying amount of the asset exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

**(h) Zakat**

Zakat is provided in accordance with the regulations of General Authority of Zakat and Income Tax (GAZT). The provision is charged to the statement of income.

**(i) Accounts payable and accruals**

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

**(j) Provisions**

A provision is recognized if, as a result of past events, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probably that an outflow of economic benefit, will be required to settle the obligation.

**(k) Leases**

Payment under operating lease is recognized in the statement of income on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense over the term of the lease.

**(l) Employees' end of service benefits**

Employees' end of service benefits, calculated in accordance with labour regulations of the Kingdom of Saudi Arabia, are accrued and charged to statement of income.

**SAUDI GROUND SERVICES COMPANY**  
(A Saudi Joint Stock Company)

**NOTES TO THE INTERIM FINANCIAL STATEMENTS (UNAUDITED)**  
For the nine months period ended September 30, 2016  
(Expressed in Saudi Arabian Riyals)

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**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(m) Revenue recognition**

Revenue is recognized to the extent of the following recognition requirements:

- it is probable that the economic benefits will flow to the Company.
- it can be reliably measured, regardless of when the payment is being made.
- the cost incurred to date and expected future costs are identifiable and can be measured reliably.

Revenue is measured at the fair value of the consideration received or the contractually defined terms of payment. The specific recognition criteria described below must also be met before the revenue is recognized.

Revenue from airport operations is recognised in the period in which services have been rendered.

**(n) Income from bank deposits**

Income from short-term deposits with banks is recognised on an accrual basis.

**(o) Offsetting**

Financial assets and liabilities are offset and the net amount reported in the balance sheet only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liability simultaneously. Income and expense is not offset in the statement of income unless required or permitted by generally accepted accounting principles in Kingdom of Saudi Arabia.

**(p) Foreign currencies**

Transactions denominated in foreign currencies are translated to the functional currencies of the Company at the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to the functional currencies of the Company at the foreign exchange rate ruling at that date. Exchange differences arising on translation are recognized in the statement of income. Non-monetary items measured at historical cost denominated in a foreign currency are translated at the exchange rate at the date of initial recognition.

**(q) Operating costs**

Operating costs incurred during the period in relation to the activities performed to generate revenue for the period are charged to the statement of income.

**(r) Expenses**

Due to the nature of the company's business all indirect expenses incurred are considered to be general and administration expenses and are classified as such.

**SAUDI GROUND SERVICES COMPANY**  
(A Saudi Joint Stock Company)

**NOTES TO THE INTERIM FINANCIAL STATEMENTS (UNAUDITED)**

For the nine months period ended September 30, 2016

(Expressed in Saudi Arabian Riyals)

**3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**(a) Segment reporting**

A business segment is a distinguishable component of the Company of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in producing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments. The Company is principally involved in providing ground handling services to airlines in the Kingdom of Saudi Arabia. Accordingly, the management believes that, the Company's business activity falls within a single business segment which are subject to same risks and returns.

**4. CASH AND CASH EQUIVALENTS**

Cash and cash equivalents comprise the following:

	<u>2016</u>	<u>2015</u>
Cash in hand	1,401,060	967,897
Cash at bank in current accounts	112,220,698	605,726,254
Short-term bank deposits, with original maturity of less than 90 days [note 4 (a)]	604,634,070	3,102,699
	<u>718,255,828</u>	<u>609,796,850</u>

(a) Short-term bank deposits represent time deposits placed with commercial banks and yield financial income at prevailing market rates.

**5. INVESTMENT HELD FOR TRADING**

Investment held for trading mainly comprises of investment in money market - mutual fund.

Balance as at September 30 is as following:

	<u>2016</u>	<u>2015</u>
Investment made	500,000,000	--
Disposal of investment	(348,978,958)	--
Unrealized gain	1,368,519	--
	<u>152,389,561</u>	<u>--</u>
Fair value		

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**6. ACCOUNTS RECEIVABLE**

Accounts receivable comprise the following:

	<u>2016</u>	<u>2015</u>
Related parties {Note 10 (a)}	839,869,101	784,368,414
Other customers	<u>345,198,978</u>	<u>261,910,526</u>
	1,185,068,079	1,046,278,940
Less: provision for doubtful debts	<u>(111,225,576)</u>	<u>(70,933,550)</u>
	<u>1,073,842,503</u>	<u>975,345,390</u>

**7. INVESTMENT IN AN EQUITY ACCOUNTED INVESTEE**

a) Investment in an equity accounted investee comprise the following:

<u>Name</u>	<u>Country of incorporation</u>	<u>Effective ownership interest (%)</u>		<u>Carrying value</u>	
		<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Saudi Amad Airport Services Company	Kingdom of Saudi Arabia	50%	50%	<u>94,201,063</u>	<u>67,688,910</u>

b) Movement summary on equity accounted investee is as follows:

	<u>2016</u>	<u>2015</u>
Balance as at the January 1	76,201,063	66,579,324
Dividend received from an equity accounted investee	—	(24,497,579)
Share of profit from an equity accounted investee	<u>18,000,000</u>	<u>25,607,165</u>
Balance as at September 30	<u>94,201,063</u>	<u>67,688,910</u>

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**8. INTANGIBLE ASSETS**

Intangible assets comprise the following:

	<u>2016</u>	<u>2015</u>
Goodwill	<u>582,815,659</u>	<u>582,815,659</u>
<i>Other intangible assets, net</i>		
Customer contracts	153,179,000	153,179,000
Customer relationships	468,475,000	468,475,000
Total Other intangible assets	621,654,000	621,654,000
Less: accumulated amortization	(287,865,563)	(257,362,113)
Other intangible assets, net	<u>333,788,437</u>	<u>364,291,887</u>
Total intangible assets	<u>916,604,096</u>	<u>947,107,546</u>

The management reviews goodwill for impairment annually for the purpose of impairment testing. Goodwill has been allocated to the Company (i.e. Company as a single cash generating unit). The recoverable amount of the cash generating unit has been determined based on a value in use calculated using cash flow projection based on financial budgets approved by the Board of Directors. The last impairment study was finalized by an independent consultant firm on December 16, 2015.

**9. SHARE CAPITAL**

The authorized, issued and paid up share capital of the Company as at September 30, 2016, comprise share capital of SR 1,880,000,000 consist of 188,000,000 shares of SR 10 each (September 30, 2015: SR 1,880,000,000 consist of 188,000,000 shares of SR 10 each).

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**10. RELATED PARTIES TRANSACTIONS AND BALANCES**

Related parties include the Company's shareholders and their relatives up to the fourth generation, associated and affiliated companies and directors and key management personnel of the Company. Terms and conditions of these transactions are approved by the Board. Significant related party transactions for the quarter ended September and balance arising therefrom are described as under:

(a) Due from related parties - under accounts receivable:

Name	Relationship	Nature of transactions	Amount of transactions		Closing balance	
			2016	2015	2016	2015
Saudi Arabian Airlines Corporation	Parent Company	Services provided	1,003,517,175	933,085,007	683,423,898	615,029,796
Saudi Airlines – Cargo Company Limited (SACC)	Affiliate	Services provided	16,752,750	18,503,815	21,306,482	18,049,625
National Air Services (including Nas Charter)	Affiliate	Services provided	188,463,364	153,721,559	74,719,619	87,600,257
Saudi Aerospace Engineering Industries	Affiliate	Services provided	94,710	137,080	192,780	36,030
Saudi Airlines Catering	Affiliate	Services provided	77,105	88,524	139,490	328,498
Saudi Private Aviation	Affiliate	Services provided	25,044,400	20,730,567	45,722,563	36,267,360
Royal Fleet Services	Affiliate	Services provided	11,956,087	6,890,196	14,364,269	27,056,848
					<u>839,869,101</u>	<u>784,368,414</u>

(b) As at September 30, 2016, related party balances under prepayments and other current assets for expenses paid on their behalf amounts to SR 158,607,712 (September 30, 2015: SR 113,330,877).

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**10. RELATED PARTY TRANSACTIONS AND BALANCES (continued)**

(c) Due to related parties - under accounts payables:

Name	Relationship	Nature of transactions	Amount of transactions		Closing balance	
			2016	2015	2016	2015
Saudi Arabian Airlines Corporation	Parent Company	Expenses incurred on behalf of the Company	15,708,883	9,032,715	13,726,631	5,803,240
Saudi Airlines Catering	Affiliate	Expenses incurred on behalf of the Company	39,453,389	23,669,369	4,216,772	5,717,712
Saudia Aerospace Engineering Industries	Affiliate	Expenses incurred on behalf of the Company	61,975,415	63,436,273	19,495,222	9,752,110
Saudia Airlines Cargo Limited (SACC)	Affiliate	Expenses incurred on behalf of the Company	91,700	216,841	91,700	1,614,344
Saudi Amad for Airport Services	Affiliate	Expenses incurred on behalf of the Company	5,304,029	808,617	852,683	--
Medgulf Insurance Co.	Affiliate	Expenses incurred on behalf of the Company	20,025,820	--	--	--
					<u>38,383,008</u>	<u>22,887,406</u>

(d) As at September 30, 2016, related party balances under accrued expenses and other current liabilities for services provided to the Company amounts to SR 143,144,394 (September 30, 2015: SR 70,207,283).

**11. EARNINGS PER SHARE**

Earnings per share on profit from operations are calculated by dividing the operating income by the weighted average number of outstanding ordinary shares of the Company during the period.

Earnings per share on profit from net income attributable to shareholders of the Company are calculated by dividing the net income by the weighted average number of outstanding ordinary shares of the Company during the period.

The calculation of diluted earnings per share is not applicable to the Company.

**12. DIVIDEND DISTRIBUTION**

During the period, the Company declared a dividend of SR 340,280,000 (2015: SR 113,467,667) out of the retained earnings as approved by the Board of Directors.

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**13. CONTINGENT LIABILITY**

The Company's bank has provided, in the normal course of business, bank guarantees amounting to SR 20.53 million (September 30, 2015: SR 15.02 million) to the Ministry of Finance and National Economy, Saudi Airlines, IATA and General Authority of Civil Aviation ("GACA"), in respect of Haj visa, tickets, airline ticket sales and rentals, respectively. The Company's bank has marked bank balances in the same amount as lien against these guarantees. Commitments amounting to SR 28.25 million (September 30, 2015: SR 9.66 million) is in respect of capital expenditure committed but not paid.

**14. BOARD OF DIRECTORS' APPROVAL**

The interim financial statements were approved and authorized for issue by the Board of Directors on Muharram 17, 1438H, corresponding to October 18, 2016.

  
Chief Financial Officer

  
Chief Executive Officer

  
Chairman