

SAUDI GROUND SERVICES COMPANY
(A Saudi Joint Stock Company)

**CONDENSED INTERIM FINANCIAL
STATEMENTS AND REVIEW REPORT**

For the three-months period ended 31 March 2018

SAUDI GROUND SERVICES COMPANY
(A Saudi Joint Stock Company)

CONDENSED INTERIM FINANCIAL STATEMENTS
For the three-months period ended 31 March 2018

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Independent Auditors' Report on Review of Condensed Interim Financial Statements

To the Shareholders of
Saudi Ground Services Company
(A Saudi Joint Stock Company)
Jeddah, Kingdom of Saudi Arabia

Introduction

We have reviewed the accompanying 31 March 2018 condensed interim financial statements of Saudi Ground Services Company ("the Company"), which comprises:

- the condensed interim statement of financial position as at 31 March 2018;
- the condensed interim statement of profit or loss and other comprehensive income for the three-months period ended 31 March 2018;
- the condensed interim statement of changes in equity for the three-months period ended 31 March 2018;
- the condensed interim statement of cash flows for the three-months period ended 31 March 2018; and
- the notes to the condensed interim financial statements.

Management is responsible for the preparation and presentation of these condensed interim financial statements in accordance with IAS 34, "Interim Financial Reporting" that is endorsed in the Kingdom of Saudi Arabia. Our responsibility is to express a conclusion on these condensed interim financial statements based on our review.

Scope of review

We conducted our review in accordance with the International Standard on Review Engagements 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' that is endorsed in the Kingdom of Saudi Arabia. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia, and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.



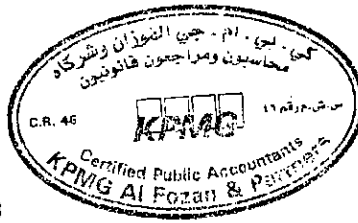
Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying 31 March 2018 condensed interim financial statements of **Saudi Ground Services Company** is not prepared, in all material respects, in accordance with IAS 34, "Interim Financial Reporting" that is endorsed in the Kingdom of Saudi Arabia.

For KPMG Al Fozan & Partners
Certified Public Accountants

Ebrahim Oboud Baeshen
License No. 382

Shaban 22, 1439H
Corresponding to May 8, 2018



SAUDI GROUND SERVICES COMPANY
(A Saudi Joint Stock Company)

CONDENSED STATEMENT OF FINANCIAL POSITION


As at 31 March 2018

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

	Notes	31 March 2018 (Unaudited)	31 December 2017 (Audited)
ASSETS			
Property and equipment		650,574	615,791
Intangible assets and goodwill	5	881,468	887,324
Equity-accounted investee	6	124,780	121,780
Prepayments and other receivables		5,831	5,961
Non-current assets		1,662,653	1,630,856
Trade receivables	7	1,030,482	1,060,362
Investments at FVTPL		1,019,234	655,804
Prepayments and other receivables		245,578	390,393
Cash and cash equivalents		10,603	36,363
Current assets		2,305,897	2,142,922
Total assets		3,968,550	3,773,778
EQUITY			
Share capital	8	1,880,000	1,880,000
Statutory reserve	9	430,513	419,847
Retained earnings		668,210	572,218
Total equity		2,978,723	2,872,065
LIABILITIES			
Employee benefits	11	445,745	432,280
Non-current liability		445,745	432,280
Trade payables		67,174	67,748
Other payables		403,070	336,097
Accrued Zakat		73,838	65,588
Current liabilities		544,082	469,433
Total liabilities		989,827	901,713
Total equity and liabilities		3,968,550	3,773,778


Chief Financial Officer


Chief Executive Officer


Chairman

The notes on pages from 7 to 38 form an integral part of these condensed interim financial statements.


SAUDI GROUND SERVICES COMPANY
(A Saudi Joint Stock Company)

CONDENSED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the three-months period ended 31 March 2018

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

	<u>Note</u>	<u>31 March 2018</u> (Unaudited)	<u>31 March 2017</u> (Unaudited)
Revenue		621,812	643,785
Operating costs		<u>(440,993)</u>	<u>(421,123)</u>
Gross profit		180,819	222,662
Administrative expenses		<u>(73,888)</u>	<u>(73,489)</u>
Operating profit		106,931	149,173
Finance income - net		4,028	6,461
Share of profit of equity accounted investee		3,000	6,000
Other income		949	2,482
Profit before Zakat		114,908	164,116
Zakat expense		<u>(8,250)</u>	<u>(9,000)</u>
Profit for the period		106,658	155,116
Other comprehensive income		<u>-</u>	<u>-</u>
Total comprehensive income for the period		106,658	155,116
Earnings per share:			
Basic and diluted earnings per share	10	<u>0.57</u>	<u>0.83</u>


Chief Financial Officer


Chief Executive Officer


Chairman

The notes on pages from 7 to 38 form an integral part of these condensed interim financial statements.

SAUDI GROUND SERVICES COMPANY
(A Saudi Joint Stock Company)

CONDENSED STATEMENT OF CHANGES IN EQUITY
For the three-months period ended 31 March 2018
(Expressed in thousands of Saudi Arabian Riyal, unless otherwise stated)

	<u>Share capital</u>	<u>Statutory reserve</u>	<u>Retained earnings</u>	<u>Total Equity</u>
Balance at 1 January 2017 (Audited)	1,880,000	369,697	727,014	2,976,711
<u>Total comprehensive income:</u>				
Profit for the period	--	--	155,116	155,116
<u>Transactions with owners of the Company:</u>				
Dividend	--	--	(244,400)	(244,400)
<u>Other transactions:</u>				
Transfer to statutory reserve	--	15,512	(15,512)	--
Balance at 31 March 2017 (Unaudited)	1,880,000	385,209	622,218	2,887,427
Balance at 1 January 2018 (Audited)	1,880,000	419,847	572,218	2,872,065
<u>Total comprehensive income:</u>				
Profit for the period	--	--	106,658	106,658
<u>Other transactions:</u>				
Transfer to statutory reserve	--	10,666	(10,666)	--
Balance at 31 March 2018 (Unaudited)	1,880,000	430,513	668,210	2,978,723


Chief Financial Officer


Chief Executive Officer


Chairman

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SAUDI GROUND SERVICES COMPANY
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CONDENSED STATEMENT OF CASH FLOWS

For the three-months period ended 31 March 2018

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

	Notes	31 March 2018 (Unaudited)	31 March 2017 (Unaudited)
Cash flows from operating activities			
Profit before Zakat		114,908	164,115
<u>Adjustments for:</u>			
Depreciation		27,700	22,994
Amortization	5	5,856	5,856
Share of profit of equity accounted investee	6	(3,000)	(6,000)
Gain on disposal of property and equipment		--	(5)
Impairment loss on trade receivables	7	14,397	11,329
Unrealized/realized gain on investments at FVTPL		(3,430)	(3,749)
		<u>156,431</u>	<u>194,540</u>
<u>Changes in:</u>			
Trade receivables		15,483	(63,910)
Prepayments and other receivables		144,945	(41,274)
Trade payables		(574)	14,789
Other payables		66,973	40,840
Employee benefits		13,465	13,771
Net cash generated from operating activities		<u>396,723</u>	<u>158,756</u>
Cash flows from investing activities:			
Proceeds from disposal of property and equipment		--	14
Acquisition of property and equipment		(62,483)	(14,571)
Proceeds from disposal of investments at FVTPL		240,000	140,000
Short term bank deposits realized		--	404,821
Acquisition of investments at FVTPL		(600,000)	(522,007)
Net cash (used in) / generated from investing activities		<u>(422,483)</u>	<u>8,257</u>
Cash flows from financing activities:			
Dividends paid		--	(244,400)
Cash used in financing activities		<u>--</u>	<u>(244,400)</u>
Net decrease in cash and cash equivalents		<u>(25,760)</u>	<u>(77,387)</u>
Cash and cash equivalents at beginning of the period		<u>36,363</u>	<u>97,804</u>
Cash and cash equivalents at the end of the period		<u>10,603</u>	<u>20,417</u>


Chief Financial Officer

 
Chief Executive Officer Chairman

The notes on pages from 7 to 38 form an integral part of these condensed interim financial statements.

SAUDI GROUND SERVICES COMPANY
(A Saudi Joint Stock Company)

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

For the period ended 31 March 2018

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

1. REPORTING ENTITY

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

SAUDI GROUND SERVICES COMPANY
(A Saudi Joint Stock Company)

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

For the period ended 31 March 2018

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

2. BASIS OF PREPARATION

2.1 Statement of compliance

These condensed interim financial statements have been prepared in accordance with IAS 34 "Interim Financial Reporting" that is endorsed in Kingdom of Saudi Arabia and other standards and pronouncements that are issued by Saudi Organization for Certified Public Accountants ("SOCPA") and should be read in conjunction with the Company's last annual Financial Statements as at and for the year ended 31 December 2017 ("last annual Financial Statements").

The accounting policies and principles applied in these condensed interim financial statements are consistent with annual financial statements issued in December 2017. They do not include all of the information required for a complete set of IFRS Financial Statements however, accounting policies and selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the Company's financial position and performance since the last annual Financial Statements.

This is the first set of Condensed Financial Statements where IFRS 15 "Revenue from Contracts with Customers" and IFRS 9 "Financial Instruments" have been applied.

2.2 Basis of measurement

The financial statements has been prepared under the historical cost basis except except for mutual funds which are at fair value and employee benefits which are recognised at the present value of future obligation using the Projected Unit Credit Method, using the accrual basis of accounting and the going concern concept.

2.3 Functional and presentation currency

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

2.4 Use of estimates and judgments

In preparing these condensed interim financial statements, management has made judgments, estimates and assumptions that affect the application of the Company's accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognized prospectively.

i) Judgments

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

- a) Note 3 (c) - whether the Company exercises joint control over an investee
- b) Note 3 (i) - lease classification

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NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

For the period ended 31 March 2018

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

2. BASIS OF PREPARATION (continued)

2.4 Use of estimates and judgments (continued)

ii) Assumptions and estimation uncertainties

Information about assumptions and estimation uncertainties is included in the following notes:

- a) Note 3 (f) - impairment in financial and non-financial assets.
- b) Note 3 (l) - measurement of defined benefit obligations
- c) Note 3 (g) - useful lives and residual values of property and equipment
- d) Note 3 (h) - useful lives and residual values of intangible assets
- e) Note 3 (n) - revenue recognition

Going concern

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

3. SIGNIFICANT ACCOUNTING POLICIES

The Company has adopted IFRS 15 Revenue from Contracts with Customers (note 15 a) and IFRS 9 Financial Instruments (15 b) from 1 January 2018.

The effect of initially applying these standards is mainly attributed to the increase in impairment losses recognized on financial assets (note 15 b)

(a) Business combinations

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

(b) Business combination under common control

Business combinations including entities or businesses under common control are accounted for using book value accounting and measured at book value. The assets and liabilities acquired are recognized at the carrying amounts as transferred from the parent company's books of accounts. The components of equity of the acquired entities are added to the same components within the Company's equity and any gain / (loss) arising is recognized directly in equity.

SAUDI GROUND SERVICES COMPANY
(A Saudi Joint Stock Company)

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

For the period ended 31 March 2018

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

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Investments in jointly controlled entity ("equity-accounted investee")

The Company's interest in equity-accounted investee comprise interest in a joint venture.

A joint venture is an arrangement in which the Company has joint control whereby the Company has rights to the net assets of the arrangement, rather than rights to its assets and obligations for its liabilities.

Investments in joint ventures are accounted for using the equity method and are recognized initially at cost, which includes transaction costs. The Company's investment includes goodwill identified on acquisition, net of any accumulated impairment losses. The interim financial statements include the Company's share of the income and expenses and equity movements of equity accounted investees, after adjustments to align the accounting policies with those of the Company, from the date that significant influence commences until the date that significant influence ceases.

When the Company's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest, including any long-term investments, is reduced to nil, and the recognition of further losses is discontinued except to the extent that the Company has a corresponding obligation.

(d) Foreign currency

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

(e) IFRS 9 – Financial instruments

The Company has applied IFRS 9 Financial Instruments in accounting for financial assets and financial liabilities. IFRS 9 has brought certain changes in classification of financial assets that reflects the business model in which assets are managed and their cash flow characteristics. Further, IFRS 9 replaces the incurred loss model with a forward-looking expected credit loss (ECL) model. This model will require considerable judgement as to how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis. This has been further explained in note 3E below."

SAUDI GROUND SERVICES COMPANY
(A Saudi Joint Stock Company)

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

For the period ended 31 March 2018

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

3 SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) IFRS 9 – Financial instruments (continued)

Financial Assets

a) Recognition and initial measurement:

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

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

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

b) Classification and subsequent measurement:

On initial recognition, a financial asset is classified as measured at

- amortised cost;
- Fair value through other comprehensive income (FVOCI) – debt investment;
- FVOCI – equity investment; or
- Fair value through profit or loss (FVTPL)

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

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

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

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

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

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

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NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

For the period ended 31 March 2018

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) IFRS 9 – Financial instruments (continued)

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

Financial assets: Business model assessment

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

Subsequent measurement and gains and losses

Financial assets at FVTPL	These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognised in profit or loss.
Financial assets at amortised cost	These assets are subsequently measured at amortised cost using the effective interest method. The amortised cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on de-recognition is recognised in profit or loss.
Debt investments at FVOCI	These assets are subsequently measured at fair value. Interest income under the effective interest method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other net gains and losses are recognised in OCI. On de-recognition, gains and losses accumulated in OCI are reclassified to profit or loss.
Equity investments at FVOCI	These assets are subsequently measured at fair value. Dividends are recognised as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognised in OCI and are not reclassified to profit or loss.

Financial liabilities: Classification, subsequent measurement and gains and losses

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

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

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NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

For the period ended 31 March 2018

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) IFRS 9 – Financial instruments (continued)

De-recognition

Financial assets

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

Financial liabilities

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

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

Offsetting of financial instruments

Financial asset and financial liability are offset and the net amount presented in the statement of financial position when, and only when the Company:

- currently has a legally enforceable right to set off the recognized amounts; and
- intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

Measurement of ECLs

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

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NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

For the period ended 31 March 2018

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Impairment

Credit-impaired financial assets

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

Presentation of impairment

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets. Impairment losses related to trade receivables are presented separately in the condensed consolidated statement of profit or loss and other comprehensive income. The Company recognizes loss allowances for expected credit losses ("ECL") representing "12 months ECL" or "lifetime ECL" on financial assets that are in the nature of debt instruments that are not measured at fair value through profit or loss. The Company measures loss allowances at an amount equal to lifetime ECL, except for financial instruments that are determined to have low credit risk at the reporting date or on which credit risk has not increased significantly since their initial recognition. Loss allowance for trade and other receivables are measured at an amount equal to lifetime ECL. 12 months ECL are the portion of ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date.

ECL are a probability weighted estimate of credit losses and are estimated with reference to loss norms as well as probability of defaults and loss given default percentages where available. ECL for specifically identified significant credit impaired receivables is computed as the difference between the gross carrying amount and the present value of estimated future cash flows, to the extent that corresponding information is reliably available. At each reporting date, the Company assesses whether a financial asset is credit impaired, which includes assessment of factors such as:

- Significant financial difficulty or bankruptcy of counterparty
- Breach of terms of agreement

Transition

The Company has taken an exemption not to restate comparative information for prior periods with respect to classification and measurement (including impairment) requirements. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 are not recognised in retained earnings as at 1 January 2018 as amount was not material.

Accordingly, the information presented for 2017 does not generally reflect the requirements of IFRS 9 but rather those of IAS 39.

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

- The determination of the business model within which a financial asset is held.
- The designation and revocation of previous designations of certain financial assets.
- The designation of investments held for trading as at FVOCI.

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(A Saudi Joint Stock Company)

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

For the period ended 31 March 2018

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Impairment (continued)

Trade and other receivables are written off when there is no realistic prospect of recovery.

Non-financial assets

The carrying amounts of the Company's non-financial assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

Impairment exists when the carrying value of an asset or cash generating unit ("CGU") exceeds the recoverable amount, which is the higher of the fair value less costs to sell and value in use. The fair value less costs to sell is arrived based on available data from binding sales transactions at arm's length, for similar assets. The value in use is based on a discounted cash flow (DCF) model, whereby the future expected cash flows discounted using a pre-tax discount rate that reflects current market assessments of the time value of money and risks specific to the asset.

Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis.

(g) Property and equipment

Recognition and measurement

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

Cost includes purchase price and any costs directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. The cost of self-constructed assets includes the cost of materials and direct labor and any other costs directly attributable to bringing the assets to a working condition for their intended use.

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

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

Subsequent costs

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

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Property and equipment (continued)

Depreciation

Depreciation represents the systematic allocation of the depreciable amount of an asset over its estimated useful life. Depreciable amount represents cost of an asset, or other amount substituted for cost, less its residual value. Depreciation is recognized in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property and equipment.

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

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

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

(h) Intangible assets and goodwill

Recognition and measurement

i) Goodwill

Goodwill arising on business combinations is measured at cost less accumulated impairment losses.

ii) Other intangible assets

Other intangible assets represent the customer contracts and customer relationships acquired by the Company and have finite useful lives. These are measured at cost less accumulated amortization and any accumulated impairment losses.

Subsequent expenditure

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

Amortization

Amortization is calculated to write off the cost of intangible assets using the straight line method over their estimated useful lives, and is recognized in profit or loss. Goodwill is not amortized.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Intangible assets (continued)

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

	<u>Years</u>
Customer contracts	3-5
Customer relationships	20

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

(i) Leases

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

Operating leases

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

Lease payments

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

(j) Cash and cash equivalents

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

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Segment reporting

A segment is a distinguishable component of the Company that is engaged in providing products or services, which is subject to risks and rewards that are different from those of other segments. The Company's primary format for segmental reporting is based on business segments. The business segments are determined based on the Company's management and internal reporting structure. The Company is principally involved in providing ground handling services to airlines in the Kingdom of Saudi Arabia. Accordingly, the management believes that, the Company's business activity falls within a single business segment which are subject to similar risks and returns.

(l) Employee benefits

Short-term employee benefits

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

Long-term employee benefits

i) Defined benefit plans

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

ii) Other long-term employee benefits

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

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) Employee benefits (continued)

iii) Termination benefits

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

(m) Provisions

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

(n) Revenue recognition

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

(i) Revenue from contracts with customers

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

Step 1. Identify the contract(s) with a customer:

A contract is defined as an agreement between two or more parties that creates enforceable rights and obligations and sets out the criteria for every contract that must be met.

Step 2. Identify the performance obligations in the contract:

A performance obligation is a promise in a contract with a customer to transfer a good or service to the customer.

Step 3. Determine the transaction price:

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

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) Revenue recognition (continued)

(i) Revenue from contracts with customers (continued)

Step 4. Allocate the transaction price to the performance obligations in the contract:

For a contract that has more than one performance obligation, the Company will allocate the transaction price to each performance obligation in an amount that depicts the amount of consideration to which the Company expects to be entitled in exchange for satisfying each performance obligation.

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

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

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

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

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

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

ii) Aircraft ground handling services

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

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

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) Revenue recognition (continued)

iii) Income from other services

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

(o) Finance income and finance costs

Finance income mainly includes dividend income, foreign currency gains, realized/unrealized gain on fair valuation of investment at FVTPL and unwinding of the discounts on loans and other financial assets.

Finance costs mainly include impairment losses recognized on financial assets (other than trade receivables) and foreign currency losses. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognized in profit or loss using the effective interest method.

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

(p) Zakat

The Company is subject to Zakat in accordance with the Zakat regulation issued by the General Authority of Zakat and Tax ("GAZT") in the Kingdom of Saudi Arabia which is subject to interpretations. Zakat is recognized in the statement of profit or loss and other comprehensive income. Zakat is levied at a fixed rate of 2.5% of the zakat base as defined in the Zakat regulations.

The Company's management establishes provisions where appropriate on the basis of amounts expected to be paid to the GAZT and periodically evaluates positions taken in the Zakat returns with respect to situations in which applicable Zakat regulation is subject to interpretation.

(q) Expenses

i) Operating expenses

Operating expenses represents all expenses directly attributable or incidental to the core operating activities of the Company including but not limited to: depreciation of fixed assets, amortization of intangible assets, directly attributable employee related costs, rents etc.

ii) General and administrative expenses

All expenses other than operating expenses, finance income and finance costs are classified as general and administrative expenses. Allocation of common expenses between operating expenses and general and administrative expenses, where required, is made on a reasonable basis with regards to the nature and circumstances of the common expenses.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(r) Dividend

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

4. BUSINESS COMBINATIONS

As stated in note 1, the Company had the following acquisitions during 2011:

i) Ground Support Services Division of Saudia

On 7 February 2010, Saudia and the Company had entered into a Sale and Purchase Agreement (SPA) for the GSS business unit (SBU) of Saudia.

The assets and liabilities transferred by Saudia, as presented in an independent assessment and shares issued as consideration are summarized as follows:

	(SR "000)
Net identifiable assets (at book value)	130,106
Purchase consideration in the form of Company's shares issued	(665,152)
Excess consideration transferred	(535,046)

As the GSS division was previously 100% owned by Saudia and the Company was also 75% owned by Saudia on the SPA date, therefore Saudia owned and controlled the GSS division before this transaction and will continue to control the Company after this transaction. Under IFRS 3, if a new entity (such as the Company) is formed to issue equity interests to effect a business combination, one of the combining entities that existed before the business combination shall be identified as the acquirer. Since Saudia is the largest shareholder in terms of size and business value and the transaction involved economic substance from the perspective of the reporting entity, the management has identified Saudia as the acquirer in this transaction and adopted "book value accounting". Accordingly, the net assets transferred from Saudia are recorded by the Company at their book values and no separate goodwill and intangibles are recognized by the Company as part of this transaction. Consequently, excess consideration transferred is presented within equity.

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4. BUSINESS COMBINATIONS (continued)

ii) National Handling Services Company Limited (NHS)

On 7 February 2010, the Company entered into a Sale and Purchase Agreement (SPA) with the shareholders of NHS for the acquisition of the entire capital of NHS in consideration of the Company's shares. As the principal shareholder of the NHS and pursuant to the Transfer of Operations Agreement ("the Agreement"), the Company resolved to transfer the commercial activities of NHS to the Company. Consequently the assets and liabilities of the NHS were transferred to the Company at 1 January 2011 along with the business operations.

(SR "000)

Net identifiable assets at fair value	110,396
Goodwill (note 5)	519,164
Intangible assets (note 5)	545,441
Total assets	<u>1,175,001</u>
Fair value of consideration	<u>1,175,001</u>

iii) Attar Ground Handling / Attar Travel (Attar)

On 7 February 2010, the Company entered into Sale and Purchase Agreement (SPA) for the acquisition of ground handling business of Attar in consideration of the Company's shares.

The assets, liabilities, intangible assets and goodwill recorded in the books of account of the Company including purchase consideration was as follows:

(SR "000)

Net identifiable assets	29,135
Goodwill (note 5)	63,652
Intangible assets (note 5)	76,213
Total assets	<u>169,000</u>
Fair value of consideration	<u>169,000</u>

An independent purchase price allocation assessment was conducted in 2011 by an independent professional firm and the fair value of equity issued by the Company to NHS and Attar was considered equivalent to the fair value of ground handling business acquired from NHS and Attar.

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5. INTANGIBLE ASSETS AND GOODWILL

Reconciliation of carrying amount:

	<u>Goodwill</u>	<u>Customer contracts</u>	<u>Customer relationships</u>	<u>Total</u>
Cost:				
Balance at 31 December 2017 and 31 March 2018	582,816	153,179	468,475	1,204,470
Accumulated amortization:				
Balance at 1 January 2017	--	153,179	140,543	293,722
Amortization for the year	--	--	23,424	23,424
Balance at 31 December 2017	--	153,179	163,967	317,146
Balance at 1 January 2018	--	153,179	163,967	317,146
Amortization for the period	--	--	5,856	5,856
Balance at 31 March 2018	--	153,179	169,823	323,002
Carrying amounts				
At 31 March 2018 (Unaudited)	582,816	--	298,652	881,468
At 31 December 2017 (Audited)	582,816	--	304,508	887,324

5.1 Details regarding initial recognition of intangible assets and goodwill are explained in note 4.

6. EQUITY ACCOUNTED INVESTEE

- a) Saudi Amad for Airport Services and Transport Support Company ("SAAS") is a joint venture in which the Company has a joint control represented by 50% ownership interest. SAAS is one of the Company's strategic supplier and is principally engaged in providing transportation services for passengers and crew in the Kingdom of Saudi Arabia.

SAAS is structured as a separate vehicle and the Company has rights to the net assets of SAAS. Accordingly, the Company has classified its interest in SAAS as a joint venture. The investment in SAAS as at 31 March 2018 is as follows:

<u>Name</u>	<u>Country of incorporation</u>	<u>Effective ownership interest (%)</u>		<u>Carrying value</u>	
		<u>31 March 2018</u>	<u>31 December 2017</u>	<u>31 March 2018</u>	<u>31 December 2017</u>
SAAS	Kingdom of Saudi Arabia	50%	50%	124,780	121,780

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6. EQUITY ACCOUNTED INVESTEE (continued)

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

	31 March 2018	31 December 2017
Opening balance	121,780	98,337
Share of net income for the period / year	<u>3,000</u>	<u>23,443</u>
Closing balance (note 6 c)	<u>124,780</u>	<u>121,780</u>

c) These numbers are based upon the management accounts of the joint venture for the three-months period ended March 31, 2018.

7. TRADE RECEIVABLES

	31 March 2018	31 December 2017
Trade receivables due from related parties (note 12(a))	692,313	785,208
Other trade receivables	<u>461,561</u>	<u>384,149</u>
	1,153,874	1,169,357
Less: allowance for impairment losses	<u>(123,392)</u>	<u>(108,995)</u>
	<u>1,030,482</u>	<u>1,060,362</u>

The movement in impairment losses is as follows:

	31 March 2018	31 December 2017
Opening balance	108,995	118,331
Charge for the period/ year	14,397	130,250
Allowance written off	<u>--</u>	<u>(139,586)</u>
Closing balance	<u>123,392</u>	<u>108,995</u>

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7. TRADE RECEIVABLES (continued)

Impairment losses are allocated as follows:

	31 March 2018	31 December 2017
Impairment-individually significant customers	67,780	58,780
Insufficient customers on collective basis	55,612	50,215
	123,392	108,995

8. SHARE CAPITAL

At 31 March 2018, the authorized, issued and paid up share capital of SR 1,880 million consists of 188 million fully paid shares of SR 10 each (31 December 2017: SR 1,880 million consist of 188 million shares of SR 10 each).

	31 March 2018			31 December 2017		
	Number of shares	%	Amount	Number of shares	%	Amount
Founding share holders	131,600,000	70	1,316,000	131,600,000	70	1,316,000
General public	56,400,000	30	564,000	56,400,000	30	564,000
Total	188,000,000	100	1,880,000	188,000,000	100	1,880,000

9. STATUTORY RESERVE

In accordance with the Company's byelaws, the Company sets aside 10% of its comprehensive income in each year to a statutory reserve until such reserve equals to 30% of the share capital. This reserve is not available for distribution.

10. EARNINGS PER SHARE

Basic earnings per share for the three-months period ended 31 March 2018 and 31 March 2017 has been computed by dividing the profit for the period attributable to the ordinary shareholders of the Company for such period by the weighted average number of shares in issue outstanding during the period. The calculation of diluted earnings per share ('EPS') is not applicable to the Company. In addition, no separate earnings per share calculation from continuing operations has been presented since there were no discontinued operations during both the periods presented.

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11. EMPLOYEES' BENEFITS

a) General Description of the plan

The Company operates an approved unfunded employees' end of service benefits scheme / plan for its permanent employees as required by the Saudi Arabian Labour law.

The amount recognized in the statement of financial position is determined as follows:

	31 March 2018	31 December 2017
Present value of defined benefit obligation	<u>445,745</u>	<u>432,280</u>

b) Movement in net defined benefit liability

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

	3 Months period ended 31 March 2018	Year ended 31 December 2017
Balance at beginning of period / year	432,280	383,230
<i>Included in profit or loss</i>		
Current service cost	13,136	51,764
Interest cost	4,512	18,746
	17,648	70,510
<i>Included in other comprehensive income</i>		
Actuarial gain	--	(4,854)
Benefits paid	<u>(4,183)</u>	<u>(16,606)</u>
Balance at end of period / year	<u>445,745</u>	<u>432,280</u>

- c) As described in accounting policy note 3 (l) the valuation for end of service liability is prepared by an independent external firm of actuaries using the following key assumptions as at 31 December 2017.

Key assumptions	31 March 2018	31 December 2017
Discount rate	4.35%	4.35%
Future salary growth / Expected rate of salary increase	4.5%	4.5%
Mortality rate	0.1%	0.1%
Employee turnover / withdrawal rates	9.5%	9.5%
Retirement age	60 years	60 years

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12. RELATED PARTY TRANSACTIONS AND BALANCES

The Company, in the normal course of business, enters into transactions with other entities that fall within the definition of a related party contained in International Accounting Standard 24. These transactions are carried out at terms agreed with the related parties:

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

Name	Relationship	Nature of transactions	Amount of transactions for the period ended		Closing balances	
			31 March 2018	31 March 2017	31 March 2018	31 December 2017
Saudi Arabian Airlines Corporation	Parent Company	Services provided	310,784	322,366	383,422	515,971
National Air Services	Affiliate	Services provided	57,779	60,300	175,065	153,832
Saudi Airlines – Cargo Company Limited	Affiliate	Services provided	4,230	5,009	34,134	29,904
Saudi Aerospace Engineering Industries	Affiliate	Services provided	411	50	908	497
Saudi Airlines Catering	Affiliate	Services provided	45	48	347	300
Saudi Private Aviation	Affiliate	Services provided	3,321	5,084	39,061	35,740
Royal Fleet Services	Affiliate	Services provided	11,944	4,862	42,662	43,880
National Aviation Ground Support	Affiliate	Services provided	7	6	5	2
Saudia Holding Company	Affiliate	Services provided	--	--	1,569	--
Fly adcal	Affiliate	Services provided	11,293	--	15,140	5,082
					<u>692,313</u>	<u>785,208</u>

The Company's revenues derived from services rendered to Saudi Arabian Airlines Corporation ("Saudia") amounted to approximately 55% (2017: 49%) of the total revenue.

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12. RELATED PARTY (continued)

(b) Due from related parties - under prepayments and other receivables

<u>Name</u>	<u>Relationship</u>	<u>Nature of transactions</u>	<u>Amount of transactions for the period ended</u>		<u>Closing balances</u>	
			<u>31 March 2018</u>	<u>31 March 2017</u>	<u>31 March 2018</u>	<u>31 December 2017</u>
Saudia Arabian Airlines Corporation	Parent Company	Recharge of seconded staff cost	58,793	72,531	138,387	267,005
Saudi Aerospace Engineering Industries	Affiliate	Expenses incurred	356	356	--	--
Saudi Amad for Airport Services and Transport Support Company	Joint Venture	Manpower & Operational Services	559	682	21,423	18,740
Attar Travels	Affiliate	Recharge of expenses	--	--	584	584
					<u>160,394</u>	<u>286,329</u>

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12. RELATED PARTY (continued)

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

<u>Name</u>	<u>Relationship</u>	<u>Nature of transactions</u>	<u>Amount of transactions for the period ended</u>		<u>Closing balances</u>	
			<u>31 March 2018</u>	<u>31 March 2017</u>	<u>31 March 2018</u>	<u>31 December 2017</u>
Saudi Arabian Airlines Corporation	Parent Company	Expenses incurred on behalf of company	4,454	4,627	15,253	15,253
Saudi Airlines Catering	Affiliate	Expenses incurred on behalf of company	8,141	1,499	6,885	4,811
Saudia Aerospace Engineering Industries	Affiliate	Expenses incurred on behalf of company	20,250	20,276	31,780	21,689
Saudi Amad for Airport Services and Transport Support Company	Joint venture	Expenses incurred on behalf of company	2,139	1,500	182	5,982
Saudi Airlines Real Estate Developers	Affiliate	Expenses incurred	219	270	76	76
Saudia Airlines Cargo Limited	Affiliate	Services	--	89	224	224
					<u>54,400</u>	<u>48,035</u>

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12. RELATED PARTY (continued)

(d) Due to related parties – under other payables:

<u>Name</u>	<u>Relationship</u>	<u>Nature of transactions</u>	<u>Amount of transactions for the period ended</u>		<u>Closing balances</u>	
			<u>31 March 2018</u>	<u>31 March 2017</u>	<u>31 March 2018</u>	<u>31 December 2017</u>
Saudi Arabian Airlines Corporation	Parent Company	Saudia staff pension	11,634	16,446	78,660	67,882
Saudi Amad for Airport Services and Transport Support Company	Joint venture	Payment received on behalf of the company	14,621	7,100	33,437	29,388
Saudi Airlines Catering Company	Affiliate	Services received	--	--	16,543	11,112
Saudi Aerospace Engineering Industries	Affiliate	Services received	--	--	3,919	2,064
National Air Services	Affiliate	Expense claims	--	--	600	600
Saudia Airlines Cargo Limited	Affiliate	Expense claims	--	30	861	859
Saudi Private Aviation	Affiliate	Services	--	--	3,000	3,000
Royal Fleet Services	Affiliate	Services	--	--	3,000	3,000
Saudi Arabia Real Estate Development	Affiliate	Services	--	--	1,139	920
					<u>141,159</u>	<u>118,825</u>

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12. RELATED PARTY (continued)

(e) Remuneration:

<u>Name</u>	<u>Nature of transactions</u>	<u>31 March 2018</u>	<u>31 March 2017</u>
Key management personnel	Remuneration	3,215	2,476
Board of Directors	Meeting attendance fee	1,318	1,108
		<u>4,533</u>	<u>3,584</u>

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

	<u>31 March 2018</u>	<u>31 March 2017</u>
Short term employee benefits	3,127	2,395
End of service benefits	88	81
	<u>3,215</u>	<u>2,476</u>

13. CONTINGENT LIABILITIES AND COMMITMENTS

As at 31 March 2018, the Company has provided, in the normal course of business, bank guarantees amounting to SR 0.05 million (31 December 2017: SR 0.05 million) to the Ministry of Finance, Saudi Airlines, IATA and General Authority of Civil Aviation ("GACA"), in respect of Haj visa, tickets, airline ticket sales and rentals. The Company's bank has embarked bank balances for the same amount as lien against these guarantees.

As at 31 March 2018, the commitments under non-cancellable operating lease rentals are SR 18.45 million (31 December 2017: SR 10.58 million). Commitments amounting to SR 122.16 million (31 December 2017: SR 40.77 million) are in respect of capital expenditure committed but not paid.

During the year ended December 31, 2017, Saudi Ministry of Labour had levied a penalty amounting to SR 23.6 million on the Company due to the delay in submission of required documents related to temporary visas of the staff for Haj operations. The Company had accrued SR 5 million against this fine considering the maximum outflow to settle this liability based upon the legal opinion received by an independent external expert. Currently, the Company has filed an appeal against this penalty with the Administrative court of Appeals and awaiting final decision.

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14. FINANCIAL RISK MANAGEMENT

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

- Credit risk
- Liquidity risk
- Market risk

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

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

Risk management framework

Risk management is carried out by senior management under policies approved by the Board of Directors. Senior management identifies, evaluates and mitigates financial risks in close co-operation with the Company's operating units. The types of risk that would require to be analyzed and disclosed are market risk, credit risk and liquidity risk.

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

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

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

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

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14. FINANCIAL RISK MANAGEMENT (continued)

Market risk

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

Interest rate risk

Interest rate risks are the exposures to various risks associated with the effect of fluctuations in the prevailing interest rates on the Company's financial position. The Company manages the interest rate risk by regularly monitoring the interest rate profiles of its interest bearing financial instruments.

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Company's transactions are principally in Saudi Riyals, Euros, United States dollars and United Kingdom pounds. Due to fixed parity between Saudi Riyals and United States dollars exposure to currency risk is minimal, hence not exposed to currency risk.

Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's trade and other receivables, cash at bank and investments at FVTPL.

Liquidity risk

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

Capital risk management

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

Apart from requirements of the Regulations for Companies, the Company is not subject to any other externally imposed capital requirements.

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14. FINANCIAL RISK MANAGEMENT (continued)

Fair value of assets and liabilities

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

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

Fair value hierarchy

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

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

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

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

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

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

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

As at 31 March 2018, the fair values of the Company's financial instruments are estimated to approximate their carrying values. No significant inputs were applied in the valuation of trade receivables as at 31 March 2018. Investments at FVTPL falls under level 1 in the fair value hierarchy.

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15. NEW STANDARDS, AMENDMENTS AND STANDARDS ISSUED AND NOT YET EFFECTIVE

New Standards, Amendment to Standards and Interpretations:

The Company has adopted IFRS 15 "Revenue from Contracts with Customers" and IFRS 9 "Financial Instruments" From January 1, 2018. A number of other new standards, amendments to standards are effective from January 1, 2018 but they do not have a material effect on the Company's interim financial statements.

a) IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes.

IFRS 15 is effective for annual periods beginning on or after 1 January 2018. There is no significant impact on Company's revenue recognition policy as a result of adoption of IFRS 15.

b) IFRS 9 Financial Instruments

In July 2014, the International Accounting Standards Board issued the final version of IFRS 9 Financial Instruments. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted. There is no significant impact on Company's accounting policy as a result of implementation of IFRS 9 except for;

- i) The reclassification of held for trading investment to investments at FVTPL (see note 3(e).
- ii) The additional provision recognised amounting to SR 9.8 million against trade receivables due to change in the Company's accounting policy on the expected credit losses model as per IFRS 9 (see note 3(e).

Standard issued but not yet effective

Following are the new standards and amendments to standards effective for annual periods beginning after 1 January 2018 and earlier application is permitted; however, the Company has not early adopted it in preparing these condensed interim financial statements.

IFRS 16 Leases

IFRS 16 introduces a single, on-balance sheet lease accounting model for lessees. A lessee recognises 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 annual periods beginning on or after January 1, 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.

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15. NEW STANDARDS, AMENDMENTS AND STANDARDS ISSUED AND NOT YET EFFECTIVE (Continued)

Standard issued but not yet effective (continued)

IFRS 16 Leases (continued)

Determining whether an arrangement contains a lease:

On transition to IFRS 16, the Company 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 Company can either apply the standard using a:

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

The lessee applies the election consistently to all of its leases. The Company currently plans to apply IFRS 16 initially on 1 January 2019. The Company has not yet determined which transition approach to apply. As a lessor, the Company 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.

Annual Improvements to IFRSs 2015–2017 Cycle:

IFRS 3 Business Combinations and IFRS 11 Joint Arrangements - clarifies how a company accounts for increasing its interest in a joint operation that meets the definition of a business.

- If a party maintains (or obtains) joint control, then the previously held interest is not remeasured.
- If a party obtains control, then the transaction is a business combination achieved in stages and the acquiring party remeasures the previously held interest at fair value.

IAS 12 Income Taxes - clarifies that all income tax consequences of dividends (including payments on financial instruments classified as equity) are recognised consistently with the transactions that generated the distributable profits – i.e. in profit or loss, other comprehensive income or equity.

IAS 23 Borrowing Costs - clarifies that the general borrowings pool used to calculate eligible borrowing costs excludes only borrowings that specifically finance qualifying assets that are still under development or construction. Borrowings that were intended to specifically finance qualifying assets that are now ready for their intended use or sale – or any nonqualifying assets – are included in that general pool. As the costs of retrospective application might outweigh the benefits, the changes are applied prospectively to borrowing costs incurred on or after the date an entity adopts the amendments.

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15. NEW STANDARDS, AMENDMENTS AND STANDARDS ISSUED AND NOT YET EFFECTIVE (Continued)

Annual Improvements to IFRSs 2015–2017 Cycle (continued):

iii. IFRIC 23 Uncertainty over Income Tax Treatments

Seeks to bring clarity to the accounting for income tax treatments that have yet to be accepted by tax authorities. The key test is whether it's probable that the tax authority will accept the Group's chosen tax treatment.

iiii. Other Amendments

The following new or amended standards are not yet effective and neither expected to have a significant impact on the Group's consolidated financial statements.

- Prepayment Features with Negative Compensation (Amendments to IFRS 9)
- Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28)
- Plan Amendments, Curtailment or Settlement (Amendments to IAS 19)

16. BOARD OF DIRECTORS' APPROVAL

The condensed interim financial statements were approved and authorized for issue by the Board of Directors on Shaaban 22, 1439H, corresponding to May 8, 2018.



Chief Financial Officer



Chief Executive Officer



Chairman