

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

**CONDENSED INTERIM FINANCIAL  
STATEMENTS AND REVIEW REPORT**

For the three-month and nine-month periods ended 30 September 2017

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

**CONDENSED INTERIM FINANCIAL STATEMENTS**  
For the three-month and nine-month periods ended 30 September 2017

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**KPMG Al Fozan & Partners**

Certified Public Accountants

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**INDEPENDENT AUDITORS' REPORT ON REVIEW  
OF CONDENSED INTERIM FINANCIAL STATEMENTS**

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

***Introduction***

We have reviewed the accompanying 30 September 2017 condensed interim financial statements of Saudi Ground Services Company "the Company" which comprises:

- the condensed statement of financial position as at 30 September 2017;
- the condensed statement of profit or loss and other comprehensive income for the three-month and nine-month periods ended 30 September 2017;
- the condensed statement of changes in equity for the nine-month period ended 30 September 2017;
- the condensed statement of cash flows for the nine-month period ended 30 September 2017; 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 30 September 2017 condensed interim financial statements of Saudi Ground Services Company are 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



Jeddah, Safar 16, 1439H  
Corresponding to November 5, 2017

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

**CONDENSED STATEMENT OF FINANCIAL POSITION**  
As at 30 September 2017

|                                     | <u>Notes</u> | <u>30 September 2017</u><br>(Unaudited)<br>SR | <u>31 December 2016</u><br>(Audited)<br>SR |
|-------------------------------------|--------------|---|--|
| <b>ASSETS</b>                       |              |   |  |
| Property and equipment              |              | 580,043,259                                   | 479,572,500                                |
| Intangible assets and goodwill      | 5            | 893,180,346                                   | 910,748,159                                |
| Equity accounted investee           | 6            | 115,779,980                                   | 98,337,115                                 |
| Prepayments and other receivables   |              | 15,269,282                                    | 16,366,154                                 |
| <b>Non-current assets</b>           |              | <u>1,604,272,867</u>                          | <u>1,505,023,928</u>                       |
| Trade receivables                   | 7            | 1,161,469,230                                 | 1,071,720,075                              |
| Prepayments and other receivables   |              | 406,366,109                                   | 291,243,168                                |
| Investment – held for trading       |              | 850,089,699                                   | 454,805,928                                |
| Short term bank deposits            |              | –   | 404,820,922                                |
| Cash and cash equivalents           |              | 32,919,134                                    | 97,803,875                                 |
| <b>Current assets</b>               |              | <u>2,450,844,172</u>                          | <u>2,320,393,968</u>                       |
| <b>Total assets</b>                 |              | <u>4,055,117,039</u>                          | <u>3,825,417,896</u>                       |
| <b>EQUITY</b>                       |              |   |  |
| Share capital                       | 8            | 1,880,000,000                                 | 1,880,000,000                              |
| Statutory reserve                   | 9            | 413,441,934                                   | 369,697,271                                |
| Actuarial gain/loss reserve         |              | 319,228                                       | 319,228                                    |
| Retained earnings                   |              | 631,596,775                                   | 726,694,803                                |
| <b>Total equity</b>                 |              | <u>2,925,357,937</u>                          | <u>2,976,711,302</u>                       |
| <b>LIABILITIES</b>                  |              |   |  |
| Employee benefits                   | 13           | 421,491,042                                   | 383,229,749                                |
| <b>Non- current liability</b>       |              | <u>421,491,042</u>                            | <u>383,229,749</u>                         |
| Trade payables                      |              | 57,877,418                                    | 28,233,252                                 |
| Dividend payable                    |              | 122,200,000                                   | –  |
| Other payables                      |              | 470,552,843                                   | 389,927,419                                |
| Accrued Zakat                       |              | 57,637,799                                    | 47,316,174                                 |
| <b>Current liabilities</b>          |              | <u>708,268,060</u>                            | <u>465,476,845</u>                         |
| <b>Total liabilities</b>            |              | <u>1,129,759,102</u>                          | <u>848,706,594</u>                         |
| <b>Total equity and liabilities</b> |              | <u>4,055,117,039</u>                          | <u>3,825,417,896</u>                       |

  
 Chief Financial Officer

  
 Chief Executive Officer

  
 Chairman

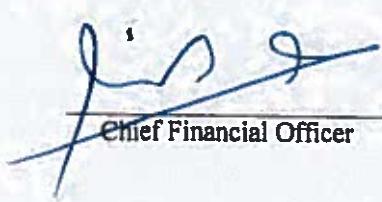
The notes on pages from 7 to 38 form an integral part of  
 these condensed interim financial statements.

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

**CONDENSED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (UNAUDITED)**

For the three-month and nine-month periods ended 30 September 2017

| <u>Note</u>  | For the three-month period<br>ended 30 September |               | For the nine-month period<br>Ended 30 September |                 |
|--|--|---------------|---|-----------------|
|  | <u>2017</u>                                      |               | <u>2016</u>                                     |                 |
|  | SR   | SR            | SR  | SR              |
| Revenue  | 697,255,141                                      | 741,271,821   | 2,000,299,933                                   | 2,119,486,814   |
| Operating costs  | (469,504,291)                                    | (489,967,296) | (1,303,323,479)                                 | (1,358,905,188) |
| Gross profit   | 227,750,850                                      | 251,304,525   | 696,976,454                                     | 760,581,626     |
| General and administrative expenses                        | (68,692,348)                                     | (60,501,816)  | (268,499,115)                                   | (181,368,874)   |
| Income from operations                                     | 159,058,502                                      | 190,802,709   | 428,477,339                                     | 579,212,752     |
| Finance income, net  | 2,551,979  | 5,200,094     | 12,807,876                                      | 8,613,533       |
| Share of profit of equity accounted investee, net of Zakat | 5,273,146  | 6,000,000     | 17,442,865                                      | 18,000,000      |
| Other income   | 1,113,628  | 704,651       | 4,168,555                                       | 4,884,275       |
| Profit before Zakat  | 167,997,255                                      | 202,707,454   | 462,896,635                                     | 610,710,560     |
| Zakat expense  | (7,950,000)                                      | (9,000,000)   | (25,450,000)                                    | (29,037,492)    |
| Profit for the period                                      | 160,047,255                                      | 193,707,454   | 437,446,635                                     | 581,673,068     |
| Other comprehensive income:                                |  |               |   |                 |
| Actuarial gains and losses                                 | --   | --            | --  | --              |
| Total comprehensive income                                 | 160,047,255                                      | 193,707,454   | 437,446,635                                     | 581,673,068     |
| Earnings per share:  |  |               |   |                 |
| Basic and diluted earnings per share                       | 10   | 0.85          | 1.03  | 2.33            |
|  |  |               |   | 3.09            |

  
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 nine-month period ended 30 September 2017

|   | <u>Share capital</u><br>SR | <u>Statutory<br/>reserve</u><br>SR | <u>Actuarial<br/>gain/loss<br/>reserve</u><br>SR | <u>Retained<br/>earnings</u><br>SR | <u>Total<br/>equity</u><br>SR |
|---|----------------------------|------------------------------------|--|------------------------------------|-------------------------------|
| <b>Balance at 1 January 2016<br/>(Audited)</b>      | <u>1,880,000,000</u>       | <u>301,114,388</u>                 | --   | <u>449,790,078</u>                 | <u>2,630,904,466</u>          |
| <b>Total comprehensive income</b>                   |                            |                                    |  |                                    |                               |
| Profit for the period                               | --                         | --                                 | --   | <u>581,673,068</u>                 | <u>581,673,068</u>            |
| <b>Transactions with owners of<br/>the Company</b>  |                            |                                    |  |                                    |                               |
| Dividend (note 8)                                   | --                         | --                                 | --   | <u>(340,280,000)</u>               | <u>(340,280,000)</u>          |
| <b>Other transactions</b>                           |                            |                                    |  |                                    |                               |
| Transfer to statutory reserve                       | --                         | <u>58,510,983</u>                  | --   | <u>(58,510,983)</u>                | --                            |
| <b>Balance at 30 September 2016<br/>(Unaudited)</b> | <u>1,880,000,000</u>       | <u>359,625,371</u>                 | --   | <u>632,672,163</u>                 | <u>2,872,297,534</u>          |
| <b>Balance at 1 January 2017<br/>(Audited)</b>      | <u>1,880,000,000</u>       | <u>369,697,271</u>                 | <u>319,228</u>                                   | <u>726,694,803</u>                 | <u>2,976,711,302</u>          |
| <b>Total comprehensive income</b>                   |                            |                                    |  |                                    |                               |
| Profit for the period                               | --                         | --                                 | --   | <u>437,446,635</u>                 | <u>437,446,635</u>            |
| <b>Transactions with owners of<br/>the Company</b>  |                            |                                    |  |                                    |                               |
| Dividend (note 8)                                   | --                         | --                                 | --   | <u>(488,800,000)</u>               | <u>(488,800,000)</u>          |
| <b>Other transactions</b>                           |                            |                                    |  |                                    |                               |
| Transfer to statutory reserve                       | --                         | <u>43,744,663</u>                  | --   | <u>(43,744,663)</u>                | --                            |
| <b>Balance at 30 September 2017<br/>(Unaudited)</b> | <u>1,880,000,000</u>       | <u>413,441,934</u>                 | <u>319,228</u>                                   | <u>631,596,775</u>                 | <u>2,925,357,937</u>          |

  
 Chief Financial Officer

  
 Chief Executive Officer

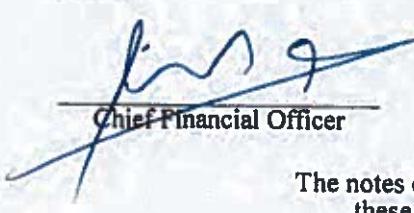
  
 Chairman

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

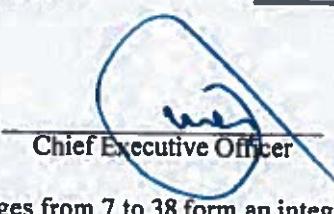
**SAUDI GROUND SERVICES COMPANY**  
(A Saudi Joint Stock Company)

**CONDENSED STATEMENT OF CASH FLOWS (UNAUDITED)**  
For the nine-month period ended 30 September 2017

|  | <u>Notes</u> | <u>30 September 2017</u> | <u>30 September 2016</u> |
|--|--------------|--------------------------|--------------------------|
|  |              | <b>SR</b>                | <b>SR</b>                |
| <b>Cash flows from operating activities</b>                |              |                          |                          |
| Profit before Zakat  |              | 462,896,635              | 610,710,560              |
| <i>Adjustments for:</i>                                    |              |                          |                          |
| Depreciation   |              | 71,351,330               | 72,250,917               |
| Amortization   | 5            | 17,567,813               | 17,567,813               |
| Share of profit of equity accounted investee, net of Zakat | 6            | (17,442,865)             | (18,000,000)             |
| Gain on sale of property and equipment                     |              | (18,596)                 | (11,670)                 |
| Impairment loss on receivable                              | 7            | 89,620,513               | 21,950,000               |
| Unrealized/realized gain on investment - held for trading  |              | (10,476,853)             | (2,389,561)              |
|  |              | <u>613,497,977</u>       | <u>702,078,059</u>       |
| <i>Changes in:</i>   |              |                          |                          |
| Trade receivables  |              | (179,369,668)            | (286,354,793)            |
| Prepayments and other receivables                          |              | (114,026,069)            | (81,349,506)             |
| Trade payables   |              | 29,644,166               | (894,958)                |
| Other payables   |              | 80,625,424               | 142,468,820              |
| Employee benefits  | 13           | 38,261,293               | 38,535,626               |
| Cash generated from operating activities                   |              | <u>468,633,123</u>       | <u>514,483,248</u>       |
| Zakat paid   |              | (15,128,375)             | (12,674,299)             |
| <b>Net cash from operating activities</b>                  |              | <u>453,504,748</u>       | <u>501,808,949</u>       |
| <b>Cash flows from investing activities</b>                |              |                          |                          |
| Proceeds from sale of property and equipment               |              | 54,375                   | 11,670                   |
| Acquisition of investments – held for trading              |              | (1,032,006,918)          | (500,000,000)            |
| Acquisition of property and equipment                      |              | (171,857,868)            | (72,722,510)             |
| Proceeds from redemption of investment- held for Trading   |              | 647,200,000              | 350,000,000              |
| Short term bank deposits realized                          |              | 404,820,922              | –                        |
| <b>Net cash used in investing activities</b>               |              | <u>(151,789,489)</u>     | <u>(222,710,840)</u>     |
| <b>Cash flows from financing activities</b>                |              |                          |                          |
| Dividends paid   | 8            | (366,600,000)            | (340,280,000)            |
| <b>Cash used in financing activities</b>                   |              | <u>(366,600,000)</u>     | <u>(340,280,000)</u>     |
| Net decrease in cash and cash equivalents                  |              | (64,884,741)             | (61,181,891)             |
| Cash and cash equivalents at beginning of the period       |              | 97,803,875               | 779,437,719              |
| <b>Cash and cash equivalents at the end of the period</b>  |              | <u>32,919,134</u>        | <u>718,255,828</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 nine-month period ended 30 September 2017

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**1. REPORTING ENTITY**

- 1.1 Saudi Ground Services Company (“the Company”) was registered as a limited liability company in the Kingdom of Saudi Arabia under Commercial Registration number 4030181005 dated 11 Rajab 1429H, (corresponding to 14 July 2008). 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 7 February 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 23 Muharram 1432H (29 December 2010). The effective date of the above-mentioned acquisition and transfer was agreed between the shareholders as of 1 January 2011. The legal name “Saudi Airlines Ground Services Company” was changed to “Saudi Ground Services Company” under the same commercial registration number 4030181005 on 20 Safar 1432H, (corresponding to 24 January 2011).
- 1.3 The Company on 17 Jamadul Thani 1435H, corresponding to 17 April 2014, has converted from a limited liability to a closed joint stock company pursuant to Ministerial resolution number 171/R on 17 Jumadul Thani 1435H, corresponding to 17 April 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 3 June 2015 (corresponding to 15 Shabaan 1436H) to 9 June 2015 (corresponding to 21 Shabaan 1436H) after obtaining required approval from the Capital Market Authority. The Company’s shares started trading on the Saudi Stock Exchange (Tadawul) on 25 June 2015, corresponding to 8 Ramadan 1436H. Accordingly, after successful completion of Initial Public offering (IPO), the Company was declared as a Saudi Joint Stock Company.
- 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  
Henaki Business Centre, Nahda District  
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 nine-month period ended 30 September 2017

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**2. BASIS OF PREPARATION**

**2.1 Statement of compliance**

The accompanying condensed interim financial statements have been prepared in accordance with IAS 34 "*Interim Financial Reporting*" as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements that are issued by SOCOPA. Up to and including the year ended 31 December 2016, the Company prepared and presented statutory financial statements in accordance with the generally accepted accounting standards in the Kingdom of Saudi Arabia issued by the Saudi Organization for Certified Public Accountants (SOCOPA) and the requirements of the Saudi Arabian Regulations for Companies and the Company's By-laws in so far as they relate to the preparation and presentation of the financial statements. In these financial statements, the term "SOCOPA GAAP" refers to SOCOPA GAAP before the adoption of IFRS.

For financial periods commencing 1 January 2017, the applicable regulations require the Company to prepare and present financial statements in accordance with International Financial Reporting Standards ("IFRS") that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements that are issued by SOCOPA. As part of this requirement, the Company has prepared these condensed interim financial statements.

As required by the Capital Market Authority ("CMA") through its circular dated 16 October 2016 the Company needs to apply the cost model to measure the property and equipment and intangible assets upon adopting the IFRS for three years period starting from the IFRS adoption date.

As these condensed interim financial statements prepared in accordance with IAS 34 "*Interim Financial Reporting*" are for part of a period covered by its first IFRS financial statements, IFRS 1 "*First-time Adoption of International Financial Reporting Standards*" has been applied. The accounting policies followed in these interim financial statements are the same as those applied in the Company's interim financial statements for the period ended 30 June 2017 and 31 March 2017. The Company has consistently applied the same accounting policies throughout all periods presented, as if these policies had always been in effect.

An explanation of how the transition to IFRS has affected the previously reported equity as at 30 September 2016; and comprehensive income of the Company for the three and nine months ended 30 September 2016, including the nature and effect of significant changes in accounting policies from those used in the Company's financial statements for the year ended 31 December 2016 is provided in Note 14.

The condensed interim financial statements should be read in conjunction with the Company's SOCOPA GAAP annual financial statements for the year ended 31 December 2016, and the Company's interim financial statements for the quarters ended 30 June 2017 and 31 March 2017 prepared in accordance with IFRS applicable to interim financial statements.

**2.2 Basis of measurement**

These interim financial statements have been prepared under the historical cost basis, 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.

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

**NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS**  
For the nine-month period ended 30 September 2017

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

**2.4 Use of estimates and judgments**

The preparation of these interim financial statements, in conformity with IAS 34 as endorsed in Kingdom of Saudi Arabia and other standards and pronouncements issued by SOCPA, requires the use of judgements, estimates and assumptions. Such estimates and assumptions may affect the balances reported for certain assets and liabilities as well as the disclosure of certain contingent assets and liabilities as at the condensed statement of financial position date. Any estimates or assumptions affecting assets and liabilities may also affect the reported revenues and expenses for the same reporting period. Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from those 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 (h) - lease classification

**ii) Assumptions and estimation uncertainties**

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

- a) Note 3 (j) - impairment in financial and non-financial assets.
- b) Note 3 (m) - measurement of defined benefit obligations
- c) Note 3 (f) - useful lives and residual values of property and equipment
- d) Note 3 (g) - useful lives and residual values of intangible assets

**3. SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies set out below have been applied consistently in the preparation of these interim financial statements except for the application of relevant exceptions or available exemptions as stipulated in IFRS 1. Details of adjustments arising out of transition to IFRS are disclosed in note 14.

**(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.

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

**NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS**  
For the nine-month period ended 30 September 2017

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

**(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.

**(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 condensed 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.

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

**NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS**  
For the nine-month period ended 30 September 2017

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

**(e) Financial instruments**

The Company classifies financial assets into the following categories:

- financial assets at fair value through profit or loss
- held-to-maturity financial assets
- loans and receivables

The Company classifies financial liabilities into other financial liabilities.

**Financial assets and financial liabilities – recognition and derecognition**

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

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

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

Financial assets and financial liabilities 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 offset the amounts and intends either to settle them on a net basis or to realize the asset and settle the liability simultaneously.

**Financial assets – Measurement**

*Financial assets at fair value through profit or loss*

A financial asset is classified at fair value through profit or loss if it is classified as held for trading or is designated as such on initial recognition. Directly attributable transaction costs are recognised in profit or loss as incurred. Financial assets at fair value through profit or loss are measured at fair value and changes therein, including any interest or dividend income, are recognised in statement of profit or loss.

*Held-to-maturity financial assets*

These assets are initially measured at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at amortized cost using the effective interest method.

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

**(e) Financial instruments (continued)**

*Loans and receivables*

These assets are initially measured at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at amortized cost using the effective interest method.

**Financial liabilities – Measurement**

Financial liabilities are initially measured at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these liabilities are measured at amortized cost using the effective interest method.

**(f) 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)**

**(f) 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 equipment                 | 7-10         |
| Motor vehicles                    | 5            |
| Furniture, fixtures and equipment | 4-10         |
| Computer equipment                | 4            |

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

**(g) 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.

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

**(g) Intangible assets and goodwill (continued)**

*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.

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.

**(h) 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.

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

**(i) Inventories**

Inventories represent spare parts and other supplies. These are measured at lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. The carrying amount of inventories is recognized as an expense when the inventories are sold.

The cost of spare parts and supplies is based on weighted average principle. Other costs are included in the cost of spare parts and supplies only to the extent that they are incurred in bringing them to their present location and condition.

*Allowance for inventory losses*

The Company recognizes an allowance for inventory losses due to factors such as obsolescence, technical faults, physical damage etc. The estimation of such losses includes the consideration of factors including but not limited to introduction of new models or technology by the specific manufacturer, past sales trends and both existing and emerging market conditions.

**(j) Impairment**

*Non derivative financial assets*

A financial asset not carried at fair value is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset, and that the loss event(s) had an impact on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Company on terms that the Company would not consider otherwise, indications that a debtor or issuer will enter bankruptcy and adverse changes in the payment status of borrowers or issuers.

*Financial assets measured at amortized cost*

The Company considers evidence of impairment for financial assets measured at amortized cost (loans and receivables) at both a specific asset and collective level. All individually significant assets are assessed for specific impairment. Those found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Assets that are not individually significant are collectively assessed for impairment by grouping together assets with similar risk characteristics.

In assessing collective impairment, the Company uses historical trends of the probability of default, the timing of recoveries and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

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

**(j) Impairment (continued)**

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in statement of profit or loss and reflected in an allowance account against loans and receivables. When an event occurring after the impairment was recognized causes the amount of impairment to decrease, the decrease in impairment loss is reversed through profit or loss.

**Non-financial assets**

At each reporting date, the Company reviews the carrying amounts of its non-financial assets (other than inventories) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. Goodwill is tested annually for impairment.

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGUs. Goodwill arising from a business combination is allocated to CGUs or groups of CGUs that are expected to benefit from the synergies of the combination.

The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. Value in use is based on the estimated future cash flows, 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 or CGU.

An impairment loss is recognized if the carrying amount of an asset or CGU exceeds its recoverable amount. Impairment losses are recognized in profit or loss. They are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

**(k) Cash and cash equivalent**

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

**(l) 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 activities fall within a single business segment which are subject to same risks and returns.

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

**(m) 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.

*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.

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

**(n) 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.

**(o) Revenue recognition**

Revenue represents the gross inflow of economic benefits arising in the course of the ordinary activities of the Company when those inflows result in increases in equity, other than increases relating to contributions from equity participants. Revenue is recorded at the fair value of the consideration received or receivable.

*i) 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.

*ii) 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.

**(p) Finance income and finance costs**

Finance income mainly includes dividend income, interest income on short term deposits and realized/ unrealized gain from fair valuation of investment-held for trading 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.

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

**(q) Zakat**

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

The Company withholds taxes on transactions with non-resident parties and on dividends paid to foreign shareholders in accordance with GAZT regulations, which is not recognized as an expense (unless the company is contractually bound to bear) being the obligation of the counter party on whose behalf the amounts are withheld.

**(r) 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, directly attributable employee related costs, rents etc.

*ii) General and administrative expenses*

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

**(s) 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 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 professional study and shares issued as consideration are summarized as follows:

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**4. BUSINESS COMBINATIONS (continued)**

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

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.

*ii) National Handling Services Company Limited*

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 as of 1 January 2011 along with the business operations.

|                                       | <u>(SR "000)</u>     |
|---------------------------------------|----------------------|
| Net identifiable assets at fair value | 110,396              |
| Goodwill (note 5)                     | 519,164              |
| Intangible assets (note 5)            | <u>545,441</u>       |
| Total assets                          | <u>1,175,001</u>     |
| <br>Fair value of consideration       | <br><u>1,175,001</u> |

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**4. BUSINESS COMBINATIONS (continued)**

*iii) Attar Ground Handling / Attar Travel*

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:

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

An independent Purchase Price Allocation Study 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.

**5. INTANGIBLE ASSETS AND GOODWILL**

*Reconciliation of carrying amount:*

|   | <u>Goodwill</u><br>SR     | <u>Customer<br/>contracts</u><br>SR | <u>Customer<br/>relationships</u><br>SR | <u>Total</u><br>SR        |
|---|---------------------------|-------------------------------------|---|---------------------------|
| <b><u>Cost:</u></b>   |                           |                                     |   |                           |
| Balance at 1 January 2016, 31 December 2016 and 30 September 2017 | <u>582,815,659</u>        | <u>153,179,000</u>                  | <u>468,475,000</u>                      | <u>1,204,469,659</u>      |
| <b><u>Accumulated amortization:</u></b>                           |                           |                                     |   |                           |
| Balance at 1 January 2016   | --                        | 153,179,000                         | 117,118,750                             | 270,297,750               |
| Amortization for the year   | --                        | --                                  | 23,423,750                              | 23,423,750                |
| Balance at 31 December 2016                                       | <u>--</u>                 | <u>153,179,000</u>                  | <u>140,542,500</u>                      | <u>293,721,500</u>        |
| Amortization for the period                                       | --                        | --                                  | 17,567,813                              | 17,567,813                |
| Balance at 30 September 2017                                      | <u>--</u>                 | <u>153,179,000</u>                  | <u>158,110,313</u>                      | <u>311,289,313</u>        |
| <b><u>Carrying amounts</u></b>                                    |                           |                                     |   |                           |
| <b>At 30 September 2017</b>                                       | <b><u>582,815,659</u></b> | <b><u>--</u></b>                    | <b><u>310,364,687</u></b>               | <b><u>893,180,346</u></b> |
| <b>(Unaudited)</b>  |                           |                                     |   |                           |
| <b>At 31 December 2016 (Audited)</b>                              | <b><u>582,815,659</u></b> | <b><u>--</u></b>                    | <b><u>327,932,500</u></b>               | <b><u>910,748,159</u></b> |

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**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 and 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 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 30 September 2017 is as follows:

| <u>Name</u> | Country of incorporation | <u>Effective ownership interest (%)</u> |                         | <u>Carrying value</u>    |                         |
|-------------|--------------------------|---|-------------------------|--------------------------|-------------------------|
|             |                          | <u>30 September 2017</u>                | <u>31 December 2016</u> | <u>30 September 2017</u> | <u>31 December 2016</u> |
|             |                          |   | SR                      |                          | SR                      |
| SAAS        | Kingdom of Saudi Arabia  | 50%                                     | 50%                     | <b>115,779,980</b>       | <b>98,337,115</b>       |

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

|                     | <u>30 September 2017</u> | <u>31 December 2016</u> |
|---------------------|--------------------------|-------------------------|
|                     | SR                       | SR                      |
| Opening balance     | <b>98,337,115</b>        | 76,201,063              |
| Share of net income | <b>*17,442,865</b>       | 22,136,052              |
| Closing balance     | <b>115,779,980</b>       | 98,337,115              |

\* These numbers are based upon the management accounts of the joint venture for the nine-month period ended 30 September 2017.

**7. TRADE RECEIVABLES**

|   | <u>30 September 2017</u> | <u>31 December 2016</u> |
|---|--------------------------|-------------------------|
|   | SR                       | SR                      |
| Trade receivables from related parties (note 11(a)) | <b>833,259,300</b>       | 888,292,370             |
| Other trade receivables                             | <b>396,576,106</b>       | 301,759,087             |
|   | <b>1,229,835,406</b>     | 1,190,051,457           |
| Less: allowance for impairment losses               | <b>(68,366,176)</b>      | (118,331,382)           |
|   | <b>1,161,469,230</b>     | 1,071,720,075           |

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**7. TRADE RECEIVABLES (continued)**

The movement in impairment losses is as follows:

|                               | <u>30 September 2017</u><br>SR | <u>31 December 2016</u><br>SR |
|-------------------------------|--------------------------------|-------------------------------|
| Opening balance               | <b>118,331,382</b>             | 89,275,576                    |
| Charge for the period/year    | <b>89,620,513</b>              | 29,055,806                    |
| Written off against provision | <b>(139,585,719)</b>           | --                            |
| <br>Closing balance           | <b>68,366,176</b>              | 118,331,382                   |

Impairment losses are allocated as follows:

|   | <u>30 September 2017</u><br>SR | <u>31 December 2016</u><br>SR |
|---|--------------------------------|-------------------------------|
| Impairment-individually significant customers | <b>23,047,936</b>              | 93,301,819                    |
| Insignificant customers on collective basis   | <b>45,318,240</b>              | 25,029,563                    |
| <br><b>68,366,176</b>                         | <br><b>118,331,382</b>         |                               |

**8. SHARE CAPITAL**

At 30 September 2017, the authorized, issued and paid up share capital of SR 1,880,000,000 (31 December 2016: SR 1,880,000,000) consists of 188,000,000 (31 December 2016: 188,000,000) fully paid shares of SR 10 each.

During the nine-month period ended 30 September 2017, Company declared a dividend of SR 488,800,000 (30 September 2016: SR 340,280,000) out of the retained earnings as approved by the Board of Directors.

**9. STATUTORY RESERVE**

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

**10. EARNINGS PER SHARE**

Basic earnings per share for the three-month and nine-month periods ended 30 September 2017 and 30 September 2016 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 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. RELATED PARTY**

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:

| <u>Name</u>                            | <u>Relationship</u> | <u>Nature of transactions</u> | Amount of transactions for<br><u>the nine-month period ended</u> |   | <u>Closing balance</u>                          |  |
|--|---------------------|-------------------------------|--|---|---|--|
|  |                     |                               | <u>30 September</u><br><u>2017</u><br><u>SR</u>                  | <u>30 September</u><br><u>2016</u><br><u>SR</u> | <u>30 September</u><br><u>2017</u><br><u>SR</u> | <u>31 December</u><br><u>2016</u><br><u>SR</u> |
| Saudi Arabian Airlines Corporation     | Parent Company      | Services provided             | <b>966,896,002</b>   | 1,003,517,175                                   | <b>587,088,542</b>                              | 721,352,682                                    |
| National Air Services                  | Affiliate           | Services provided             | <b>200,537,827</b>   | 188,463,364                                     | <b>130,951,909</b>                              | 78,327,310                                     |
| Saudi Airlines – Cargo Company Limited | Affiliate           | Services provided             | <b>13,037,962</b>  | 16,752,750                                      | <b>28,878,536</b>                               | 22,381,390                                     |
| Saudi Aerospace Engineering Industries | Affiliate           | Services provided             | <b>268,480</b>   | 94,710  | <b>90,623</b>                                   | --   |
| Saudi Airlines Catering                | Affiliate           | Services provided             | <b>103,980</b>   | 77,105  | <b>286,905</b>                                  | 171,300  |
| Saudi Private Aviation                 | Affiliate           | Services provided             | <b>13,283,276</b>  | 25,044,400                                      | <b>56,142,798</b>                               | 49,005,959                                     |
| Royal Fleet Services                   | Affiliate           | Services provided             | <b>23,499,472</b>  | 11,956,087                                      | <b>29,816,487</b>                               | 17,051,979                                     |
| National Aviation Ground Support       | Affiliate           | Services provided             | <b>16,040</b>  | --  | <b>3,500</b>                                    | 1,750  |
|  |                     |                               |  |   | <b>833,259,300</b>                              | 888,292,370                                    |

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**11. RELATED PARTY (continued)**

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

| <u>Name</u>   | <u>Relationship</u>         | <u>Nature of transactions</u>   | Amount of transactions for<br><u>the nine-month period ended</u> |                                     | <u>Closing balance</u>              |                                    |
|---|-----------------------------|---------------------------------|--|-------------------------------------|-------------------------------------|------------------------------------|
|   |                             |                                 | <b>30 September<br/>2017<br/>SR</b>                              | <b>30 September<br/>2016<br/>SR</b> | <b>30 September<br/>2017<br/>SR</b> | <b>31 December<br/>2016<br/>SR</b> |
| Saudia Arabian Airlines Corporation                           | Parent Company              | Seconded staff related          | <b>211,468,043</b>   | 347,336,906                         | <b>285,690,981</b>                  | 187,545,016                        |
| Saudi Aerospace Engineering Industries                        | Affiliate                   | GACA rent recharge              | <b>1,067,779</b>   | 1,067,779                           | --                                  | 996,065                            |
| Saudi Amad for Airport Services and Transport Support Company | Joint Venture               | Manpower & Operational Services | <b>2,353,942</b>   | 2,258,782                           | <b>18,262,439</b>                   | 14,675,208                         |
| Attar Travels   | Affiliate                   | Recharge of expenses            | --   |                                     | <b>583,519</b>                      | 583,519                            |
| Riyadh Airport Company  | Service Provider / Director | Rent advances                   | --   | --                                  | <b>163,748</b>                      | --                                 |
| Medgulf Insurance Company                                     | Service Provider / Director | Advances for medical insurance  | --   |                                     | --                                  | 19,761,745                         |
|   |                             |                                 |  |                                     | <b>304,700,687</b>                  | 223,561,553                        |

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**11. 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 nine-month period ended</u> |                             | <u>Closing balance</u>      |                            |
|---|-----------------------------|-------------------------------|---|-----------------------------|-----------------------------|----------------------------|
|   |                             |                               | <u>30 September 2017 SR</u>                                   | <u>30 September 2016 SR</u> | <u>30 September 2017 SR</u> | <u>31 December 2016 SR</u> |
| Saudi Arabian Airlines Corporation                            | Parent Company              | Services received             | <b>14,320,818</b>   | 15,708,883                  | <b>15,091,059</b>           | 13,882,631                 |
| Saudi Airlines Catering Company                               | Affiliate                   | Services received             | <b>31,851,047</b>   | 39,453,389                  | --                          | --                         |
| Saudia Aerospace Engineering Industries                       | Affiliate                   | Services received             | <b>60,750,000</b>   | 61,975,415                  | <b>19,365,658</b>           | 6,176,774                  |
| Saudi Amad for Airport Services and Transport Support Company | Joint Venture               | Services received             | <b>5,123,379</b>  | 5,304,029                   | <b>3,560,856</b>            | 2,041,001                  |
| Riyadh Airport Company  | Service Provider / Director | Services received             | <b>14,064,899</b>   | --                          | <b>1,140,848</b>            | --                         |
| Saudia Airlines Cargo Limited                                 | Affiliate                   | Services received             | <b>120,452</b>  | 103,075                     | <b>223,279</b>              | 132,203                    |
| Medgulf Insurance Company                                     | Service Provider / Director | Services received             | <b>39,715,033</b>   | 20,025,820                  | --                          | --                         |
| Saudi Arabia Real Estate Development                          | Affiliate                   | Services received             | <b>761,724</b>  | 1,249,787                   | --                          | --                         |
|   |                             |                               |   |                             | <b>39,381,700</b>           | <u>22,232,609</u>          |

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**11. RELATED PARTY (continued)**

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

| <u>Name</u>   | <u>Relationship</u>         | <u>Nature of transactions</u>    | Amount of transactions for the nine-month period ended |                                       | <u>Closing balance</u>                |                                      |
|---|-----------------------------|----------------------------------|--|---------------------------------------|---------------------------------------|--------------------------------------|
|   |                             |                                  | <u>30 September 2017</u><br><u>SR</u>                  | <u>30 September 2016</u><br><u>SR</u> | <u>30 September 2017</u><br><u>SR</u> | <u>31 December 2016</u><br><u>SR</u> |
| Saudi Arabian Airlines Corporation                            | Parent Company              | Saudia staff pension and medical | <b>35,238,957</b>                                      | 65,474,215                            | <b>180,346,771</b>                    | 141,634,422                          |
| Saudi Amad for Airport Services and Transport Support Company | Joint Venture               | Services received                | <b>22,595,123</b>                                      | 16,903,427                            | <b>32,141,589</b>                     | 32,420,474                           |
| Saudi Airlines Catering Company                               | Affiliate                   | Services received                | --   | --                                    | <b>18,390,334</b>                     | 13,314,063                           |
| Saudi Aerospace Engineering Industries                        | Affiliate                   | Services received                | --   | --                                    | --                                    | 8,302,503                            |
| National Air Services   | Affiliate                   | Expense claims                   | --   | 600,000                               | <b>600,000</b>                        | 600,000                              |
| Saudia Airlines Cargo Limited                                 | Affiliate                   | Services received                | --   | --                                    | <b>115,704</b>                        | 86,328                               |
| Saudi Private Aviation  | Affiliate                   | Services received                | --   | 3,000,000                             | <b>3,000,000</b>                      | 3,000,000                            |
| Royal Fleet Services  | Affiliate                   | Services received                | --   | 3,000,000                             | <b>3,000,000</b>                      | 3,000,000                            |
| Riyadh Airport Company  | Service Provider / Director | Rent expense                     | --   | --                                    | <b>7,057,765</b>                      | --                                   |
| Medgulf Insurance Company                                     | Service Provider / Director | Insurance expense                | --   | --                                    | --                                    | --                                   |
| Saudi Arabia Real Estate Development                          | Affiliate                   | Rent expense                     | --   | --                                    | <b>761,724</b>                        | --                                   |
|   |                             |                                  |  |                                       | <b>245,413,887</b>                    | <u>202,357,790</u>                   |

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

(e) Remuneration

| <u>Name</u>              | <u>Relationship</u>    | <u>30 September 2017</u> |                   | <u>30 September 2016</u> |           |
|--------------------------|------------------------|--------------------------|-------------------|--------------------------|-----------|
|                          |                        | SR                       | SR                | SR                       | SR        |
| Key management personnel | Remuneration           |                          | <b>8,836,228</b>  |                          | 5,914,216 |
| Board of Directors       | Meeting attendance fee |                          | <b>3,528,266</b>  |                          | 3,460,168 |
|                          |                        |                          | <b>12,364,494</b> |                          | 9,374,384 |

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

|                         | <u>30 September 2017</u> | <u>30 September 2016</u> |
|-------------------------|--------------------------|--------------------------|
|                         | SR                       | SR                       |
| Short term              | <b>8,588,403</b>         | 5,619,945                |
| End of service benefits | <b>247,825</b>           | 294,271                  |
|                         | <b>8,836,228</b>         | 5,914,216                |

**12. CONTINGENT LIABILITIES AND COMMITMENTS**

The Company has provided, in the normal course of business, bank guarantees amounting to SR 18.09 million (31 December 2016: SR 20.33 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 marked bank balances in the same amount as lien against these guarantees.

As at 30 September 2017, the commitments under non-cancelable operating lease rentals are SR 7.81 million (31 December 2016: SR 10.09 million). Commitments amounting to SR 105.61 million (31 December 2016: SR 37.16 million) are in respect of capital expenditure committed but not paid.

**13. EMPLOYEE BENEFITS**

- a) As described in accounting policy note 3 (m) valuation for end of service liability is prepared by an independent external actuaries using the following key assumptions as at 31 December 2016.

| <u>Key assumptions</u>                                  | <u>30 September 2017</u> | <u>31 December 2016</u> |
|---|--------------------------|-------------------------|
| Discount rate   | 5%                       | 5%                      |
| Future salary growth / Expected rate of salary increase | 6%                       | 6%                      |
| Mortality rate  | 0.1%                     | 0.1%                    |
| Employee turnover / withdrawal rates                    | 13%                      | 13%                     |
| Retirement age  | 60 years                 | 60 years                |

This valuation was calculated in accordance with IAS 19 where actuarial gains or losses are recognized in the statement of comprehensive income.

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**13. EMPLOYEE BENEFITS (continued)**

- b) Based on the valuation as at 31 December 2016, the employees' end of service benefits charge for the period in the statement of profit or loss was as follows:

|                      | <u>30 September 2017</u> | 30 September 2016 |
|----------------------|--------------------------|-------------------|
|                      | SR                       | SR                |
| Current service cost | <b>38,733,499</b>        | 44,197,856        |
| Interest cost        | <b>13,823,543</b>        | 3,609,833         |
|                      | <hr/>                    | <hr/>             |
|                      | <b>52,557,042</b>        | 47,807,689        |
|                      | <hr/>                    | <hr/>             |

There was no change in actuarial assumptions for the nine months period ended 30 September 2017. Hence actuarial gain / loss for the period is nil (30 September 2016: Nil).

- c) Movement in net liability recognized

|   | <u>30 September 2017</u> | 31 December 2016 |
|---|--------------------------|------------------|
|   | SR                       | SR               |
| Present value of the liability at beginning of the period | <b>383,229,749</b>       | 332,121,860      |
| Expense for the period/ year                              | <b>52,557,042</b>        | 64,059,280       |
| Actuarial (gain)/loss on obligation                       | --                       | (319,228)        |
| Benefits paid during the period / year                    | <b>(14,295,749)</b>      | (12,632,163)     |
|   | <hr/>                    | <hr/>            |
| Present value of the liability                            | <b>421,491,042</b>       | 383,229,749      |
|   | <hr/>                    | <hr/>            |

**14. EXPLANATION OF TRANSITION TO IFRS**

As stated in note 2.1, these are the Company's first interim financial statements for the period ended 30 September 2017 prepared in accordance with IFRS.

The accounting policies set out in note 3 have been applied in preparing these interim financial statements for the period ended 30 September 2017.

In preparing these interim financial statements, the Company's opening statement of financial position was prepared as at 1 January 2016, being the date of transition to IFRS Standards.

In preparing its opening statement of financial position in accordance with IFRS, the Company has adjusted amounts reported previously in financial statements prepared in accordance with SOCPA GAAP. An explanation of how the transition from SOCPA GAAP to IFRS Standards has affected the Company's financial position and financial performance is set out below:

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## **NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS**

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#### **14. EXPLANATION OF TRANSITION TO IFRS (continued)**

## 14.1 Reconciliation to statement of financial position

|                                   | As at 31 December 2016 |   |                      | As at 30 September 2016 |   |                      |
|-----------------------------------|------------------------|---|----------------------|-------------------------|---|----------------------|
|                                   | SOCPA standards        | Effect of transition<br>to IFRS standards | IFRS standards       | SOCPA standards         | Effect of transition<br>to IFRS standards | IFRS standards       |
|                                   | SR                     | SR  | SR                   | SR                      | SR  | SR                   |
| <b>ASSETS</b>                     |                        |   |                      |                         |   |                      |
| Property and equipment            | 479,572,500            | --  | 479,572,500          | 473,611,324             | --  | 473,611,324          |
| Intangible assets and goodwill    | 910,748,159            | --  | 910,748,159          | 916,604,096             | --  | 916,604,096          |
| Equity accounted investee         | 98,337,115             | --  | 98,337,115           | 94,201,063              | --  | 94,201,063           |
| Prepayments and other receivables | 14(a) --               | 16,366,154                                | 16,366,154           | --                      | 16,540,057                                | 16,540,057           |
| <b>Non-current assets</b>         | <b>1,488,657,774</b>   | <b>16,366,154</b>                         | <b>1,505,023,928</b> | <b>1,484,416,483</b>    | <b>16,540,057</b>                         | <b>1,500,956,540</b> |
| Trade receivables                 | 1,071,720,075          | --  | 1,071,720,075        | 1,073,842,503           | --  | 1,073,842,503        |
| Prepayments and other receivables | 14(a) 313,444,298      | (22,201,130)                              | 291,243,168          | 258,072,736             | (22,459,963)                              | 235,612,773          |
| Investment – held for trading     | 454,805,928            | --  | 454,805,928          | 152,389,561             | --  | 152,389,561          |
| Short term deposits               | 404,820,922            | --  | 404,820,922          | --                      | --  | --                   |
| Cash and cash equivalents         | 97,803,875             | --  | 97,803,875           | 718,255,828             | --  | 718,255,828          |
| <b>Current assets</b>             | <b>2,342,595,098</b>   | <b>(22,201,130)</b>                       | <b>2,320,393,968</b> | <b>2,202,560,628</b>    | <b>(22,459,963)</b>                       | <b>2,180,100,665</b> |
| <b>Total assets</b>               | <b>3,831,252,872</b>   | <b>(5,834,976)</b>                        | <b>3,825,417,896</b> | <b>3,686,977,111</b>    | <b>(5,919,906)</b>                        | <b>3,681,057,205</b> |

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## **NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS**

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## **14. EXPLANATION OF TRANSITION TO IFRS (continued)**

#### 14.1 Reconciliation to statement of financial position (continued)

|   | As at 31 December 2016 |   |                      | As at 30 September 2016 |   |                      |
|---|------------------------|---|----------------------|-------------------------|---|----------------------|
|   | SOCPA standards<br>SR  | Effect of transition<br>to IFRS standards<br>SR | IFRS standards<br>SR | SOCPA standards<br>SR   | Effect of transition<br>to IFRS standards<br>SR | IFRS standards<br>SR |
| <b>EQUITY</b>                                 |                        |   |                      |                         |   |                      |
| Share capital                                 | 1,880,000,000          | --  | 1,880,000,000        | 1,880,000,000           | --  | 1,880,000,000        |
| Statutory reserve                             | 369,697,271            | --  | 369,697,271          | 359,625,371             | --  | 359,625,371          |
| Actuarial gain/loss<br>reserve                | --                     | 319,228   | 319,228              | --                      | --  | --                   |
| Retained earnings                             | 799,703,191            | (73,008,388)                                    | 726,694,803          | 709,056,086             | (76,383,923)                                    | 632,672,163          |
| <b>Total equity</b>                           | <b>3,049,400,462</b>   | <b>(72,689,160)</b>                             | <b>2,976,711,302</b> | <b>2,948,681,457</b>    | <b>(76,383,923)</b>                             | <b>2,872,297,534</b> |
| <b>LIABILITIES</b>                            |                        |   |                      |                         |   |                      |
| Employees' benefits<br>Non- current liability | 14(b) 316,375,565      | 66,854,184                                      | 383,229,749          | 300,193,469             | 70,464,017                                      | 370,657,486          |
|   | <b>316,375,565</b>     | <b>66,854,184</b>                               | <b>383,229,749</b>   | <b>300,193,469</b>      | <b>70,464,017</b>                               | <b>370,657,486</b>   |
| Trade payables                                | 28,233,252             | --  | 28,233,252           | 50,896,628              | --  | 50,896,628           |
| Other payables                                | 389,927,419            | --  | 389,927,419          | 344,983,420             | --  | 344,983,420          |
| Accrued Zakat                                 | 47,316,174             | --  | 47,316,174           | 42,222,137              | --  | 42,222,137           |
| <b>Current liabilities</b>                    | <b>465,476,845</b>     | <b>--</b>                                       | <b>465,476,845</b>   | <b>438,102,185</b>      | <b>--</b>                                       | <b>438,102,185</b>   |
| <b>Total liabilities</b>                      | <b>781,852,410</b>     | <b>66,854,184</b>                               | <b>848,706,594</b>   | <b>738,295,654</b>      | <b>70,464,017</b>                               | <b>808,759,671</b>   |
| <b>Total equity and<br/>liabilities</b>       | <b>3,831,252,872</b>   | <b>(5,834,976)</b>                              | <b>3,825,417,896</b> | <b>3,686,977,111</b>    | <b>(5,919,906)</b>                              | <b>3,681,057,205</b> |

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**14. EXPLANATION OF TRANSITION TO IFRS (continued)**

**14.2 Reconciliation to statement of profit or loss and other comprehensive income**

For the three-month period ended 30 September 2016

For the nine-month period ended 30 September 2016

|  | Effect<br>of transition to<br>IFRS standards |                | IFRS standards     | Effect of<br>transition to IFRS<br>standards |                      |
|--|--|----------------|--------------------|--|----------------------|
|  | SOCPA standards<br>SR                        | SR             |                    | SOCPA standards<br>SR                        | IFRS standards<br>SR |
| Revenue  | 741,271,821                                  | --             | 741,271,821        | 2,119,486,814                                | --                   |
| Cost of revenue                                      | (490,335,443)                                | 368,147        | (489,967,296)      | (1,355,729,346)                              | (3,175,842)          |
| <b>Gross profit</b>                                  | <b>250,936,378</b>                           | <b>368,147</b> | <b>251,304,525</b> | <b>763,757,468</b>                           | <b>(3,175,842)</b>   |
| General and<br>administrative expenses               | (60,555,451)                                 | 53,635         | (60,501,816)       | (180,934,883)                                | (433,991)            |
| <b>Operating profit</b>                              | <b>190,380,927</b>                           | <b>421,782</b> | <b>190,802,709</b> | <b>582,822,585</b>                           | <b>(3,609,833)</b>   |
| Other income   | 704,651                                      | --             | 704,651            | 4,884,275                                    | --                   |
| Share of profit from an<br>equity accounted investee | 6,000,000                                    | --             | 6,000,000          | 18,000,000                                   | --                   |
| Finance income, net                                  | 5,115,833                                    | 84,261         | 5,200,094          | 8,440,458                                    | 173,075              |
| <b>Profit before Zakat</b>                           | <b>202,201,411</b>                           | <b>506,043</b> | <b>202,707,454</b> | <b>614,147,318</b>                           | <b>(3,436,758)</b>   |
| Zakat  | (9,000,000)                                  | --             | (9,000,000)        | (29,037,492)                                 | --                   |
| <b>Profit for the period</b>                         | <b>193,201,411</b>                           | <b>506,043</b> | <b>193,707,454</b> | <b>585,109,826</b>                           | <b>(3,436,758)</b>   |
| <b>Actuarial gain on<br/>obligation</b>              | --   | --             | --                 | --   | --                   |
|  | <b>193,201,411</b>                           | <b>506,043</b> | <b>193,707,454</b> | <b>585,109,826</b>                           | <b>(3,436,758)</b>   |
| <b>Earnings per share</b>                            |  |                |                    |  |                      |
| Basic and diluted earnings<br>per share              | <b>1.03</b>                                  | --             | <b>1.03</b>        | <b>3.11</b>                                  | --                   |
|  |  |                |                    |  | <b>3.09</b>          |

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**14. EXPLANATION OF TRANSITION TO IFRS (continued)**

**14.3 Reconciliation to statement of changes in equity**

|   | As at<br>31 December 2016 | As at<br>30 September 2016 |
|---|---------------------------|----------------------------|
|   | SR                        | SR                         |
| Total equity under SOCOPA standards       | 3,049,400,462             | 2,948,681,457              |
| Interest free loans to employees (14 a)   | (5,834,976)               | (5,919,906)                |
| Employees' end of service benefits (14 b) | (66,854,184)              | (70,464,017)               |
| <b>Total equity as per IFRS standards</b> | <b>2,976,711,302</b>      | <b>2,872,297,534</b>       |

**Notes to the reconciliations**

**a) Prepayments and other receivables**

**Bank guarantee deposit**

Bank guarantees were provided to different parties such as Civil Aviation Authority, various Ministries and others which are carried forward continuously on a rolling basis. In order to issue the bank guarantees, an amount was held by banks in margin accounts under lien. The Company does not have any maturity period for these deposits/margin accounts since these are to be carried forward for business continuity and the same shall be released to the Company, only if there is a discontinuance of business dealings with the respective parties. These long term guarantee deposits/margin accounts were reclassified as non-current which was originally recorded under "Prepayments and other receivables" in the statutory financial statements prepared under SOCOPA.

**Interest free loans to employees**

The Company had granted interest free long term loans to certain employees against their end of service benefits which are repayable by way of single instalment on the retirement date, hence these loans were fair valued using a discount rate of 5% and retirement age of 60 years at the reporting date. Accordingly, these employee loans were reclassified as non-current which were originally recorded under "Prepayments and other receivables" in the statutory financial statements prepared under SOCOPA.

|   | As at<br>31 December 2016 | As at<br>30 September 2016 |
|---|---------------------------|----------------------------|
|   | SR                        | SR                         |
| Long term bank guarantee deposits                   | 9,374,285                 | 9,574,285                  |
| Long term interest free loans to employees          | 12,826,845                | 12,885,678                 |
| Reclassified from prepayments and other receivables | 22,201,130                | 22,459,963                 |
| Fair valuation adjustment                           | (5,834,976)               | (5,919,906)                |
| <b>Shown as long term assets</b>                    | <b>16,366,154</b>         | <b>16,540,057</b>          |

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**14. EXPLANATION OF TRANSITION TO IFRS (continued)**

**Notes to the reconciliations (continued)**

**b) Employee benefits**

Under SOCPA, the Company accounted for employees' end of service benefit obligations ("EOSB") with reference to the mode of computation stipulated under the Saudi Arabian Labor law. Upon transition to IFRS, the Company accounts for EOSB as a defined benefit obligation. Accordingly, the Company had appointed an independent actuary for the computation of the IFRS transitional defined benefit liability as at 1 January 2016 and onwards. As at 1 January 2016, a difference of SR 66.8 million (30 September 2016: 70.5 million) was identified between the obligations computed by the actuary and the liabilities recorded under SOCPA at the reporting date. Accordingly, an adjustment to that effect was accounted for in the preparation of the opening IFRS statement of financial position (retained earnings debited by SR 66.8 million) and preliminary IFRS interim financial statements (30 September 2016: profit or loss debited by SR 3.6 million).

**15. PROSPECTIVE CHANGES IN ACCOUNTING POLICIES**

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

**a) New standards**

|   |                                |  |
|---|--------------------------------|--|
| Annual reporting periods beginning on or after January 1, 2018, early adoption is permitted | IFRS 9 – Financial instruments | <p>IFRS 9 contains three principal classification categories for financial assets: measured at amortized cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). The standard eliminates the existing IAS 39 categories of held to maturity, loans and receivables and available for sale.</p> <p>IFRS 9 replaces the 'incurred loss' model in IAS 39 with a forward-looking 'expected credit loss' (ECL) model. This will require considerable judgement as to how changes in economic factors affect ECLs, which will be determined on a probability-weighted basis.</p> <p>The new impairment model will apply to financial assets measured at amortised cost or FVOCI, except for investments in equity instruments, and to contract assets. Under IFRS 9, loss allowances will be measured on either of the following bases:</p> <ul style="list-style-type: none"><li>- 12-month ECLs are those that result from possible default events within the 12 months after the reporting date; and</li><li>- Lifetime ECLs are those that result from all possible default events over the expected life of a financial instrument.</li><li>- Lifetime ECL measurement applies if the credit risk of a financial asset at the reporting date has increased significantly since initial recognition and 12-month ECL measurement applies if it has not. An entity may determine that a financial asset's credit risk has not increased significantly if the asset has low credit risk at the reporting date. However, lifetime ECL measurement always applies for trade receivables and contract assets without a significant financing component; an entity may choose to apply this policy also for trade receivables and contract assets with a significant financing component.</li></ul> |
|---|--------------------------------|--|

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**15. PROSPECTIVE CHANGES IN ACCOUNTING POLICIES (continued)**

**a) New standards (continued)**

|   |   |  |
|---|---|--|
| Annual reporting periods beginning on or after January 1, 2018, early adoption is permitted | IFRS 15 – Revenue from contracts with Customers | IFRS 15 establishes a five step model for all types of revenue contracts, accordingly revenue can either be recognized at a point in time or over a period of time. The standard replaces existing revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction contracts, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for Construction of Real Estate and IFRIC 18 Transfer of Assets from Customers.                              |
| Annual reporting periods beginning on or after 1 January 2019, early adoption is permitted  | IFRS 16 – Leases                                | IFRS 16 introduces a single, on-balance sheet accounting model for leases. IFRS 16 proposes a lease classification that would be based on the nature of asset that was the subject of the lease. Accordingly, all leases would be classified as Type A or Type B leases. The standard features a right of use (ROU) model that would require lessees to recognize most leases on the balance sheets as lease liabilities with corresponding right of use assets. |

**b) Amendments to existing standards**

- Amendments to IFRS 11 – “Joint Arrangements”, applicable for the annual periods beginning on or after 1 January 2016, require an entity acquiring an interest in a joint operation, in which the activity of the joint operation constitutes a business, to apply, to the extent of its share, all of the principles in IFRS 3 – “Business Combinations” and other IFRSs that do not conflict with the requirements of IFRS 11 Joint Arrangements. Furthermore, entities are required to disclose the information required by IFRS 3 and other IFRSs for business combinations. The amendments also apply to an entity on the formation of a joint operation if, and only if, an existing business is contributed by one of the parties to the joint operation on its formation. Furthermore, the amendments clarify that, for the acquisition of an additional interest in a joint operation in which the activity of the joint operation constitutes a business, previously held interests in the joint operation must not be remeasured if the joint operator retains joint control.
- Amendments to IAS 1 – “Presentation of Financial Statements”, applicable for the annual periods beginning on or after 1 January 2016, clarify existing IAS 1 requirements in relation to;
  - The materiality requirements in IAS 1.
  - That specific line items in the statement(s) of profit or loss and other comprehensive income (“OCI”) and the statement of financial position may be disaggregated.
  - That entities have flexibility as to the order in which they present the notes to interim financial statements.
  - That the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss.
  - The amendments further clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement(s) of profit or loss and OCI.
- Amendments to IAS 16 – “Property, Plant and Equipment” and IAS 38 – “Intangible Assets”, applicable for the annual periods beginning on or after 1 January 2016, restricts the use of ratio of revenue generated to total revenue expected to be generated to depreciate property, plant and equipment and may only be used in very limited circumstances to amortize intangible assets.

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**16. 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 financial position include cash and cash equivalents, short term bank deposits, investment – held for trading trade and other receivables, trade payable and other payables. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item.

**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.

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**16. FINANCIAL RISK MANAGEMENT (continued)**

**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 receivables, other receivables, cash at bank, and short term bank deposits

**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.

**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.

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 fair 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).

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**16. FINANCIAL RISK MANAGEMENT (continued)**

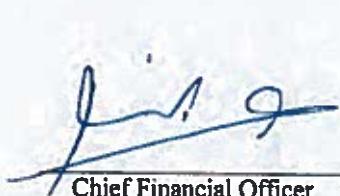
**Fair value of assets and liabilities (continued)**

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

As at 30 September 2017, the fair values of the Company's financial instruments are estimated to approximate their carrying values. Estimate of fair value for trade and other receivables falls under level 3. Significant assumptions include timing of future cash flows as well as appropriate discount rate. Estimate of fair value for investment – held for trading falls under level 1 in the fair value hierarchy.

**17. BOARD OF DIRECTORS' APPROVAL**

The interim financial statements were approved and authorized for issue by the Board of Directors on Safar 16, 1439H, corresponding to November 5, 2017.



Chief Financial Officer



Chief Executive Officer



Chairman