

**Saudi Public Transport Company and its
Subsidiary
(A Saudi Joint Stock Company)**

**CONSOLIDATED FINANCIAL STATEMENTS
AND INDEPENDENT AUDITORS' REPORT**

FOR THE YEAR ENDED 31 DECEMBER 2017

Saudi Public Transport Company and its Subsidiary
(A Saudi Joint Stock Company)

CONSOLIDATED FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT
FOR THE YEAR ENDED 31 DECEMBER 2017

INDEX	Pages
Independent auditor's report	1 – 9
Consolidated statement of income	10
Consolidated statement of comprehensive income	11
Consolidated statement of financial position	12
Consolidated statement of changes in equity	13
Consolidated statement of cash flows	14
Notes to the consolidated financial statements	15 – 59

INDEPENDENT AUDITOR'S REPORT

To the shareholders' of Saudi Public Transport Company
(A Saudi Joint Stock Company)

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Saudi Public Transport Company (the "Company") – A Saudi Joint Stock Company – and its Subsidiary (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2017 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements that are issued by the Saudi Organization for Certified Public Accountants.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with professional code of conduct and ethics that are endorsed in the Kingdom of Saudi Arabia are relevant to our audit of the consolidated 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 consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming auditor's opinion thereon, and we do not provide a separate opinion on these matters and below our description of how our audit addressed the matter is provided in that context.

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

INDEPENDENT AUDITOR'S REPORT (continued)

To the shareholders' of Saudi Public Transport Company
(A Saudi Joint Stock Company)

Key Audit Matters (continued)

Key audit matter	How our audit addressed the key audit matter
<p>First time Adoption of International Financial Reporting Standard (IFRS)</p> <p>As a result of the regulatory requirement in the Kingdom of Saudi Arabia, effective 1 January 2017, the Group is required to prepare the consolidated financial statements in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and that areas endorsed in the Kingdom of Saudi Arabia ("KSA") and other standards and pronouncements that are issued by the Saudi Organization for Certified Public Accountants ("SOCPA"). (referred to as "IFRS as endorsed in KSA").</p> <p>For all periods up to and including the year ended 31 December 2016, the Group prepared and published its audited consolidated financial statements in accordance with Generally Accepted Accounting Principles (GAAP) issued by SOCPA in KSA (referred to as "SOCPA GAAP"). The consolidated financial statements for the year ended 31 December 2017 are the Group's first financial statements prepared in accordance with IFRS as endorsed in KSA.</p>	<p>We performed the following procedures in respect of the transition to IFRS as endorsed in KSA:</p> <ul style="list-style-type: none"> • Assessed the appropriateness of the implementation of IFRS as endorsed in KSA in accordance with the provisions of IFRS 1 as endorsed in KSA. • Assessed the appropriateness of the accounting policies adopted. • Evaluated the GAAP differences identified by the Group's Management. • Tested the sample of adjustments (including calculation and recording) made to various balances and transactions to bring them in line with IFRS as endorsed in KSA. • Assessed the appropriateness of disclosures made in relation to transition impact from SOCPA GAAP to IFRS as endorsed in KSA. • Assessed the appropriateness of exceptions to retrospective application of other IFRSs as endorsed in KSA and optional exemptions availed by the Group from full retrospective application of certain IFRSs as endorsed in KSA, in preparing the consolidated financial statements.

INDEPENDENT AUDITOR'S REPORT (continued)

To the shareholders' of Saudi Public Transport Company
(A Saudi Joint Stock Company)

Key Audit Matters (continued)

Key audit matter	How our audit addressed the key audit matter
<p>Accordingly, the Group has applied IFRS as endorsed in KSA for preparation of its consolidated financial statements for the year beginning 1 January 2017, as well as for presenting the relevant comparative period data. In compliance with the requirements of IFRS 1 as endorsed in KSA, the Group's opening statement of consolidated financial position was prepared as at 1 January 2016 after incorporating required adjustments to reflect the transition to IFRS as endorsed in KSA from the previous SOCPA GAAP. The Group has assessed the impact and significant adjustments are made on transitioning from SOCPA GAAP to IFRS as endorsed in KSA in the Group's consolidated financial statements as at 1 January 2016 and 31 December 2016.</p> <p>We considered this as a key audit matter since the first time adoption of IFRS has significant impact on the consolidated financial statements from the recognition, measurement and disclosure perspective.</p> <p><i>Refer to Note 4 to the consolidated financial statements for the details of transition and reconciliation adjustments between SOCPA GAAP and IFRS as endorsed in KSA</i></p>	

INDEPENDENT AUDITOR'S REPORT (continued)

To the shareholders' of Saudi Public Transport Company
(A Saudi Joint Stock Company)

Key Audit Matters (continued)

Key audit matter	How our audit addressed the key audit matter
<p>Impairment of property, plant and equipment</p> <p>The property, plant and equipment of the Group represent a significant part of the total assets, 48% of the total assets of the Group for an amount of SR 1,396 million. It include property, plant, equipment, buses and trucks.</p> <p>The carrying values of these assets are reviewed annually by management for potential indicators of impairment. For assets where such indicators exist, management performs detailed impairment reviews, taking into account, the impact of revenue assumptions and technical factors which may affect the expected remaining useful lives and carrying value of the assets.</p> <p>As part of the Group process to review the indication of impairment of its assets, the management considers internal and external factors, such as the following:</p> <ul style="list-style-type: none"> • observable indications that the asset's values have significantly declined • significant changes with an adverse effect on the Group, in the technological, market, economic or legal environment in which the Group operates • evidence is available of obsolescence or physical damage of the assets 	<p>The procedures we performed included, among others, the following:</p> <ul style="list-style-type: none"> • Assessed the design and effectiveness of the management's process to determine whether impairment indications exist or not. • Obtained and reviewed the management report that relates to the assessment of impairment of the Group's assets. • Reviewed the assets' inspection reports that are prepared by the Group's Technical Department, to assess the physical condition of the assets. • Reviewed internal reports (include Board of Directors minutes of meetings) to consider any future plans for the assets. • Reviewed the operating profit and loss statement for each operating segment during the year. • Evaluated the objectivity, independence and expertise of the external appraisal firms, including the appropriateness of the information and assumptions used in the valuations, where these have been used by the external appraisal firms. • Analyzed the results of the valuation process and the factors that determine the valuations were discussed with the Group's Management and the accredited independent valuer.

INDEPENDENT AUDITOR'S REPORT (continued)

To the shareholders' of Saudi Public Transport Company
(A Saudi Joint Stock Company)

Key Audit Matters (continued)

Key audit matter	How our audit addressed the key audit matter
<ul style="list-style-type: none"> • significant changes with an adverse effect to the assets, which include the assets becoming idle, plans to discontinue its operation and plans to dispose of an asset • reassessment of the useful lives of the assets • operating loss of the assets <p>The assessment of annual impairment can involve a significant degree of management judgement in determining the key assumptions such as expected revenue levels.</p> <p>We considered this as a key audit matter, since the assessment of impairment indicators requires a significant degree of judgment by management in considering external and internal factors. Also, the potential impairment, if exists, could have material impact to the consolidated financial position and results of operation of the Group.</p> <p><i>Refer to Note 2 to the consolidated financial statements for the accounting policy that relate to impairment of non-financial assets, Note 3 for significant accounting estimates and judgements and Note 16 for the disclosure of property, plant and equipment.</i></p>	

INDEPENDENT AUDITOR'S REPORT (continued)

To the shareholders' of Saudi Public Transport Company
(A Saudi Joint Stock Company)

Key Audit Matters (continued)

Key audit matter	How our audit addressed the key audit matter
<p>Revenue recognition</p> <p>As at 31 December 2017, the Group's operating revenue was SR 1,127 million. Passenger and cargo sales are recognized as revenue when the related transportation service is provided. As an advance collected against future transportation services, the value of the sales for which the related transportation service has not yet been provided at the end of the reporting period is recorded as unearned transportation revenue in the consolidated statement of financial position.</p> <p>The Group has elected to early adopt IFRS 15. The Group satisfies a performance obligation and recognizes revenue over time, if one of the following criteria is met: a) the Group's performance does not create an asset with an alternate use to the Group and the Group has an enforceable right to payment for performance completed to date; b) the Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or c) the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs.</p> <p>For performance obligations where one of the conditions is not met, revenue is recognised at the point in time at which the performance obligation is satisfied. When the Group satisfies a performance obligation by delivering the promised services it creates a contract based asset on the amount of consideration earned by the performance. Where the amount of consideration received from a customer exceeds the amount of revenue recognised this gives rise to a contract liability.</p>	<p>Our audit procedures to assess revenue recognition included the following:</p> <ul style="list-style-type: none"> • assessing the design, implementation and operating effectiveness of management's processes for automated controls and key application controls which govern revenue recognition, including access controls, controls over program changes, interfaces between different systems and key manual internal controls over revenue recognition; • performing analytical procedures on revenue and unearned transportation revenue by developing an expectation for each type of revenue using independent inputs and information generated from the Group's IT systems and comparing such expectations with recorded revenue; • inspecting underlying documentation for any journal entries which were considered to be material or met other specified risk-based criteria on a sample basis; • Inspecting the key terms and conditions of contracts with major customers on a sample basis to assess if there were any terms and conditions that may have affected the accounting treatment of the contracts revenue.

INDEPENDENT AUDITOR'S REPORT (continued)

To the shareholders' of Saudi Public Transport Company
(A Saudi Joint Stock Company)

Key Audit Matters (continued)

Key audit matter	How our audit addressed the key audit matter
<p>We identified revenue recognition as a key audit matter because it requires the management to exercise judgement over the appropriateness of the accounting treatment for each individual part of the contract or arrangement.</p> <p><i>Refer to Note 2 to the consolidated financial statements for the accounting policy that relate to revenue, Note 3 for significant accounting estimates and judgements and Note 5 for the disclosure of revenue.</i></p>	

Other information included in The Group's 2017 Annual Report

Other information consists of the information included in the Group's 2017 annual report, other than the consolidated financial statements and our auditors' report thereon. Management is responsible for the other information in its annual report. The Group's 2017 annual report is expected to be made available to us after the date of this auditors' report.

Our opinion on the consolidated 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 consolidated 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 consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

When we read the Group's 2017 annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

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

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements that are issued by the Saudi Organization for Certified Public Accountants and the provisions of Companies' Law and Company's By-laws, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

INDEPENDENT AUDITOR'S REPORT (continued)

To the shareholders' of Saudi Public Transport Company
(A Saudi Joint Stock Company)

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

INDEPENDENT AUDITOR'S REPORT (continued)

To the shareholders' of Saudi Public Transport Company
(A Saudi Joint Stock Company)

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (continued)

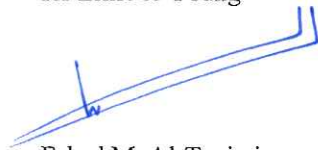
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely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

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

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

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

for Ernst & Young



Fahad M. Al-Toaimi
Certified Public Accountant
Registration No. (354)



Riyadh: 10 Rajab 1439H
(27 March 2018)

Saudi Public Transport Company and its Subsidiary
(A Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF INCOME
For the year ended 31 December 2017

	Notes	2017 SR'000	2016 SR'000 (Note 4)
Revenues	5	1,127,530	1,151,641
Cost of revenues	6	<u>(955,998)</u>	<u>(910,792)</u>
Gross profit		171,532	240,849
Selling and distribution expenses	7	(32,258)	(43,541)
Administrative expenses	8	<u>(100,925)</u>	<u>(99,749)</u>
Operating income		38,349	97,559
Share of profit of joint venture	15	43,314	15,215
Finance income	20,30	9,273	15,209
Finance costs	24	(19,146)	(8,206)
Other income	9	<u>22,120</u>	<u>23,699</u>
Income before zakat and income tax		93,910	143,476
Zakat and income tax	10	<u>(12,173)</u>	<u>(12,574)</u>
Income for the year		<u>81,737</u>	<u>130,902</u>
Income for the year attributable to:			
- Equity holders of the parent company		78,910	132,485
- Non-controlling interests		<u>2,827</u>	<u>(1,583)</u>
		<u>81,737</u>	<u>130,902</u>
Earnings per share (in Saudi Riyals):			
Basic and diluted, from the income for the year attributable to equity holders of the parent company	11	0.63	1.06

The attached notes from 1 to 38 form an integral part of these consolidated financial statements.

Saudi Public Transport Company and its Subsidiary
(A Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
For the year ended 31 December 2017

	<i>Notes</i>	2017 SR'000	2016 SR'000 (Note 4)
Income for the year		81,737	130,902
Other comprehensive income			
<i>Other comprehensive income not to be reclassified to the consolidated statement of income in subsequent periods:</i>			
Re-measurement losses on defined benefits liability	25	(2,933)	-
Net cumulative change in fair value of investments classified as fair value through other comprehensive income "FVOCI"	16	3,177	8,195
Total other comprehensive income for the year		244	8,195
Total comprehensive income for the year		81,981	139,097
Total comprehensive income for the year attributable to:			
Equity holders of the parent company		79,154	140,680
Non-controlling interests		2,827	(1,583)
		81,981	139,097

The attached notes from 1 to 38 form an integral part of these consolidated financial statements.

Saudi Public Transport Company and its Subsidiary
(A Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
As at 31 December 2017

	Notes	31 December 2017 SR'000	31 December 2016 SR'000 (Note 4)	1 January 2016 SR'000 (Note 4)
Assets				
Non-current assets				
Property, plant and equipment	12	1,395,901	1,198,797	1,061,118
Intangible assets	13	24,060	18,059	22,125
Investment properties	14	307,122	307,122	307,122
Due from a related party – non-current portion	30	20,040	21,833	28,899
Investment in an associate and a joint venture	15	71,855	28,541	13,326
Investments in equity instruments designated as FVOCI	16	117,729	114,552	107,837
Other non-current assets		7,760	8,578	9,397
Total non-current assets		1,944,467	1,697,482	1,549,824
Current assets				
Inventories	17	48,213	49,885	53,511
Trade and other receivables	18	254,836	191,020	154,881
Due from a related party – current portion	30	52,497	50,119	26,552
Prepayments and other current assets	19	34,364	34,962	23,767
Investments in Murabaha Deposits	20	-	101,492	-
Cash and cash equivalents	20	574,285	667,287	833,485
Total current assets		964,195	1,094,765	1,092,196
Total assets		2,908,662	2,792,247	2,642,020
Equity and liabilities				
Equity				
Issued capital	21	1,250,000	1,250,000	1,250,000
Statutory reserve	22	177,897	170,006	157,248
Consensual reserve	23	42,730	42,730	36,351
Investments revaluation reserve	16	(26,982)	(30,159)	(38,354)
Retained earnings		176,048	170,462	119,614
Equity attributable to equity holders of the parent company		1,619,693	1,603,039	1,524,859
Non-controlling interests	32	5,522	2,695	4,278
Total equity		1,625,215	1,605,734	1,529,137
Non-current liabilities				
Murabaha financing – non-current portion	24	171,575	137,981	50,161
Employees' defined benefits obligation	25	152,417	145,385	135,635
Advance from a customer – non-current portion	26	449,421	459,506	454,796
Deferred revenues - non-current portion	27	5,024	4,701	4,646
Total non-current liabilities		778,437	747,573	645,238
Current liabilities				
Murabaha financing - current portion	24	186,574	109,392	69,415
Trade and other payables	28	159,026	176,416	167,312
Due to non-controlling interests of the subsidiary	30	4,879	24,915	24,843
Accrued expenses and other liabilities	29	114,302	98,675	131,628
Deferred revenues - current portion	27	12,589	12,247	19,913
Advance from a customer – current portion	26	10,085	-	16,544
Zakat and income tax payable	10	17,555	17,295	37,990
Total current liabilities		505,010	438,940	467,645
Total liabilities		1,283,447	1,186,513	1,112,883
Total equity and liabilities		2,908,662	2,792,247	2,642,020

The attached notes from 1 to 38 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 31 December 2017

The attached notes from 1 to 38 form an integral part of these consolidated financial statements.

Saudi Public Transport Company and its Subsidiary
(A Saudi Joint Stock Company)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2017

	Notes	2017 SR'000	2016 SR'000
OPERATING ACTIVITIES			
Income before zakat and tax		93,910	143,476
<i>Adjustments to reconcile income before zakat to net cash flows:</i>			
Depreciation and amortisation	12,13	188,337	158,761
Allowance for impairment in account receivables	18	-	(9,013)
Share of profit of joint venture	15	(43,314)	(15,215)
Amortisation of deferred revenues	27	(417)	(291)
Finance costs	24	1,336	959
Finance income	30	(2,315)	(2,156)
Changes to employee's defined benefits obligation	25	15,437	23,500
Gains on sale of property, plant and equipment	12	(3,152)	(4,076)
		249,822	295,945
<i>Working capital adjustments:</i>			
Inventories, net	17	1,672	3,626
Trade and other receivables	18	(63,816)	(27,126)
Amounts due from related parties	30	(585)	(16,501)
Prepayments and other current assets	19	598	(11,195)
Trade and other payables	28	(17,390)	9,104
Due to non-controlling interests of the subsidiary	30	(20,036)	72
Accrued expenses and other liabilities	29	15,627	(32,953)
Deferred revenues	27	3,397	(5,164)
Advances from a customer	26	-	(11,834)
Cash flows from operations		169,289	203,974
Zakat paid	10	(11,913)	(33,269)
Employees' benefits paid	25	(11,338)	(13,750)
Net cash flows from operating activities		146,038	156,955
INVESTING ACTIVITIES			
Movement in other non-current asset		101,492	(101,492)
Acquisition of investments in equity instruments designated as at FVOCI	16	-	1,480
Proceeds from sale of property, plant and equipment	12	17,507	8,154
Purchase of property, plant and equipment	12,13	(405,797)	(296,452)
Net cash flows used in investing activities		(286,798)	(388,310)
FINANCING ACTIVITIES			
Proceeds from Murabaha financing	24	285,913	225,500
Repayment of Murabaha financing	24	(175,655)	(97,843)
Dividends paid to equity holders of the parent	36	(62,500)	(62,500)
Net cash flows from financing activities		47,758	65,157
Net decrease in cash and cash equivalents		(93,002)	(166,198)
Cash and cash equivalents at 1 January		667,287	833,485
Cash and cash equivalents at 31 December	20	574,285	667,287
SIGNIFICANT NON-CASH TRANSACTIONS:			
Change in fair value of investments in equity instruments designated as FVOCI	16	3,177	8,195

The attached notes from 1 to 38 form an integral part of these consolidated financial statements.

Saudi Public Transport Company and its Subsidiary (A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As at 31 December 2017

1 CORPORATE INFORMATION

Saudi Public Transport Company (the "Company", "SAPTCO", or the "Parent Company") is a Saudi Joint Stock Company, registered in Riyadh, Kingdom of Saudi Arabia ("KSA") and formed under the Royal Decree No. M/11 dated on 7 Rabi Al-Awwal 1399H (corresponding to 5 February 1979) whose shares are publicly traded on the Saudi Stock Exchange. The formation was declared pursuant to the resolution of his Excellency, The Minister of Commerce, No. 254 dated 14 Sha`aban 1399H (corresponding to 9 July 1979). The Company operates under commercial registration number 1010024335 issued on 5 Ramadan 1399H (corresponding to 29 July 1979). The Parent Company's registered office is located at 242, Prince Abdulaziz Ibn Musaid Ibn Al-Jalawi St. (Al-Dabab St.), Al Sulimaniyah, P.O.Box 10667, Riyadh 11443, Kingdom of Saudi Arabia.

The principal activities of the Company in passenger's buses transport both intra and inter-city throughout and outside the Kingdom of Saudi Arabia, as well as transfer of non-postal parcels, cargo, school transport, teachers transport, car rental and private transport, operating and maintaining of trains, metros, motor vehicles and trucks, organising tours, transporting pilgrims and visitors inside and outside of the Kingdom of Saudi Arabia and importing spare parts and chemical detergents of vehicles.

A Royal Decree No. (M/48) dated 22 Thul-Hijjah 1399H (corresponding to 12 November 1979) was issued to grant Saudi Public Transport Company a franchise contract whereby the Company commits to transport passengers on public roads network both intra and inter-city throughout the Kingdom of Saudi Arabia for a period of fifteen Hijri years.

The Council of Ministers in its resolution No. (57) issued on 1 Jumada Al-Thani 1414H (corresponding to 15 November 1993) approved the renewal of the franchise contract for a period of fifteen years starting from 1 Rajab 1414H. On 21 Jumada Al-Ula 1429H (corresponding to 26 May 2008), the contract was renewed for another renewable five-year period starting from 1 Rajab 1429H (corresponding to 4 July 2008).

The Council of Ministers in its resolution No. (254) issued on 24 Rajab 1434H (corresponding to 3 June 2013) approval for the extension of the franchise contract signed between the Government and Saudi Public Transport Company (SAPTCO), whereby the Company is committed to carry passengers by buses within and between cities in the Kingdom for a period of three years starting 1 Rajab 1434H (corresponding to 11 May 2013). The concerned governmental authorities shall have the right during that period to partially reduce the spatial coverage of the franchise contract based on the phases of issuing new tender for providing public transportation between the cities inside the Kingdom of Saudi Arabia.

On 29 Thul-Hijja 1436H (corresponding to 12 October 2015), the Council of Ministers approved the extension of the franchise contract, signed between the Government and Saudi Public Transport Company (SAPTCO) by virtue of the Royal Decree (No M/48 dated 23 Thul-Hijjah 1399H), for a period of five years starting 1 Rajab 1437H (corresponding to 8 April 2016), and without giving the Company or any other Company any competitive advantage when issuing tenders for providing public transportation services between the cities of the Kingdom.

On 24 Jumada Al-Ula 1438H (corresponding to 21 February 2017), the Company's By-Laws was amended in order to comply with the requirements of new Regulation for Companies.

The Company has invested in the following subsidiary which is included in these consolidated financial statements:

Subsidiary	Year of incorporation	Ownership interest			Principal Activity	Country of Incorporation
		31 December 2017	31 December 2016	1 January 2016		
Public Transportation Company ("PTC")	2014	80%	80%	80%	Executing King Abdulaziz Project for Public Transport in Riyadh	Kingdom of Saudi Arabia

Public Transportation Company ("PTC") is a Limited Liability Company registered in Riyadh, the Kingdom of Saudi Arabia under commercial registration number 1010429250 dated 8 Rabi'e Al-Awwal 1436H (corresponding to 31 December 2014). The Company is engaged in importing, operating and maintaining of buses in Riyadh according to license issued by the Saudi Arabian General Investment Authority (SAGIA) No. 10608351147347 dated on 8 Thul-Qadah 1435H (corresponding to 4 September 2014).

Saudi Public Transport Company and its Subsidiary
(A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
As at 31 December 2017

1 CORPORATE INFORMATION (continued)

The Company has also the following investments in an associate and a joint venture.

Investment in an associate and a joint venture	Relationship	% of shareholding			Principal Activity	Country of Incorporation
		31 December 2017	31 December 2016	1 January 2016		
Saudi Bahraini Transport Company*	Associate	40%	40%	40%	Transportation activities	Kingdom of Saudi Arabia
Saudi Emirates Integrated Transport Company	Joint Venture	50%	50%	50%	Educational transportation services	Kingdom of Saudi Arabia

*The Saudi Bahraini Transport Company is under liquidation since 31 December 2015.

2 SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PREPARATION

These consolidated financial statements of the Group have been prepared 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") (collectively referred to as "IFRS as endorsed in KSA").

These consolidated financial statements for the year ended 31 December 2017 are the first annual financial statements the Group has prepared in accordance with International Financial Reporting Standards that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by SOCPA. Refer to Note 4 for information on how the Group adopted IFRS.

These consolidated financial statements have been prepared under the historical cost convention, except for investments classified as "Fair Value through Other Comprehensive Income" (FVOCI) which are measured at fair value, except defined benefit obligation which is recognised at the present value of future obligations under the Projected Unit Credit method (PUC).

These financial statements are presented in Saudi Riyals, which is also the Group's functional currency. All amounts have been rounded to the nearest thousand ("SR'000"), unless otherwise indicated.

BASIS OF CONSOLIDATION

The consolidated financial statements comprise the financial statements of the Company and its subsidiary as at 31 December 2017. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to the elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the period are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

Specifically, the Group controls an investee if, and only if, the Group has:

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

Generally, there is a presumption that a majority of voting rights results in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

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

Saudi Public Transport Company and its Subsidiary
(A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
As at 31 December 2017

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

BASIS OF CONSOLIDATION (continued)

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

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following are the significant accounting policies applied by the Group in preparing its consolidated financial statements:

Investment in an associate and a joint venture

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

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

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

The Group's investments in its associate and joint venture are accounted for using the equity method.

Under the equity method, the investment in an associate or a joint venture is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Group's share of net assets of the associate or joint venture since the acquisition date. Goodwill relating to the associate or joint venture is included in the carrying amount of the investment and is not tested for impairment separately. The consolidated statement of income reflects the Group's share of the results of operations of the associate or joint venture. Any change in OCI of those investees is presented as part of the Group's OCI. In addition, when there has been a change recognised directly in the equity of the associate or joint venture, the Group recognises its share of any changes, when applicable, in the statement of changes in equity.

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

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

After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on its investment in its associate or joint venture. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate or joint venture is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate or joint venture and its carrying value, and then recognises the loss as 'Share of profit of an associate and a joint venture' in the consolidated statement of income.

Upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in the consolidated statement of income.

Current versus non-current classification

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

- Expected to be realised or intended to be sold or consumed in the normal operating cycle.
 - Held primarily for the purpose of trading.
 - Expected to be realised 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.

Saudi Public Transport Company and its Subsidiary
(A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

As at 31 December 2017

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Current versus non-current classification (continued)

All other assets are classified 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 Group classifies all other liabilities as non-current.

Fair value measurement

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

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

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

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

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

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

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

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

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

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

Revenue recognition

IFRS 15 "Revenue from Contracts with Customers" was issued in May 2014 (corresponding to Rajab 1435H) and is effective for annual period commencing on or after 1 January 2018 (corresponding to 14 Rabi'e Al-Thani 1439H), with early adoption permitted. The Group has elected to early adopt IFRS 15 from its transition date, 1 January 2016.

IFRS 15 outlines a single comprehensive model of accounting for revenue arising from contracts with customers.

Saudi Public Transport Company and its Subsidiary
(A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
As at 31 December 2017

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

IFRS 15 establishes a new five-step, model that will apply to revenue arising from contracts with customers as below:

Revenue from contracts with customers

- 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 Group 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 Group will allocate the transaction price to each performance obligation in an amount that depicts the amount of consideration to which the Group expects to be entitled in exchange for satisfying each performance obligation.
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation.

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

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

For performance obligations where one of the above conditions are not met, revenue is recognised at the point in time at which the performance obligation is satisfied.

When the Group satisfies a performance obligation by delivering the promised services it creates a contract based asset on the amount of consideration earned by the performance. Where the amount of consideration received from a customer exceeds the amount of revenue recognised this gives rise to a contract liability.

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

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

a) Rendering of services

The Group is involved in providing transportation services inside and outside Kingdom of Saudi Arabia, as well as performing related services. If the services under a single arrangement are rendered in different reporting periods, then the consideration is allocated on the standalone selling price basis between the different services.

Some tickets are not used for travel and cannot be refunded. This is often referred to as tickets breakage. If the Group expects to be entitled to breakage, then the estimated amount is recognised as revenue, to the extent it is highly probable that there will be no significant revenue reversal. However, if the Group cannot estimate this breakage with sufficient confidence that there will be no significant revenue reversal, then any related revenue is recognised only when the likelihood of the customer exercising its remaining rights becomes remote.

Revenue is recognised when services are rendered to the customers. Rent is recognised on straight line basis over the terms of respective agreements. Other income is recognised when earned.

The Group also provides a number of ancillary services either as part of ticket fare or at an extra charge e.g. extra baggage, WIFI services, meal arrangements, etc. The Group determines that these ancillary services are not distinct from the transportation services and hence accounts for its transportation services as a single performance obligation.

Saudi Public Transport Company and its Subsidiary
(A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

As at 31 December 2017

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue Recognition (continued)

The Group also sells tickets on behalf of other companies through its stations. The Group has concluded that it acts as an agent in respect of such sales. Accordingly, revenue is recognised only to the extent of Group's commission on such sale.

The Group generates revenue from the following revenue streams:

- passenger transport
- transportation of cargo
- revenue sharing arrangements with international transport companies
- sales through government agencies
- Service concession arrangements with third parties

Revenue over time is recognised for each performance obligation by measuring progress towards satisfying the performance obligation. Any non-cash revenue is measured at its fair value, which, if cannot be reasonably estimated, is measured with reference to stand-alone selling price of goods or services promised to the customers in exchange for the consideration.

A contract modification exists when the parties to a contract approve a modification that creates new or changes existing rights and obligations of the parties to the contract. Revenue recognition under the existing contract is continued until the contract modification is approved.

b) Revenue from passenger transport

Revenue from passenger transport mainly includes cash collected from passengers at the time of purchase of tickets and is recognised based on the utilisation of tickets by passengers. A deferred revenue is recognised for tickets purchased in advance till the date of travel or expiry of tickets.

c) Revenue from transportation of cargo

Revenue is recognised at a point in time by reference to the satisfaction of performance obligation of the Group towards its customers. i.e. delivery of cargo to the designated location. Accordingly, revenue is recognised based on receipt of acknowledgement certificate of successful delivery of cargo at designated premises.

The cost of rebates and/or discounts provided to the customers is taken into account at the time of recognising revenue and revenue is recognised net of these variable considerations. The Group includes the variable considerations in the transaction price at the Group's best estimate. The estimated amount is recognised as revenue, to the extent it is highly probable that there will be no significant revenue reversal.

d) Revenue sharing arrangements with international companies

The Group has entered into revenue sharing contracts with International transport companies. Under this contract, the total combined revenue of the Group and the other Company earned during the month is shared equally between both the parties in accordance with respective contract terms. Any excess/short revenue booked earlier is adjusted on the date of settlement.

e) Sales through agencies

The Group acts as a principal in these arrangements. Accordingly, revenue is recognised on gross basis i.e., amount charged to the ultimate customer. The commission charged by the agencies is accounted for as expenses.

f) Service concession arrangement

The subsidiary Public Transportation Company ("PTC", "Operator") entered into a contract with Al Riyadh Development Authority ("ADA", "Grantor") on 20 November 2014 for executing King Abdul-Aziz Project for public transport in Riyadh. The contract period is twelve years. Under the arrangement, PTC will procure buses, construct depots, and manage operations (i.e. running of buses - transporting public in various transport lines) and management of transport lines for ADA. The contract is divided into two phases, i.e., mobilisation phase and operational phase. At the end of the concession period, the whole infrastructure along with other assets will become the property of the Grantor and the Group will have no further involvement in its operation or maintenance requirements. The rights of the Grantor to terminate the agreement include poor performance by the Operator and in the event of a material breach in the terms of the agreement.

Based on the arrangement with ADA, PTC has an unconditional right to receive cash during the mobilisation and operational period and it does not have any right to use the infrastructure to recover cash from public. The Group recognises a financial asset arising from a service concession arrangement when it has an unconditional contractual right to receive cash from the Grantor for the construction or upgrade services provided. Such financial assets are measured at fair value on initial recognition and classified as loans and receivables.

Saudi Public Transport Company and its Subsidiary
(A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

As at 31 December 2017

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue Recognition (continued)

f) Service concession arrangement (continued)

PTC does not recognise public service infrastructure (i.e. assets under the infrastructure) as its property, plant and equipment as PTC is considered to have a right of access rather than a right of use. Accordingly, expenses incurred during mobilisation period on existing or updated infrastructure are expensed out.

During the mobilisation phase, revenue is accounted for based on satisfaction of respective performance obligations within the contract. Revenue under the mobilisation phase is recognised using input method by applying a reasonable margin to the cost incurred upon satisfaction of related performance obligation.

In the operation phase, revenue under transportation services is recognised based on kilometers travelled as considered in the price chart. For other performance obligation under operation phase, revenue is recorded based on satisfaction of respective performance obligations within the contract.

g) Finance income

Finance income is recorded using the effective interest rate (EIR). The EIR is the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset. Interest income is included in finance income in the consolidated statement of income.

h) Dividends distribution

Revenue is recognised when the Group's right to receive the payment is established, which is generally when shareholders approve the dividend.

Foreign currencies

The Group's consolidated financial statements are presented in Saudi Riyal, which is also the parent company's functional currency.

Transactions and balances

Transactions in foreign currencies are initially recorded by the Group's entities at their respective functional currency spot rates at the date the transaction first qualifies for recognition.

Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rates of exchange ruling at the reporting date. All differences arising on settlement or translation of monetary items are taken to the statement of income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of gain or loss on the change in fair value of the item (i.e., the translation differences on items whose fair value gain or loss is recognised in OCI or profit or loss are also recognised in OCI or profit or loss, respectively).

Zakat

Zakat is provided for in accordance with the regulations of General Authority for Zakat and Tax (the "GAZT") in KSA. The provision for zakat is charged to consolidated statement of income. Any differences between the provision and the final assessment is recorded when the final assessment is approved.

Income tax

Non-Saudi based owners of the Group are subject to corporate income tax in the Kingdom of Saudi Arabia based on their share of the results, which is included as a current period expense in the consolidated statement of income.

Deferred tax is provided using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction affects neither the accounting profit nor taxable income or loss; and

Saudi Public Transport Company and its Subsidiary
(A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

As at 31 December 2017

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised, except:

- Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable income or loss; and
- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all, or part, of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the asset is realised or the liability is settled, based on tax rates and tax law enacted or substantively enacted at the reporting date. Deferred tax relating to items outside the consolidated statement of income is recognised outside the consolidated statement of income. Deferred tax items are recognised in correlation to the underlying transaction either in the consolidated statement of comprehensive income or directly in equity.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets and current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Withholding taxes

The Group withholds taxes on certain transactions with non-resident parties in the Kingdom of Saudi Arabia as required by Saudi Arabian Income tax Law.

Property, plant and equipment

Property, plant and equipment are stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. Such cost includes the cost of replacing part of the property, plant and equipment and borrowing costs for long-term construction projects if the recognition criteria are met. When significant parts of property, plant and equipment are required to be replaced at intervals, the Group depreciates them separately based on their specific useful lives. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the property, plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognised in consolidated statement of income as incurred.

Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets, as follows:

<u>Asset categories</u>	<u>Useful lives</u>
Buildings and buildings improvements	3-33 years
Buses, trucks and trailers	6 to 12 years
Plant and equipment	2 to 20 years
Furniture and fixtures	3 to 10 years
Motor vehicles	3 to 6 years

No depreciation is charged on land.

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated statement of income when the asset is derecognised.

Saudi Public Transport Company and its Subsidiary
(A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
As at 31 December 2017

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment (continued)

The residual values, useful lives and methods of depreciation of property, plant and equipment are reviewed at each financial year-end and adjusted prospectively, if appropriate.

Project under construction is stated at cost incurred until the asset is ready for its intended use, thereafter, this cost is capitalised on the related assets. This includes the cost of contractors, materials, services and capital advances.

Investment properties

Properties held for rental or capital appreciation purposes are classified as investment properties. Investment properties are measured initially at cost including transaction costs less any accumulated depreciation and any accumulated impairment losses.

Depreciation is charged on straight-line bases over the estimated useful lives. No depreciation is charged on land.

Investment properties are derecognised either when they have been disposed of or when they are permanently withdrawn from use and no future economic benefit is expected from their disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognised in consolidated statement of income in the year of derecognition.

Transfers are made to (or from) investment property only when there is a change in use. For a transfer from investment property to owner-occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

Leases

The determination of whether an arrangement is (or contains) a lease is based on the substance of the arrangement at the inception of the lease. The arrangement is, or contains, a lease if fulfilment of the arrangement is dependent on the use of a specific asset (or assets) and the arrangement conveys a right to use the asset (or assets), even if that asset is (or those assets are) not explicitly specified in an arrangement.

Group as a lessee

A lease is classified at the inception date as a finance lease or an operating lease. A lease that transfers substantially all the risks and rewards incidental to ownership to the Group is classified as a finance lease.

Finance leases are capitalised at the commencement of the lease at the inception date fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised in finance costs in the consolidated statement of income.

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

An operating lease is a lease other than a finance lease. Operating lease payments are recognised as an operating expense in the consolidated statement of income on a straight-line basis over the lease term.

Group as a lessor

Leases in which the Group does not transfer substantially all the risks and rewards of ownership of an asset are classified as operating leases. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses. Internally generated intangibles, excluding capitalised development costs, are not capitalised and the related expenditure is reflected in consolidated statement of income in the period in which the expenditure is incurred.

The useful lives of intangible assets are assessed as either finite or indefinite.

Saudi Public Transport Company and its Subsidiary
(A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

As at 31 December 2017

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets (continued)

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the consolidated statement of income in the expense category that is consistent with the function of the intangible assets.

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

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the consolidated statement of income when the asset is derecognised.

Software

Intangible assets are carried at the historical cost less accumulated amortisation and accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Amortisation is charged to the statement of income, using the straight-line method to allocate the costs of the related assets less their residual values over the following estimated economic useful lives:

Software	10 years
----------	----------

Borrowing costs

General and specific borrowing and murabaha financing costs that are directly attributable to the acquisition, construction or production of qualifying assets are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation. Other borrowing costs are expensed in the period in which they are incurred in the consolidated statement of profit or loss.

Financial instruments

The Group has early adopted IFRS 9, *Financial Instruments* with a date of initial application of 1 January 2016 on a full retrospective transitional approach taking into consideration the exemption allowing it not to restate comparative information for prior year periods with respect to the changes resulting from the measurement of financial assets and financial liabilities.

IFRS 9 introduces requirements for the classification and measurement of financial assets and financial liabilities, impairment of financial assets and provides a new hedge accounting model. IFRS 9 requires all recognised financial assets to be measured at amortised cost or fair value in subsequent accounting periods following initial recognition.

Recognition

Financial assets and financial liabilities are recognised on the statement of financial position when the Group becomes a party to the financial instrument.

Classification

From 1 January 2016, the Group classifies its financial assets and financial liabilities in the following measurement categories: i) those to be measured subsequently at fair value, either through other comprehensive income ("FVOCI") or through profit or loss ("FVTPL"); and ii) those to be measured at amortised cost.

The classification of financial assets depends on the business model for managing the financial assets and the contractual terms of the cash flows. Financial liabilities are classified as those to be measured at amortised cost unless they are designated as those to be measured subsequently at fair value through profit or loss (FVTPL). For assets and liabilities measured at fair value, gains and losses are either recorded in profit or loss or other comprehensive income.

The Group reclassifies financial assets when and only when its business model for managing those assets changes. Financial liabilities are not reclassified.

Saudi Public Transport Company and its Subsidiary
(A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
As at 31 December 2017

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

The Group has implemented the following classifications:

Financial Statement Line	IFRS Classification
Investments in equity instruments designated as FVOCI	Fair Value through Other Comprehensive Income
Investments in Murabaha deposits	Amortised cost
Trade and other receivable	Amortised cost
Cash and cash equivalents	Amortised cost
Due from a related party	Amortised cost
Murabaha financing	Amortised cost
Trade and other payables	Amortised cost
Due to non-controlling interests of the subsidiary	Amortised cost

Measurement

All financial instruments are required to be measured at fair value on initial recognition, plus, in the case of a financial asset or financial liability not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. Transaction costs of financial assets and financial liabilities carried at fair value through profit or loss are expensed in the consolidated statement of income.

Financial assets that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and profit on the principal outstanding are generally measured at amortised cost at the end of the subsequent accounting periods. All other financial assets including equity investments are measured at their fair values at the end of subsequent accounting periods, with any changes taken through statement of comprehensive income (irrevocable election at the time of recognition).

Derecognition

A financial asset is derecognised when the rights to receive cash flows from the asset have expired or the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either the Group has transferred substantially all the risks and rewards of the asset or the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expired. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the statement of income.

Impairment

The Group assesses all information available, including on a forward looking basis the expected credit losses associated with its assets carried at amortised cost. The impairment methodology applied depends on whether there has been a significant increase in credit risk. To assess whether there is a significant increase in credit risk, the Group compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition based on all information available, and reasonable and supportive forward looking information.

For equity instruments measured at FVOCI, impairment losses (and reversal of impairment losses) are not reported separately from other changes in fair value in OCI and for debt instruments measured at FVOCI, impairment gains or losses are recognised in consolidated statement of income.

For trade and other receivable, due from related parties and cash and cash equivalent only, the Group recognises expected credit losses for trade receivables based on the simplified approach under IFRS 9. The simplified approach to the recognition of expected losses does not require the Group to track the changes in credit risk; rather, the Group recognises a loss allowance based on lifetime expected credit losses at each reporting date from the date of the trade receivable.

Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in profit or principal payments. The probability that they will enter bankruptcy or other financial reorganisation and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults. Trade receivables are reviewed qualitatively on a case-by-case basis to determine whether they need to be written off.

Saudi Public Transport Company and its Subsidiary
(A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
As at 31 December 2017

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

The Group measures expected credit loss by considering the risk of default over the contract period and incorporates forward-looking information into its measurement.

Financial liabilities

Borrowings and Murabaha financing are initially recognised at the fair value (being proceeds received), net of eligible transaction costs incurred, if any. Subsequent to initial recognition, long-term borrowings and Murabaha financing are measured at amortised cost using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in consolidated statement of income over the period of the borrowings using the effective interest method.

Borrowings and Murabaha financing are removed from the consolidated statement of financial position when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in consolidated statement of income as other income or finance costs.

Borrowings and Murabaha financing are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

Trade payables and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of financial period which are unpaid. The amounts are unsecured. Trade payables and other payables are presented as current liabilities unless payment is not due within 12 months after the reporting period. They are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

Contingencies

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

Offsetting of financial instruments

Financial assets and financial liabilities are offset with the net amount reported in the consolidated statement of financial position only if there is a current enforceable legal right to offset the recognised amounts and an intent to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Financial guarantee contracts

The Group has given guarantees for indebtedness of its subsidiary and joint venture. As financial guarantees provided by the Group are for the subsidiary and joint venture, the Group does not charge any premium/commission in respect of these guarantees. Under IFRS 9, the Group is required to initially measure these guarantees at fair value. The fair value has been determined based on market data for similar nature of guarantee contracts. The fair value of financial guarantee on initial recognition reflects the life time expected credit losses at that time.

On the date of transition to IFRS, the Group has opted for deemed cost exemption in relation to its investments in associate and joint venture. Accordingly, any resulting gain / loss arising due to fair valuation of guarantees issued on behalf of group companies has been adjusted from retained earnings. Commission income on such group guarantees is amortised over the tenure of such guarantees.

Interest free loans to Group Companies

Loans to group companies at low or no interest are initially measured at their fair values. The present value of the future cash flows of these loans is discounted at a market interest rate - and the interest income is recognised subsequently under the effective interest rate method. Any difference between the amount lent and the fair value of the instrument on initial recognition is recognised as a gain or a loss unless it qualifies for recognition as an asset or a liability.

Saudi Public Transport Company and its Subsidiary
(A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

As at 31 December 2017

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Inventories

Inventories are measured at the lower of cost and net realisable value with due allowance for any obsolete or slow moving items. Cost is determined using the weighted average method.

Cost includes expenditure incurred in acquiring the inventories and costs incurred in bringing them to their existing location and condition. Net realisable value is based on estimated selling price less any further costs expected to be incurred on disposal.

Impairment of non-financial assets

The Group 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 Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or Cash Generating Unit's ("CGU's") fair value less costs of disposal and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When 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 of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used.

The Group bases its impairment calculation on detailed budgets and forecasts which are prepared separately for each of the Group's CGU to which the individual assets are allocated. These budgets and forecast calculations are generally covering a period of five years. A long-term growth rate is calculated and applied to projected future cash flows after the fifth year.

Impairment losses of continuing operations are recognised in the consolidated statement of income in expense categories consistent with the function of the impaired asset.

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

Intangible assets with indefinite useful lives are tested for impairment annually as at 31 December either individually or at the CGU level, as appropriate and when circumstances indicate that the carrying value may be impaired.

Cash and cash equivalents

Cash and cash equivalents in the consolidated statement of financial position comprise cash at banks and on hand and short-term deposits with a maturity of three months or less, which are subject to an insignificant risk of changes in value.

For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash and short-term deposits as defined above, net of outstanding bank overdrafts (if any) as they are considered an integral part of the Group's cash management.

Dividends

The Group recognises a liability to make cash or non-cash distributions to equity holders when the distribution is authorised and the distribution is no longer at the discretion of the Group.

As per the Companies Regulations of Saudi Arabia, final dividends are recognised as a liability at the time of their approval by the General Assembly. Dividends are recorded as and when approved by the Board of Directors. A corresponding amount is recognised directly in equity.

Saudi Public Transport Company and its Subsidiary
(A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

As at 31 December 2017

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Provisions

General

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the Group expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognised as a separate asset, but only when the reimbursement is virtually certain. The expense relating to a provision is presented in the consolidated statement of income net of any reimbursement.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, when appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

Employee benefits

The Group has defined benefit plans with General Organization for Social Insurance "GOSI" where the group and the employees contribute fixed percentage of their salary toward the retirement of its employees. The Group operates defined benefit plans, under the Saudi Arabian Labor Law based on employees' accumulated periods of service at the consolidated statements of financial position.

The cost of providing benefits under the defined benefit plans is determined separately for each plan using the projected unit credit method.

Re-measurements, comprising of actuarial gains and losses, the effect of the asset ceiling (excluding amounts included in net interest on the net defined benefit liability) and the return on plan assets (excluding amounts included in net interest on the net 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 year end in which they occur. Re-measurements 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 on which the Group recognizes related restructuring costs

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset. The Group recognizes the following changes in the net defined benefit obligation under "general and administrative expenses" in the consolidated statement of income:

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

STANDARDS ISSUED BUT NOT YET EFFECTIVE

New standards, amendments to standards and interpretation, and standards issued and not yet effective

New standards, amendment to standards and interpretations

The Group has adopted, as appropriate, the following new and amended IASB Standards, effective 1 January 2017.

a. Disclosure initiative (amendments to IAS 7)

The amendments require disclosures of information that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes. Group's financing activities, as disclosed in consolidated statement of cash flows, represents only cash flow changes.

b. Annual improvements to IFRS (2014 – 2016) cycle amendments to IFRS 12 disclosure of interests in other entities

The amendments clarify that disclosure requirements for interests in other entities also apply to interests that are classified as held for sale or distribution. There is no impact of this amendment on the Group's consolidated statements.

Saudi Public Transport Company and its Subsidiary
(A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
As at 31 December 2017

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

STANDARDS ISSUED BUT NOT YET EFFECTIVE (continued)

New standards, amendments and standards issued and not yet effective (continued)

Standards issued but not yet effective

Following are the new standards and amendments to standards are effective for annual periods beginning after 1 January 2018 and earlier application is permitted; The Group has not early adopted these standards in preparing these consolidated financial statements.

a) IFRS 16 Leases

IFRS 16 introduces a single, on-statement of financial position lease accounting model for lessees. A lessee recognizes a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. There are optional exemptions for short-term leases and leases of low value items. Lessor accounting remains similar to the current standard – i.e. lessors continue to classify leases as finance or operating leases.

IFRS 16 replaces existing leases guidance including IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases - Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard is effective for periods beginning on or after 1 January 2019. Early adoption is permitted for entities that apply IFRS 15 Revenue from Contracts with Customers at or before the date of initial application of IFRS 16.

Determining whether an arrangement contains a lease

On transition to IFRS 16, the Group can choose whether to:

- Apply the IFRS 16 definition of a lease to all its contracts; or
- Apply a practical expedient and not reassess whether a contract is, or contains, a lease.

Transition

As a lessee, the Group can either apply the standard using a:

- Retrospective approach; or
- Modified retrospective approach with optional practical expedients.

The lessee applies the same election to all of its leases contracts. The Group plans to adopt IFRS 16 on 1 January 2019. The Group has not yet determined which transition approach to apply. As a lessor, the Group is not required to make any adjustments for leases in which it is a lessor except where it is an intermediate lessor in a sub-lease.

b) Annual improvements to IFRS (2014 – 2016) cycle

- IFRS 1 First-time Adoption of IFRS - Outdated exemptions for first-time adopters of IFRS are removed.
- IAS 28 Investments in Associates and Joint Ventures - A venture capital organization, or other qualifying entity, may elect to measure its investments in an associate or joint venture at fair value through profit or loss. This election can be made on an investment-by-investment basis. A non-investment entity investor may elect to retain the fair value accounting applied by an investment entity associate or investment entity joint venture to its subsidiaries. This election can be made separately for each investment entity associate or joint venture. The adjustments should be accounted for using retrospective approach, and it is effective from 1 January 2018 and early adoption is permitted. In case, the Company will follow the adjustment, the Company should disclose it. This exemption is not applicable to the group.

Saudi Public Transport Company and its Subsidiary
(A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

As at 31 December 2017

3 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

Use of estimates and judgements

The preparation of the Group's consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of asset or liability affected in future periods.

Estimation uncertainty and assumptions

In the process of applying the Group's accounting policies, management has made the following judgements, which have the most significant effect on the amounts recognised in the consolidated financial statements. 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:

Allowance for impairment

The Group reviews its trade receivables at each reporting date to assess whether an allowance for bad and doubtful debts should be recorded in the consolidated statement of income. In particular, judgement by management is required in the estimation of the amount and timing of future cash flows when determining the level of allowance required. Such estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance.

Impairment of inventories

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, based on historical selling prices.

Revenue recognition

The application of IFRS 15 has required management to make the following judgements:

Satisfaction of performance obligations

The Group is required to assess each of its contracts with customers to determine whether performance obligations are satisfied over time or at a point in time in order to determine the appropriate method of recognising revenue. The Group has assessed that based on the agreements entered into with the customers, the Group does not create an asset with an alternative use to the Group and usually has an enforceable right to payment for performance completed to date. In these circumstance the Group recognises revenue over time. Where this is not the case revenue is recognised at a point in time.

In addition, the application of IFRS 15 has resulted in the following estimation process:

Allocation of transaction price to performance obligation in contracts with customers

The Group has elected to apply the input method in allocating the transaction price to performance obligations where revenue is recognised over time. The Group considers that the use of the input method, which requires revenue recognition on the basis of the Group's efforts to the satisfaction of performance obligation, provides the best reference of revenue actually earned. In applying the input method, the Group estimates the efforts or inputs to the satisfaction of a performance obligation. In addition to the cost of meeting contractual obligation to the customers, these estimates mainly include the time elapsed for services contracts.

Estimates and assumptions

The estimates at 1 January 2016, 31 December 2016 and 31 December 2017 are consistent with those made for the same dates in accordance with SOCPA GAAP (after adjustments to reflect any differences in accounting policies). The estimates used by the Group to present these amounts in accordance with IFRS reflect conditions at 1 January 2016, 31 December 2016 and 31 December 2017.

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.

The Group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising that are beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

Saudi Public Transport Company and its Subsidiary
(A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

As at 31 December 2017

3 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

Impairment of non-financial assets

Impairment exists when the carrying value of an asset or CGU exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The fair value less costs of disposal calculation is based on available data from binding sales transactions, conducted at arm's length, for similar assets or observable market prices less incremental costs of disposing of the asset.

The value in use calculation is based on a Discounted Cash Flow ("DCF") model, if applicable. The cash flows are derived from the budget for the next five years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the performance of the assets of the CGU being tested. The recoverable amount is sensitive to the discount rate used for the DCF model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes.

End of service benefit plans

The cost of employees' defined benefit obligation and other post-employment benefits are determined using actuarial valuations. An actuarial valuation involves making various assumptions which may differ from actual developments in the future. These include the determination of the discount rate, future salary increases and mortality rates. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

Fair value measurement of financial instruments

When the fair values of financial assets and financial liabilities recorded in the consolidated statement of financial position cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques including the discounted cash flow (DCF) model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. Judgements include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions relating to these factors could affect the reported fair value of financial instruments.

Contingent liabilities

As disclosed in Note 35 to these consolidated financial statements, the Group is exposed to various contingent liabilities in the normal course of business. Management evaluates the status of these exposures on a regular basis to assess the probability of the Group incurring related liabilities. However, provisions are only made in the consolidated financial statements where, based on the managements' evaluation, a present obligation has been established.

Economic useful lives of property, plant, equipment and intangible assets

The Group's management determines the estimated useful lives of its property, plant, and equipment and intangibles for calculating depreciation/amortisation. This estimate is determined after considering the expected usage of the asset or physical wear and tear. The Group periodically reviews estimated useful lives and the depreciation/amortisation method to ensure that the method and period of depreciation/amortisation are consistent with the expected pattern of economic benefits from these assets.

Saudi Public Transport Company and its Subsidiary
(A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

As at 31 December 2017

4 FIRST-TIME ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

These consolidated financial statements, for the year ended 31 December 2017, are the first the Group has prepared in accordance with IFRS as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by SOCPA. For the years up to and including the year ended 31 December 2016, the Group prepared its consolidated financial statements in accordance with the accounting principles generally accepted in the Kingdom of Saudi Arabia.

Accordingly, the Group has prepared consolidated financial statements that comply with IFRS as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by SOCPA that are applicable as at 31 December 2017, together with the comparative period data for the year ended 31 December 2016, as described in the summary of significant accounting policies. In preparing the consolidated financial statements, the Group's opening statement of financial position was prepared as at 1 January 2016, the Group's date of transition to IFRS as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements issued by SOCPA.

This note explains the principal adjustments made by the Group in restating its consolidated financial statements prepared in accordance with the accounting principles generally accepted in the Kingdom of Saudi Arabia ("SOCPA GAAP"), including the statement of financial position as at 1 January 2016 and the consolidated financial statements for the year ended 31 December 2016.

Exemptions applied

IFRS 1 allows first-time adopters certain exemptions from the retrospective application of certain requirements under IFRS. The Group has applied the following exemptions:

- IFRS 3, *Business Combinations* has not been applied to either acquisitions of subsidiaries that are considered businesses under IFRS, or acquisitions of interests in associates and joint ventures that occurred before 1 January 2016. Accordingly, carrying amounts of assets and liabilities under SOCPA GAAP, that are required to be recognised under IFRS, is their deemed cost at the date of the acquisition.
- Property, plant and equipment were carried in the consolidated statement of financial position prepared in accordance with SOCPA GAAP on the basis of revised estimates of useful lives performed on 31 December 2015. The Group has elected to carry those estimates and related values as deemed cost at the date of transition to IFRS.

Estimates

The estimates at 1 January 2016 and at 31 December 2016 are consistent with those made for the same dates in accordance with the accounting principles generally accepted in the Kingdom of Saudi Arabia ("SOCPA GAAP"), SOCPA GAAP (after adjustments to reflect any differences in accounting policies) apart from the following item where application of SOCPA GAAP did not require estimation:

- Employees' defined benefit obligation

The estimates used by the Group to present these amounts in accordance with IFRS reflect conditions at 1 January 2016, the date of transition to IFRS and as at 31 December 2016.

Saudi Public Transport Company and its Subsidiary
(A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

As at 31 December 2017

**4 FIRST-TIME ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)
(continued)**

Group reconciliation of consolidated statement of financial position as at 1 January 2016 (date of transition to IFRS)

	Notes	SOCPA GAAP SR '000	Adjustments SR '000	IFRS SR '000
Assets				
Non-current assets				
Property, plant and equipment	A,B, C	1,388,288	(327,170)	1,061,118
Intangible assets	C	-	22,125	22,125
Investment properties	A	-	307,122	307,122
Due from a related party - non-current portion	D	30,000	(1,101)	28,899
Investments	E,F	124,119	(124,119)	-
Investments in an associate and a joint venture	E,N	-	13,326	13,326
Investments in equity investments designated as at FVOCI	F	-	107,837	107,837
Other non-current assets	G	17,656	(8,259)	9,397
Total non-current assets		1,560,063	(10,239)	1,549,824
Current assets				
Inventories		53,511	-	53,511
Trade and other receivables	H	108,228	46,653	154,881
Due from a related party - current portion		26,552	-	26,552
Prepayments and other current assets	B	39,208	(15,441)	23,767
Cash and cash equivalents		833,485	-	833,485
Total current assets		1,060,984	31,212	1,092,196
Total assets		2,621,047	20,973	2,642,020
Equity and liabilities				
Equity				
Issued capital		1,250,000	-	1,250,000
Statutory reserve		157,248	-	157,248
Consensual reserve		36,351	-	36,351
Investment revaluation reserve		(38,354)	-	(38,354)
Retained earnings		117,075	2,539	119,614
Equity attributable to equity holders of the parent company		1,522,320	2,539	1,524,859
Non-controlling interests		(81)	4,359	4,278
Total equity		1,522,239	6,898	1,529,137
Liabilities				
Non-current liabilities				
Murabaha financing - non-current portion		50,161	-	50,161
Employees' defined benefit obligation	K	127,767	7,868	135,635
Advance from a customer - non-current portion		454,796	-	454,796
Deferred revenues - non-current portion	L, J	971	3,675	4,646
Total non-current liabilities		633,695	11,543	645,238
Current liabilities				
Murabaha financing - current portion		69,415	-	69,415
Trade and other payables	I	12,962	154,350	167,312
Due to non-controlling interests of the subsidiary		24,694	149	24,843
Accrued expenses and other liabilities	I	216,041	(84,413)	131,628
Deferred revenues - current portion	L, J	2,150	17,763	19,913
Advance from a customer - current portion		16,544	-	16,544
Dividends payables	I	85,317	(85,317)	-
Zakat payable		37,990	-	37,990
Total current liabilities		465,113	2,532	467,645
Total liabilities		1,098,808	14,075	1,112,883
Total equity and liabilities		2,621,047	20,973	2,642,020

Saudi Public Transport Company and its Subsidiary
(A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

As at 31 December 2017

**4 FIRST-TIME ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)
(continued)**

Group reconciliations of consolidated statement of financial position as at 31 December 2016

	Notes	SOCPA GAAP SR '000	Adjustments SR '000	IFRS SR '000
Assets				
Non-current assets				
Property, plant and equipment	A,B, C	1,525,723	(326,926)	1,198,797
Intangible assets	C	-	18,059	18,059
Investment properties	A	-	307,122	307,122
Due from a related party - non-current portion	D	22,500	(667)	21,833
Investments	E,F	148,143	(148,143)	-
Investments in an associate and a joint venture	E,N	-	28,541	28,541
Investments in equity investments designated as at FVOCI	F	-	114,552	114,552
Other non-current assets	G	23,666	(15,088)	8,578
Total non-current assets		1,720,032	(22,550)	1,697,482
Current assets				
Inventories		49,885	-	49,885
Trade and other receivables	H	133,050	57,970	191,020
Due from a related party - current portion		50,119	-	50,119
Prepayments and other current assets	B	43,608	(8,646)	34,962
Investments in Murabaha deposits		101,492	-	101,492
Cash and cash equivalents		667,287	-	667,287
Total current assets		1,045,441	49,324	1,094,765
Total assets		2,765,473	26,774	2,792,247
Equity and liabilities				
Equity				
Issued capital		1,250,000	-	1,250,000
Statutory reserve		170,006	-	170,006
Consensual reserve		42,730	-	42,730
Investment revaluation reserve		(30,159)	-	(30,159)
Retained earnings		161,222	9,240	170,462
Equity attributable to equity holders of the parent company		1,593,799	9,240	1,603,039
Non-controlling interests		(2,783)	5,478	2,695
Total equity		1,591,016	14,718	1,605,734
Liabilities				
Non-current liabilities				
Murabaha financing - non-current portion	J	138,200	(219)	137,981
Employees' defined benefits obligation	K	137,517	7,868	145,385
Advance from a customer - non-current portion		459,506	-	459,506
Deferred revenues - non-current portion	L, J	2,802	1,899	4,701
Total non-current liabilities		738,025	9,548	747,573
Current liabilities				
Murabaha financing - current portion	J	109,033	359	109,392
Trade and other payables	I	13,101	163,315	176,416
Due to non-controlling interests of the subsidiary		24,915	-	24,915
Accrued expenses and other liabilities	I	181,651	(82,976)	98,675
Deferred revenues - current portion	L, J	2,150	10,097	12,247
Dividends payable	I	88,287	(88,287)	-
Zakat payable		17,295	-	17,295
Total current liabilities		436,432	2,508	438,940
Total liabilities		1,174,457	12,056	1,186,513
Total equity and liabilities		2,765,473	26,774	2,792,247

Saudi Public Transport Company and its Subsidiary
(A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

As at 31 December 2017

**4 FIRST-TIME ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)
(continued)**

Group reconciliations of consolidated statement of income and total comprehensive income for the year ended 31 December 2016

	Notes	SOCPA GAAP SR'000	Adjustments SR'000	IFRS SR'000
Revenues	H	1,138,359	13,282	1,151,641
Cost of revenues	M	(901,659)	(9,133)	(910,792)
Gross profit		<u>236,700</u>	<u>4,149</u>	<u>240,849</u>
Selling and distribution expenses		(43,541)	-	(43,541)
Administrative expenses		(99,783)	34	(99,749)
Operating income		<u>93,376</u>	<u>4,183</u>	<u>97,559</u>
Finance costs	J	(8,067)	(139)	(8,206)
Finance income	D	12,619	2,590	15,209
Other income		23,699	-	23,699
Share of profit of a joint venture	N	15,829	(614)	15,215
		<u>137,456</u>	<u>6,020</u>	<u>143,476</u>
Income before zakat and income tax				
Non-controlling interest share in net loss of a subsidiary		2,702	(1,119)	1,583
Zakat		(12,574)	-	(12,574)
Income for the year		<u>127,584</u>	<u>4,901</u>	<u>132,485</u>
Other comprehensive income				
<i>Other comprehensive income not to be reclassified to consolidated statement of income in subsequent periods:</i>				
Net cumulative change in fair value of investments classified as fair value through other comprehensive income "FVOCI"	F	-	8,195	8,195
Total other comprehensive income for the year		<u>-</u>	<u>8,195</u>	<u>8,195</u>
Total comprehensive income for the year		<u>127,584</u>	<u>13,096</u>	<u>140,680</u>

Saudi Public Transport Company and its Subsidiary
(A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

As at 31 December 2017

**4 FIRST-TIME ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)
(continued)**

NOTES ON KEY IMPACTS ON THE CONSOLIDATED FINANCIAL STATEMENTS ON TRANSITION TO IFRS

A) Investment properties

The Group has certain lands which are held for capital appreciation. Under IAS 40 - Investment property, any property (land or building) that is held for rental or capital appreciation are recognised as investment properties. Accordingly, these properties are classified as investment properties.

B) Capital advances

Under SOCPA GAAP, advances made to suppliers against purchase of buses, trucks, and cars are shown in current assets under prepayments. Under IFRS, these have been reclassified to projects and buses in progress under property, plant and equipment.

C) Intangible assets

Software licenses, which do not form part of hardware have been reclassified from Property, Plant and Equipment and presented under Intangible Assets.

D) Discounting of loans to joint venture

Under SOCPA GAAP, the Group loans that were provided to the joint venture at low/zero value are not discounted at presented value. In accordance with the requirements of IFRS 9, these loans are recorded at fair value based on market rate of interest. Impacts on the date of transition have been taken into retained earnings in the opening statement of financial position. The unwinding effect of income on such loans has been taken to the consolidated statement of income for the period ended 31 December 2016.

E) Investments in an associate and a joint venture

Under SOCPA GAAP, investments in an associate and a joint ventures was presented under the caption of Investments. IFRS requires investments in associates and joint ventures to be presented separately from other investments in the consolidated statement of financial position.

F) Investments held at fair value through other comprehensive income

Under SOCPA GAAP, equity instruments were classified as investments in available for sale securities under the investments caption. Upon transition, the Group elected the irrevocable option of classifying these investment as investments in equity instruments designated as at FVOCI.

G) De-recognition of infrastructure assets as per IFRIC 12

Under IFRIC 12 - Service Concession Arrangement, all expenses incurred with respect to purchase of buses/construction of depots (i.e., expenses under mobilisation phase) under the arrangement with ADA are recognised as expenses since the Group does not have the right of use to these assets. Accordingly, expenses incurred during mobilisation phase till 1 January 2016 are taken to retained earnings. Expenses incurred during the year ended 31 December 2016 are charged to the consolidated statement of income.

H) Revenue recognition for service concession arrangements

Under SOCPA GAAP, revenue and related receivables are recognised based on achievement of milestone targets as specified in the contract with ADA. However, as per IFRS 15, revenue is accounted for based on satisfaction of respective performance obligations within the contract. Accordingly, revenue under the mobilisation phase is recognised using input method by applying a reasonable margin to the cost incurred upon satisfaction of related performance obligations.

I) Financial assets and financial liabilities

Under SOCPA GAAP, financial assets and liabilities are not shown separately and are clubbed with non-financial assets and liabilities. As per IFRS, these are separately disclosed.

J) Amortisation of deferred financing costs on long term loans

Under previous SOCPA GAAP, interest charges on long term loans are amortised based on the straight line method over the term of the loans. Under IFRS, these are amortised based on the effective interest rate method. The differences in amortisation of such loans has been taken to the consolidated statement of profit or loss for the years ended 2017 and 2016.

Saudi Public Transport Company and its Subsidiary
(A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

As at 31 December 2017

**4 FIRST-TIME ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)
(continued)**

NOTES ON KEY IMPACTS ON THE CONSOLIDATED FINANCIAL STATEMENTS ON TRANSITION TO IFRS (continued)

K) Defined benefit obligation

Under previous SOCPA GAAP, the Group recognised costs related to its post-employment benefits in accordance with Saudi Labor law requirements.

Under IFRS, the Group's employees' end of service benefits meet the definition of a defined benefit plan and accordingly, the Group's current practice was not consistent with IAS 19, *Employee Benefits*, which requires the present value of the end of service benefits liability to be determined using actuarial assumptions under the projected unit credit method (PUCM). This change has resulted in an increase in the end of service benefits liability on the transition date and a decrease in the retained earnings and income for the year ended 31 December 2017 and

L) Guarantees provided to third parties on behalf of group companies

The Group has issued guarantees on behalf of the group's subsidiary and joint venture to assist in their financing facilities without any commission. Under IFRS, financial guarantees or those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument, are fair valued using market rate of interest and commission income on such guarantees at market rate of interest has been recorded in consolidated statement of income during the years ended 31 December 2017 and 31 December 2016.

M) Discounts and free tickets

Under SOCPA GAAP, discounts provided to customers are presented as cost of revenue. IFRS Standards require trade discounts and rebates to be presented as a deduction against revenue. Consequently, reclassifications have been made to the consolidated statement of income.

N) Investment in associate and joint venture

This represents the impact of IFRS conversion of the joint venture.

O) Statement of cash flows

The transition from SOCPA GAAP to IFRS has not had a material impact on the consolidated statement of cash flows.

Saudi Public Transport Company and its Subsidiary
(A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

As at 31 December 2017

5 REVENUES

	2017 SR'000	2016 SR'000
Passenger transport	633,742	705,853
Revenue from contracts and leasing	334,014	290,852
Revenue from service concession agreement	76,730	79,008
Transport cargo revenue	44,618	39,371
Limo revenue	38,426	36,557
	<u>1,127,530</u>	<u>1,151,641</u>

6 COST OF REVENUES

	2017 SR'000	2016 SR'000
Wages and salaries	409,808	385,731
Depreciation (Note 12)	180,877	151,826
Repairs and maintenance of buses	148,932	165,910
Contractual services	45,061	51,777
Cost of service concession agreement	35,517	39,257
Rents	32,257	26,101
Maintenance and general fees	24,229	24,324
Visa and iqama fees	23,710	13,463
Passenger services	20,641	15,537
Property insurance expenses	15,276	20,609
Amortisation (Note 13)	3,678	2,906
Other expenses	16,012	13,351
	<u>955,998</u>	<u>910,792</u>

7 SELLING AND DISTRIBUTION EXPENSES

	2017 SR'000	2016 SR'000
Domestic agents' commissions	24,437	27,736
International agents' commissions	3,624	2,726
Publicity and promotions	2,210	1,662
Advertising	1,987	2,404
Allowance for impairment of trade receivable	-	9,013
	<u>32,258</u>	<u>43,541</u>

Saudi Public Transport Company and its Subsidiary
(A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
As at 31 December 2017

8 ADMINISTRATIVE EXPENSES

	2017 SR'000	2016 SR'000
Wages and salaries	54,221	54,640
Information technology services	12,302	12,834
Management consultancy fees	10,764	13,221
Board and committees expenses, rewards and allowances (Note 30)	4,982	3,136
Internet and telephone expenses	3,636	2,728
Depreciation (Note 12)	2,314	2,869
Rent	2,132	2,490
Maintenance expenses	1,870	2,390
Amortisation (Note 13)	1,468	1,160
Other expenses	7,236	4,281
	100,925	99,749

9 OTHER INCOME

	2017 SR'000	2016 SR'000
Settlement of insurance claims	7,671	7,208
Rental income	4,007	4,282
Gains on sale of property, plant and equipment	3,152	4,076
Support from the Human Resources Development Fund	2,007	2,274
Advertisement for intra-city transportation	1,855	2,610
Supplier's penalties	1,734	1,422
Gains on sale of scrap	640	674
Other income	1,054	1,153
	22,120	23,699

10 ZAKAT AND INCOME TAX

Zakat charge for the year

Zakat charge for the year is SR 11.6 million (31 December 2016: SR 12.6 million).

Movement in zakat provision during the year

The movement in zakat provision is as follows:

	31 December 2017 SR'000	31 December 2016 SR'000
At beginning of the year	17,295	37,990
Provided during the year	11,663	12,574
Paid during the year	(11,913)	(33,269)
At the end of the year	17,045	17,295

Status of assessment

Zakat has been calculated based on zakat base for the Group and its subsidiary separately. The Group has filed zakat returns for the years 2005 to 2016 and settled zakat dues accordingly. The Group has finalised its zakat status for all years up to 2012. On 11 January 2015, the General Authority of Zakat and Tax assessed an additional zakat for the years from 2005 to 2012 amounting to SR 39.4 million. The Group has appealed against certain zakat items disallowed in assessment. On 22 December 2015, the Group received the final zakat assessment for the years from 2005 to 2012 with zakat differences of SR 29.2 million. The Group accepted this assessment and considered this amount in the zakat provision for 2015. This amount has been fully paid in January 2016. The final assessments for the years 2013 to 2016 have not yet been raised by the GAZT.

Saudi Public Transport Company and its Subsidiary
(A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
As at 31 December 2017

10 ZAKAT AND INCOME TAX (continued)

Income tax charge for the year

Income tax charge for the year is SR 510,000 (31 December 2016: Nil).

Movement in income tax provision during the year

	31 December 2017 SR'000
At beginning of the year	-
Provided during the year	510
At the end of the year	510

11 EARNINGS PER SHARE

Basic and diluted earnings per share (EPS) is calculated by dividing the income for the year attributable to ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year.

The following table reflects the income and share data used in the basic and diluted EPS computations:

	2017 SR'000	2016 SR'000
Income attributable to ordinary equity holders of the parent for basic earnings	78,910	132,485
	2017	2016
Weighted average number of ordinary shares for basic EPS	125,000,000	125,000,000
	2017	2016
Basic and diluted earnings per share	0.63	1.06

There have been no other transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of authorisation of these consolidated financial statements.

12 PROPERTY, PLANT AND EQUIPMENT

	31 December 2017 SR'000	31 December 2016 SR'000	1 January 2016 SR'000
Property, plant and equipment	1,357,651	1,169,897	1,003,206
Projects and buses in progress	38,250	28,900	57,912
	1,395,901	1,198,797	1,061,118

PROJECTS AND BUSES IN PROGRESS

Projects and buses in progress includes advances placed with vendors and suppliers in respect of construction/improvements in relation to buildings, furniture, buses and other office equipment. Movement in the projects under construction during the year was as follows:

	31 December 2017 SR'000	31 December 2016 SR'000
At the beginning of the year	28,900	57,911
Additions during the year	24,847	19,814
Transfers during the year	(15,497)	(48,825)
At the end of the year	38,250	28,900

Saudi Public Transport Company and its Subsidiary
(A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

As at 31 December 2017

12 PROPERTY, PLANT AND EQUIPMENT (continued)

	<i>Land</i> SR'000	<i>Buildings</i> SR'000	<i>Buses, trucks and trailers</i> SR'000	<i>Furniture and fixtures</i> SR'000	<i>Motor vehicles</i> SR'000	<i>Plant and equipment</i> SR'000	<i>Total</i> SR'000
Cost							
Balance as at 1 January 2016	36,264	457,997	2,499,171	15,259	77,593	69,100	3,155,384
Additions during the year	-	3,109	255,891	1,237	9,637	6,764	276,638
Transfers during the year	-	44,079	-	201	-	4,545	48,825
Disposals during the year	-	-	(176,884)	-	(19,405)	-	(196,289)
Balance as at 31 December 2016	36,264	505,185	2,578,178	16,697	67,825	80,409	3,284,558
Additions during the year	54,000	1,474	291,556	1,505	14,848	6,420	369,803
Transfers during the year	-	9,839	-	-	-	5,658	15,497
Disposals during the year	-	-	(547,852)	-	(6,017)	-	(553,869)
Balance as at 31 December 2017	90,264	516,498	2,321,882	18,202	76,656	92,487	3,115,989
Accumulated depreciation							
Balance as at 1 January 2016	-	324,859	1,729,785	7,650	53,347	36,536	2,152,177
Depreciation during the year	-	10,308	126,324	1,453	10,340	6,270	154,695
Disposals during the year	-	-	(176,646)	-	(15,565)	-	(192,211)
Balance as at 31 December 2016	-	335,167	1,679,463	9,103	48,122	42,806	2,114,661
Depreciation during the year	-	11,367	153,152	1,547	10,035	7,090	183,191
Disposals during the year	-	-	(535,261)	-	(4,253)	-	(539,514)
Balance as at 31 December 2017	-	346,534	1,297,354	10,650	53,904	49,896	1,758,338
Net book values							
As at 31 December 2017	90,264	169,964	1,024,528	7,552	22,752	42,591	1,357,651
As at 31 December 2016	36,246	170,018	898,715	7,594	19,703	37,603	1,169,897
As at 1 January 2016	36,264	133,138	769,386	7,609	24,246	32,564	1,003,207

Saudi Public Transport Company and its Subsidiary
(A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
As at 31 December 2017

12 PROPERTY, PLANT AND EQUIPMENT (continued)

Depreciation for the year is allocated as follows:

	2017 SR'000	2016 SR'000
Cost of revenues (Note 6)	180,877	151,826
Administrative expenses (Note 8)	2,314	2,869
	<u>183,191</u>	<u>154,695</u>

13 INTANGIBLE ASSETS

	Software and licenses SR'000
<i>Cost</i>	
Balance as at 1 January 2016	39,352
Additions	-
Disposals	-
Balance as at 31 December 2016	<u>39,352</u>
Additions	11,147
Disposals	-
Balance as at 31 December 2017	<u>50,499</u>
<i>Accumulated amortisation</i>	
Balance as at 1 January 2016	17,227
Additions	4,066
Disposals	-
Balance as at 31 December 2016	<u>21,293</u>
Additions	5,146
Disposals	-
Balance as at 31 December 2017	<u>26,439</u>
<i>Net book values</i>	
As at 31 December 2017	<u>24,060</u>
As at 31 December 2016	<u>18,059</u>
As at 1 January 2016	<u>22,125</u>

Amortisation for the year is allocated as follows:

	2017 SR'000	2016 SR'000
Cost of revenues (Note 6)	3,678	2,906
Administrative expenses (Note 8)	1,468	1,160
	<u>5,146</u>	<u>4,066</u>

Saudi Public Transport Company and its Subsidiary
(A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
As at 31 December 2017

14 INVESTMENT PROPERTIES

The Group's investment properties consist of lands in the Kingdom of Saudi Arabia amounting to SR 307.12 million as of 31 December 2017, 31 December 2016 and 1 January 2016. Management has intentions to hold these properties for the purposes of capital appreciation and these properties are carried at cost less impairment losses.

The fair value of investment property was determined by accredited independent property valuers – “Qiam Real Estate Co.”, having appropriate recognised professional qualifications and recent experience in the location and category of the property being valued. The independent valuers provides the fair value of the Group’s investment property portfolio on an annual basis or as and when required by management. The recent fair valuation was performed as at 31 December 2017, and they have determined the fair value to be SR 437.9 million.

The fair values of the aforementioned investment properties were determined using the market approach which is a valuation technique that uses prices and other relevant information generated by market transactions involving identical or comparable assets and adjusted to reflect differences on size, location, frontage/visibility, view and utilisation (Level 3 - Significant unobservable inputs).

The Group has no restrictions on the realisability of its investment properties and no contractual obligations to purchase, construct or develop investment properties or for repairs, maintenance and enhancements.

15 INVESTMENT IN AN ASSOCIATE AND A JOINT VENTURE

	31 December 2017 SR'000	31 December 2016 SR'000	1 January 2016 SR'000
Interest in joint venture (A)	71,854	28,541	13,326
Interest in an associate (B)	-	-	-
	<u>71,854</u>	<u>28,541</u>	<u>13,326</u>

(A) Investment in joint venture

Movement in the investment during the year were as follows:

	2017 SR'000	2016 SR'000
At the beginning of the year	28,541	13,326
Share of profits	43,314	15,215
At the end of the year	<u>71,855</u>	<u>28,541</u>

Saudi Emirates Integrated Transport Group (“SEITCO”) is a joint venture in which the Group has joint control and a 50% ownership interest. SEITCO is engaged in providing transport activities to various education institutes within the Kingdom of Saudi Arabia. In accordance with the articles of association of SEITCO, the Group and the other investor in the joint venture have agreed to distribute profits after deduction of statutory reserves in proportion of their capital structure which is currently at 50% each respectively.

The Group’s interest in SEITCO is accounted for using the equity method in the consolidated financial statements based on SEITCO's financial statements.

Saudi Public Transport Company and its Subsidiary
(A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
As at 31 December 2017

15 INVESTMENT IN AN ASSOCIATE AND JOINT VENTURE (continued)

Summarised financial information of SEITCO are as follows:

	31 December 2017	31 December 2016	1 January 2016
	SR'000	SR'000	SR'000
Current assets	203,947	124,608	121,076
Non-current assets	360,613	412,634	464,233
Total assets	564,560	537,242	585,309
Current liabilities	353,565	283,259	202,094
Non-current liabilities	65,196	196,808	356,441
Total liabilities	418,761	480,067	558,535
	2017	2016	
	SR'000	SR'000	
Revenues	334,450	259,315	
Cost of revenues	(225,103)	(210,628)	
Gross margin	109,347	48,687	
General and administrative expense	(11,233)	(8,541)	
Income before zakat	98,114	40,146	

No dividends were received from SEITCO for the years ended 31 December 2017, 31 December 2016 and 1 January 2016.

(B) Movement in the investment in an associate during the year were as follows:

	2017	2016
	SR'000	SR'000
At the beginning of the year	7,459	7,459
Less: provision for impairment of investment	(7,459)	(7,459)
At the end of the year	-	-

The Group has a 40% interest in Saudi Bahraini Transport Group, a limited liability Group registered in the Kingdom of Saudi Arabia. The Group's interest in the associate is accounted for using the equity method in the consolidated financial statements. The audited financial statements of the associate for the years 2014 to 2017 have not been issued as at the date of the preparation of the consolidated financial statements. On 31 December 2015, the Partner's Extraordinary General Assembly of Saudi Bahraini Transport Group agreed on dissolving and liquidation of the Group and nominating a liquidator. Accordingly, a provision has been made for the investment in full as the Group is unable to estimate the recoverable amount of this investment.

Saudi Public Transport Company and its Subsidiary
(A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

As at 31 December 2017

16 INVESTMENTS IN EQUITY INSTRUMENTS DESIGNATED AS FVOCI

Investments classified as fair value through other comprehensive income "FVOCI" include financial assets that are invested in equity shares of companies. The Group considers these investments to be strategic in nature. Fair values of these quoted securities are determined by reference to published price quotations in an active market.

	31 December 2017 SR'000	31 December 2016 SR'000
At the beginning of the year	114,552	107,837
Addition	-	-
Disposal	-	(1,480)
Movements due to changes in fair value	3,177	8,195
At the end of the year	117,729	114,552

Movement in fair values of equity instruments

	31 December 2017 SR'000	31 December 2016 SR'000
At the beginning of the year	(30,159)	(38,354)
Change in fair value	3,177	8,195
At the end of the year	(26,982)	(30,159)

17 INVENTORIES

	31 December 2017 SR'000	31 December 2016 SR'000	1 January 2016 SR'000
Spare parts inventory	74,846	76,518	79,502
Less: Provision for slow moving inventories	(26,633)	(26,633)	(25,991)
	48,213	49,885	53,511

Saudi Public Transport Company and its Subsidiary
(A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

As at 31 December 2017

18 TRADE AND OTHER RECEIVABLES

	31 December 2017	31 December 2016	1 January 2016
	SR'000	SR'000	SR'000
Trade receivables:			
Government and quasi government institutions	104,878	121,939	72,196
Private sector	44,776	43,912	63,386
Total trade receivable	149,654	165,851	135,582
Less: allowance for impairment	(32,801)	(32,801)	(27,355)
Trade receivable, net	116,853	133,050	108,227
Unbilled receivables	129,005	48,921	36,282
Employees receivables	8,978	9,049	10,372
Trade and other receivables, net	254,836	191,020	154,881

The Group's receivables are generally non-interest bearing and are recovered within 90 days. On 31 December 2017, trade receivables with an initial carrying amount of SR 32.8 million (31 December 2016: SR 32.8 million, 1 January 2016: SR 27.4 million) were impaired and are fully provided.

Movement in allowance for impairment as follows:

	2017	2016
	SR'000	SR'000
At the beginning of the year	32,801	27,355
Charge for the year	-	9,013
Amount written off during the year	-	(3,567)
At the end of the year	32,801	32,801

19 PREPAYMENTS AND OTHER CURRENT ASSETS

	2017	2016	1 January 2016
	SR'000	SR'000	SR'000
Advances to suppliers	14,973	12,357	9,988
Prepaid rents	5,887	6,002	10,188
Other receivables	18,247	21,346	8,231
	39,107	39,705	28,407
Less: Allowance for impairment	(4,743)	(4,743)	(4,640)
	34,364	34,962	23,767

20- CASH AND CASH EQUIVALENTS

	2017	2016	1 January 2016
	SR'000	SR'000	SR'000
Cash on hand	447	2,662	1,152
Cash in banks	193,654	207,507	682,083
Investments in Murabaha deposits*	380,184	457,118	150,250
	574,285	667,287	833,485
Investments in Murabaha deposits**	-	101,492	-

*These have been placed with banks for a maturity of three months or less.

**These have been placed with banks for a maturity of more than three months.

Investments in Murabaha deposits are placed in various banks at profit ranges from 1.75% to 1.90% (31 December 2016: 1.02% to 1.49%). No deposits have been pledged as security to obligations in 2017 and 2016.

Saudi Public Transport Company and its Subsidiary
(A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

As at 31 December 2017

21 ISSUED CAPITAL

The Group's share capital at 31 December 2017 amounted to SR 1,250 million (31 December 2016: SR 1,250 million, 1 January 2016: SR 1,250 million) consisting of 125 million (31 December 2016: 125 million, 1 January 2016: 125 million) fully paid and issued shares of SR 10 each.

22 STATUTORY RESERVE

In accordance with Saudi Arabian Companies law and Company's By-Laws, the Group must transfer 10% of its net income in each year to the statutory reserve. As per the Company's By-Laws, the Company may resolve to discontinue such transfers when the reserve equals 30% of the capital. The reserve is not available for distribution (Note 1).

23 CONSENSUAL RESERVE

In accordance with the Company's By-Laws, the Company shall transfer 5% from the net income for the year to the consensual reserve until this reserve equals 25% of the share capital. This reserve may be used for purposes authorised by the Board of Directors. The Board of Directors did not suggest for this transfer during the year 2017 (Note 1).

24 MURABAHA FINANCING

	31 December 2017	31 December 2016	1 January 2016
	SR'000	SR'000	SR'000
Murabaha financing	358,149	247,373	119,576
Less: Current portion	(186,574)	(109,392)	(69,415)
Non-current portion	171,575	137,981	50,161

The Company has entered into borrowing arrangements with banks for Murabaha facilities. These loans have been availed during the period from 2013 to 2017 with an overall maturity of three to five years from the date of loan agreement and are secured by promissory notes. The Group has obtained these loans in order to finance its procurement of buses.

25 EMPLOYEES' TERMINATION BENEFITS – DEFINED BENEFIT PLAN

	31 December 2017	31 December 2016	1 January 2016
	SR'000	SR'000	SR'000
Balance at the beginning of year – PVDBO	145,385	135,635	110,332
Current service cost	9,511	23,500	24,321
Benefits paid	(11,338)	(13,750)	(15,217)
Interest cost	5,926	-	1,813
Re-measurement losses on defined benefit	2,933	-	14,386
Balance at the end of year – PVDBO	152,417	145,385	135,635

Employee benefit expense

	2017	2016	1 January 2016
	SR'000	SR'000	SR'000
Current service cost	9,511	23,500	24,321
Interest cost on benefit obligation	5,926	-	1,813
Total benefit expense	15,437	23,500	26,134

Remeasurement losses recognised in other comprehensive income:

	2017
	SR'000
Remeasurement losses on defined benefit obligation:	
Financial assumptions	3,248
Demographic assumptions	2,529
Experience adjustments	(2,844)
Total remeasurement recognised in other comprehensive income	2,933

The Group has performed an actuarial valuation as at 1 January 2016 and has carried forward the valuation to the year ended 31 December 2016. The revaluation process reflects material transactions and other events.

Saudi Public Transport Company and its Subsidiary
(A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

As at 31 December 2017

25 EMPLOYEES' TERMINATION BENEFITS – DEFINED BENEFIT PLAN (continued)

Defined benefit obligation

	2017 SR'000	2016 SR'000	1 January 2016 SR'000
Non-current - end of service benefits	152,417	145,385	135,635
Current - other employee benefits	39,670	38,936	43,168
Total employee benefit obligation	192,087	184,321	178,803

The weighted average duration of the defined benefit obligation as of 31 December 2017 is 6.24 years. Shown below is the maturity analysis of the undiscounted benefit payment as of 31 December 2017:

	2017 SR'000
Within one year	11,032
After one year but not more than five years	64,802
More than five years	120,886
	196,720

The significant assumptions used in determining end of service benefits are shown below:

Key Actuarial assumptions	2017 SR'000
Financial assumptions:	
Discount rate for present value of defined benefit obligation	3.75%
Discount rate for expenses in the consolidated income statement	4.50%
Salary increase rate	2.50%
Withdrawal rate	Moderate
Demographic assumptions:	
- Retirement age	60 years
- Withdrawal rates:	
A) Service up to 6 years	8.40%
B) Service from 7 to 25 years	6.00%
C) Service more than 25 years	2.40%

The mortality rate used the Group's Reinsurance mortality rate. The average rate for the next year is 0.36%.

A quantitative sensitivity analysis for significant assumptions on the defined benefit plans are shown below:

	Effect on defined benefit obligation	
	%	SR'000
Financial assumptions:		
Discount rate	+1%	(9,112)
	-1%	10,110
Salary increase rate	+1%	10,924
	-1%	(10,001)
Withdrawal rate	+10%	(170)
	-10%	140
Mortality age	+1%	(16)
	-1%	17

Saudi Public Transport Company and its Subsidiary
(A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

As at 31 December 2017

26 ADVANCE PAYMENT FROM A CUSTOMER

During the year 2015, Public Transportation Company received an amount of SR 471 million as an advance payment for executing King Abdulaziz project for buses public transport in Riyadh. The advance payment represents 6% of the total contract value.

27 DEFERRED REVENUES

	2017	2016	1 January
	SR'000	SR'000	2016
			SR'000
Passengers unearned ticket revenues	9,929	10,097	17,383
Deferred guarantee commission	1,899	4,049	6,205
Deferred capital income	5,785	2,802	971
	17,613	16,948	24,559
Current	12,589	12,247	19,913
Non-current	5,024	4,701	4,646
	17,613	16,948	24,559

28 TRADE AND OTHER PAYABLES

	2017	2016	1 January
	SR'000	SR'000	2016
			SR'000
Dividends payable	90,287	88,287	85,318
Accidents insurance cost	51,583	64,192	65,584
Retentions payable	11,747	12,986	9,881
Trade payables	5,409	10,951	6,529
	159,026	176,416	167,312

Trade payables pertains to the Group's obligation to local suppliers. The normal trade credit terms of trade and other payables of the Group are expected to be settled on 30-60 day term.

29 ACCRUED EXPENSES AND OTHER LIABILITIES

	2017	2016	1 January
	SR'000	SR'000	2016
			SR'000
Accrued expenses	52,074	41,627	71,261
Employee benefits (Note 25)	39,670	38,936	43,168
Other payables	22,558	18,112	17,199
	114,302	98,675	131,628

Saudi Public Transport Company and its Subsidiary
(A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

As at 31 December 2017

30 RELATED PARTY TRANSACTIONS AND BALANCES

Subsidiary, associate and joint venture

The details and nature of relationship of Group's subsidiary, associate and joint venture are mentioned in Note 1 to these consolidated financial statements.

		Financing provided*	Share in earnings	Purchase of buses	Services provided	Buses Rentals	Amounts owed from related parties
		SR'000	SR'000	SR'000	SR'000	SR'000	SR'000
Joint venture:							
Saudi Emirates Intergrated Transport Company	31 December 2017	-	43,314	-	1,882	5,960	72,537
	31 December 2016	40,000	15,215	-	1,104	-	71,952
	1 January 2016	25,000	12,272	1,178	4,123	-	55,451
Due to non-controlling interests of the subsidiary:							
RATP Development (a French company)	31 December 2017	-	-	-	8,044	-	2,688
	31 December 2016	-	-	-	12,634	-	8,718
	1 January 2016	-	-	-	12,842	-	12,991
RATP Dev Saudi Arabia LLC	31 December 2017	-	-	-	25,844	-	2,191
	31 December 2016	-	-	-	22,318	-	16,197
	1 January 2016	-	-	-	11,852	-	11,852
Total amounts due to non-controlling interests of the subsidiary							
	31 December 2017						4,879
	31 December 2016						24,915
	1 January 2016						24,843

Saudi Public Transport Company and its Subsidiary
(A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
As at 31 December 2017

30 RELATED PARTY TRANSACTIONS AND BALANCES (continued)

Subsidiary, associate and joint venture (continued)

*During 2014, the Company has funded the operations of the Saudi Emirates Integrated Transport Co., Ltd. ("SEITCO") with an amount of SR 30 million. SEITCO is engaged in educational transportation in the Kingdom of Saudi Arabia. SEITCO started its operations during the third quarter of 2014. This amount is not subject to any interest and is repayable within four years effective from July 2015. However, the partners agreed on rescheduling of repayment to be started from January 2017.

During the year, the partners agreed to reschedule the payments starting from the month of April to November of this year. The matter is still under discussion between the partners and repayments will be rescheduled in 2019.

These loans are recorded at fair value based on market rate of interest. The unwinding effect of income on such loans has been taken to the consolidated statement of income.

In addition, during the second quarter of the year ended 31 December 2016, the Company has provided an additional finance amounting to SR 20 million to finance the operation of transportation contracts to government schools. This amount doesn't carry any interest and it will be recovered upon receiving the accruals of SEITCO.

During the third quarter of 2016, the Company has provided an additional finance amounting to SR 20 million to SEITCO. This amount does not carry any interest and it will be recovered upon receiving the accruals of SEITCO.

Compensation of key management personnel of the Group

	2017 SR'000	2016 SR'000
<i>Transactions with key management personnel</i>		
Board and committees expenses, rewards and allowances (Note 8)	4,982	3,136
Compensation of key management personnel of the Group (*)	13,147	13,035
(*) Compensation of key management personnel of the Group as followings:		
	2017 SR'000	2016 SR'000
Short-term employee benefits	12,695	12,606
Post-employment benefits	452	429
Total compensation paid to key management personnel	13,147	13,035

The amounts disclosed in the table are the amounts recognised as an expense during the reporting period related to key management personnel.

Saudi Public Transport Company and its Subsidiary
(A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

As at 31 December 2017

31 SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their operations and has the following reportable segments:

Passenger transport - Includes scheduled transport services which incorporate inter and intra city transport inside and outside the Kingdom of Saudi Arabia, as well as international transport services. It also includes the cargo sector. This is considered the major segment of the Group.

Contracts and leasing - Incorporates transport services as per lease agreements entered into by the Group with third parties, whether government or non-government parties, inside or outside Kingdom of Saudi Arabia. It includes Limo services as well.

Public Transportation Project - Includes the financial results for Public Transportation Group, which is engaged in execution of King Abdul-Aziz Project for Public Transport in Riyadh, as stated in Note 1.

Head Office - Includes the Head Quarter of the Group, financial information attributable to support unit activities.

These operating segments are identified based on internal reports that the entity regularly reviews in allocating resources to segments and in assessing their performance 'management approach'. The management approach is based on the way in which management organises the segments within the entity for making operating decisions and in assessing performance. The management of SAPTCO at the end of every reporting period, reviews the above segments for quantitative thresholds as well as criteria for presenting the revenues and expenses for the segments.

The activities of the Group and its subsidiaries are primarily conducted in the Kingdom of Saudi Arabia.

Inter-segment and inter business units revenues are eliminated upon consolidation and reflected in the "adjustments and eliminations" column.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on net income and is measured consistently with the statement of income in the consolidated financial statements.

Segment reporting is consistent in all periods presented as there are no changes in the structure of the Group's internal organisation that will cause the composition of its reportable segment to change.

Transfer prices between operating segments are on an arm's length basis in a manner similar to transactions with third parties.

The Group has no significant customer that contributes 10.00% or more to the revenue of the Group in 2017 and 2016.

Saudi Public Transport Company and its Subsidiary
(A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

As at 31 December 2017

31 SEGMENT INFORMATION (continued)

The following selected financial data for these segments is as follows:

For the year ended 31 December 2017	Passenger transport	Contracts and leasing	Head Office	Public Transportation Project	Total Segments	Elimination	Consolidated
Total Revenue	678,360	372,440	-	76,730	1,127,530	-	1,127,530
Cost of revenue	(594,910)	(323,716)	-	(57,004)	(975,630)	19,632	(955,998)
Gross profit (loss)	83,450	48,724	-	19,726	151,900	19,632	171,532
Finance income	-	-	3,384	5,889	9,273	-	9,273
Finance costs	-	-	(15,507)	(3,639)	(19,146)	-	(19,146)
Share of profit of joint venture	-	-	43,314	-	43,314	-	43,314
Income before zakat and income tax	81,314	47,654	(37,422)	16,415	107,961	(14,051)	93,910

For the year ended 31 December 2016	Passenger transport	Contracts and leasing	Head Office	Public Transportation Project	Total Segments	Elimination	Consolidated
Total Revenue	745,224	327,409	-	79,008	1,151,641	-	1,151,641
Cost of revenue	(588,543)	(283,496)	-	(56,352)	(928,391)	17,599	(910,792)
Gross profit (loss)	156,681	43,913	-	22,656	223,250	17,599	240,849
Finance income	-	-	2,590	12,619	15,209	-	15,209
Finance costs	-	-	(4,385)	(3,821)	(8,206)	-	(8,206)
Share of profit of joint venture	-	-	15,215	-	15,215	-	15,215
Income before zakat and income tax	160,035	47,076	(68,536)	(8,684)	129,891	13,585	143,476

As at 31 December 2017	Passenger transport	Contracts and leasing	Head Office	Public Transportation Project	Total Segments	Elimination	Consolidated
Total Assets	776,805	724,355	927,861	489,870	2,918,891	(10,229)	2,908,662
Total Liabilities	360,185	276,628	188,773	477,680	1,303,266	(19,819)	1,283,447
Other Information: Property, plant and equipment, net	712,252	616,084	66,204	1,361	1,395,901	-	1,395,901
Investments in an associate and a joint venture	-	-	71,855	-	71,855	-	71,855

As at 31 December 2016	Passenger transport	Contracts and leasing	Head Office	Public Transportation Project	Total Segments	Elimination	Consolidated
Total Assets	711,984	644,233	931,641	514,278	2,802,136	(9,889)	2,792,247
Total Liabilities	301,194	236,012	164,042	500,532	1,201,780	(15,267)	1,186,513
Other Information: Property, plant and equipment, net	646,293	529,580	22,902	22	1,198,797	-	1,198,797
Investments in an associate and a joint venture	-	-	28,541	-	28,541	-	28,541

Saudi Public Transport Company and its Subsidiary
(A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

As at 31 December 2017

31 SEGMENT INFORMATION (continued)

As at 1 January 2016	Passenger transport	Contracts and leasing	Head Office	Public Transportation Project	Total Segments	Elimination	Consolidated
Total Assets	640,151	587,371	895,403	532,776	2,655,701	(13,681)	2,642,020
Total Liabilities	235,786	191,560	189,585	508,966	1,125,897	(13,014)	1,112,883
Other Information:							
Property, plant and equipment, net	568,026	474,429	18,635	28	1,061,118	-	1,061,118
Investments in an associate and a joint venture	-	-	13,326	-	13,326	-	13,326

32 NON-CONTROLLING INTEREST

The summarised financial information attributable to non-controlling interests for the significant subsidiary follows:

	31 December 2017 SR'000	31 December 2016 SR'000	1 January 2016 SR'000
Non-controlling interest %	20%	20%	20%
Assets			
Current assets	480,748	505,677	519,938
Non-current assets	9,122	8,600	9,425
Total assets	489,870	514,277	529,363
liabilities			
Current liabilities	28,259	49,295	43,863
Non-current liabilities	449,421	459,506	471,339
Total liabilities	477,680	508,801	515,202
Revenues	76,730	79,008	
Net income	6,713	(8,684)	
Total comprehensive income	6,713	(8,684)	
Cash flows arising from:			
Operating	(85,202)	(57,433)	
Investing	(219,878)	(101,492)	
	(305,080)	(158,925)	
Share of NCI in net assets	5,522	2,695	
Share of NCI in net income (loss)	2,827	(1,583)	

Saudi Public Transport Company and its Subsidiary
(A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

As at 31 December 2017

33 FINANCIAL INSTRUMENTS - FAIR VALUES

The Group's financial instruments are composed of cash and cash equivalents, investments in Murabaha deposits, trade and other receivables, due from related party, investments in equity instruments designated as at FVOCI, trade and other payables, and Murabaha financing.

Management assessed that the carrying value of fixed and variable rate of Murabaha financing and term loans approximates their fair values due to the fact that they bear interest rates that reflect current market interest rates for similar financing and loans. As a result, the values of the future discounted cash flows on those financing and loans are not significantly different from their current carrying values.

The management assessed that the carrying amounts of the financial assets and liabilities approximate their fair value due to the short-term maturities and demand features except for the following:

Fair value hierarchy

	<i>Carrying value</i>	<i>Fair Value</i>			
	<i>SR'000</i>	<i>Level 1 SR'000</i>	<i>Level 2 SR'000</i>	<i>Level 3 SR'000</i>	<i>Total SR'000</i>
		<i>31 December 2017</i>			
Measured at fair value:					
Investments in equity instruments designated as at FVOCI	117,943	117,943	-	-	117,943
		<i>31 December 2016</i>			
Measured at fair value:					
Investments in equity instruments designated as at FVOCI	114,552	114,552	-	-	114,552
		<i>1 January 2016</i>			
Measured at fair value:					
Investments in equity instruments designated as at FVOCI	107,837	107,837	-	-	107,837

There were no transfers between levels of fair value measurements in 2017 and 2016. No transfers between any levels of the fair value hierarchy took place in the equivalent comparative period.

Saudi Public Transport Company and its Subsidiary
(A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

As at 31 December 2017

34 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The main purpose of the Group's financial instruments is to raise finances for the Group's operations.

The Group's activities expose it to a variety of financial risks that include liquidity risk, market risk, and credit risk. These financial risks are actively managed by the Group's Finance Department under strict policies and guidelines approved by the Board of Directors. The Group's Finance Department actively monitors market conditions with a view to minimising the exposure of the Group to changing market factors while at the same time minimising the volatility of the funding costs of the Group. There were no changes in the policies for managing these risks.

Liquidity risk

Liquidity risk is the risk that the Group will be unable to meet its payment obligations as they fall due. The Group seeks to manage its liquidity risk to be able to meet its operating cash flow requirements, finance capital expenditures and service maturing debts. The Group's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when they are due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

The tables below summarise the maturity profile of the Group's financial assets and financial liabilities as at 31 December based on undiscounted contractual cash flows.

31 December 2017					
	On demand	< 1 year	1 to < 2 years	> 2 years	Total
Financial Liabilities					
Trade and other payables	144,085	14,941	-	-	159,026
Murabaha financing	-	186,574	142,985	28,590	358,149
	144,085	201,515	142,985	28,590	517,175

31 December 2016					
	On demand	< 1 year	1 to < 2 years	> 2 years	Total
Financial Liabilities					
Trade and other payables	77,047	99,369	-	-	176,416
Murabaha financing	137,981	109,392	-	-	247,373
	215,028	208,761	-	-	423,789

1 January 2016					
	On demand	< 1 year	1 to < 2 years	> 2 years	Total
Financial Liabilities					
Trade and other payables	74,726	92,586	-	-	167,312
Murabaha financing	-	69,415	50,161	-	119,576
	74,726	162,001	50,161	-	286,888

Saudi Public Transport Company and its Subsidiary
(A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

As at 31 December 2017

34 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Market risk

Market risk is the risk of loss to future earnings, to fair values or to future cash flows that may result from changes in the price of a financial instrument. The value of a financial instrument may change as a result of changes in equity prices, foreign currency exchange rates and interest rates.

Equity price risk

The Group's listed and unlisted equity securities are susceptible to market-price risk arising from uncertainties about future values of the investment securities. The Group manages the equity price risk through diversification and placing limits on individual and total equity instruments. Reports on the equity portfolio are submitted to the Group's management on a regular basis. The Group's Board of Directors reviews and approves all equity investment decisions.

Investments in equity instruments designated as at FVOCI are subject to price risk due to changes in market values of instruments arising either from factors specific to individual instruments or their issuers or factors affecting all instruments traded in the market. The Group's market risk policy requires it to manage such risks by setting and monitoring objectives and constraints on investments; diversification plan; and limits on investment in each industry or sector.

The analysis below is performed for reasonably possible movements in the market index with all other variables held constant, showing the impact on equity.

	31 December 2017	
	<i>Change in variable</i>	<i>Effect on Equity SR'000</i>
Market Index		
Tadawul	+10%	18,301
	-10%	(14,973)

The percentage of increase and decrease in market price is based on the movement in the The Saudi Stocks Exchange ("Tadawul"). The sensitivity analyses shown above are based on the assumption that the movement in Tadawul composite index will be most likely be limited to an upward or downward fluctuation of 10% in 2017.

The impact of sensitivity of equity prices on the Group's equity already excludes the impact on transactions affecting the consolidated statement of income.

Foreign currency risk

Currency risk is the risk that value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Company is subject to fluctuations in foreign exchange rates in the normal course of its business. The Group uses foreign currencies, mainly US Dollar, and Euro. The Group is not exposed to significant currency risk with respect to US Dollar as the Saudi Riyal is pegged to the US Dollar and transactions denominated in other currencies are not considered to represent significant currency risk. However, the Euro is subject to fluctuations exchange higher than US Dollar.

No sensitivity for foreign currency risk is presented due to its minimal effect on the financial statements.

Credit risk

Credit risk is the risk that one party will fail to discharge an obligation and will cause the other party to incur a financial loss. The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer which the Group seeks to manage its credit risk with respect to customers by setting credit limits for individual customers and by monitoring outstanding receivables. However, management also considers the factors that may influence the credit risk of its customer base, including the default risk associated with the industry and country in which customers operate. Owing to nature of Group's business, significant portion of revenue is collected in cash due to which the Group is not significantly exposed to credit risks.

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. At the consolidated balance sheet date, no significant concentrations of credit risk were identified by management, except for transactions with government institutions.

Saudi Public Transport Company and its Subsidiary
(A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
As at 31 December 2017

34 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

The analysis of financial assets that were past due but not impaired follows:

	Total SR'000	< 90 days SR'000	90 to < 1 year SR'000	1 year to < 2 years SR'000	> 2 year SR'000
31 December 2017	116,853	43,900	60,661	5,605	6,687
31 December 2016	133,050	35,882	83,486	8,432	5,250
1 January 2016	108,227	54,093	44,576	3,345	6,213

The credit quality of the financial assets was determined as follows:

Cash and cash equivalent and investments in Murabaha deposits – These assets have high grade quality since these are deposited with credit worthy banks.

Trade and other receivables - High grade pertains to receivables with no default in payment; medium grade pertains to receivables with up to 3 defaults in payment and low grade pertains to receivables with more than 3 defaults in payment. All receivables of the Company classified either past due nor impaired in the table above are graded “high”

The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets.

Capital management

The Group's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. Management monitors the return on capital, as well as the level of dividends to ordinary shareholders.

No changes were made in the Group's objectives, policies or processes for the year ended 31 December 2017 and 2016.

The Company has no externally imposed capital requirements as of 31 December 2017 and 2016.

35 CAPITAL COMMITMENTS AND CONTINGENCIES

A) Contingencies

As at 31 December 2017, the Group's bankers have issued, on its behalf during the normal course of business, guarantees and acceptances limited to SR 821.8 million (31 December 2016: SR 800 million, 1 January 2016: SR 805.9 million).

B) Capital commitments

The Group also has capital commitments of SR 112 million to purchase 197 new buses and are expected to be delivered during the year 2018.

C) Operating leases

Group as lessee

The initial lease period usually ranges from one to five years, with the option to renew the lease after that period.

(1) The future value of the minimum lease payments

The following is an analysis of the minimum rent payable under non-cancellable operating leases:

	31 December 2017 SR'000	31 December 2016 SR'000	1 January 2016 SR'000
Less than one year	11,637	12,000	7,488
Between two to five years	13,707	20,100	14,075
More than five years	7,350	12,600	8,400
	32,694	44,700	29,963

Saudi Public Transport Company and its Subsidiary
(A Saudi Joint Stock Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

As at 31 December 2017

35 CAPITAL COMMITMENTS AND CONTINGENCIES (continued)

(2) The recognised amounts in the consolidated income statement:

	2017 SR'000	2016 SR'000
Rent expenses	22,189	21,651

36 DIVIDENDS

On 12 Jumada Al-Ula 1439H (corresponding to 29 January 2018), the Board of Directors' recommended to distribute cash dividends amounted to SR 62.5 million (SR 0.50 per share) for the financial year 2017 and this recommendation needs to be presented to the General Assembly of the Company for approval.

The Ordinary General Assembly approved in its meeting held on 28 Jumada Al-Thani 1438H (Corresponding to 27 March 2017) the Board of Directors' recommendation to distribute cash dividends amounting SR 62.5 million (SR 0.50 per share) for the financial year 2016 and the payment of Board of Directors' remuneration of SR 1.8 million

The Ordinary General Assembly approved in its meeting held on 4 Rajab 1437H (corresponding to 11 April 2016) the Board of Directors' recommendation to distribute cash dividends amounting to SR 62.5 million (SR 0.50 per share) for the financial year 2015 and the payment of Board of Directors' remuneration of SR 1.8 million.

37 APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

These consolidated financial statements were approved and authorised to issue by the Board of Directors on 9 Rajab 1439H (corresponding to 26 March 2018).

38 EVENTS AFTER THE REPORTING PERIOD

In the opinion of the management, there have been no significant subsequent events since the year-end that would have a material impact on the consolidated financial position of the Group as reflected in these consolidated financial statements.