

SAUDI GROUND SERVICES COMPANY
(A Saudi Joint Stock Company)

FINANCIAL STATEMENTS
For the year ended 31 December 2017
with
INDEPENDENT AUDITORS' REPORT

SAUDI GROUND SERVICES COMPANY
(A Saudi Joint Stock Company)
For the year ended 31 December 2017

<i>Contents</i>	<i>Page</i>
Independent auditors' report	--
Statement of financial position	1
Statement of profit or loss and other comprehensive income	2
Statement of changes in equity	3
Statement of cash flows	4
Notes to the financial statements	5 - 48



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

Independent auditors' report

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

Opinion

We have audited the financial statements of Saudi Ground Services Company ("the Company") which comprise the statement of financial position as at 31 December 2017, the statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

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

Basis for Opinion

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

Key Audit Matters

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



Impairment assessment of intangible assets and goodwill

Refer to note: 3 (g) for the accounting policy relating to intangible assets and goodwill and note: 7 for the related disclosure.

Key audit matter

At 31 December 2017, the carrying value of the Company's intangible assets and goodwill amounted to SR 887 million (2016: SR 911 million). Intangible assets and goodwill were recognized by the Company as a result of business combinations in prior years.

For impairment testing assets are grouped together into the smallest group of assets that generates cash flow from continuing use (cash generating unit or CGU) that are largely independent of cash flows of other assets or other CGUs.

The Company's assessment of the recoverable amount of CGU involves use of modelling techniques, requiring a significant amount of judgement and estimation uncertainty. It also requires estimates of future cash flows and associated discount and growth rates based on management's view of future business prospects at the time of assessment.

We considered impairment assessment of intangible assets and goodwill as a key audit matter due to involvement of significant judgements and estimation uncertainty.

How the matter was addressed in our audit

Our audit procedures included the following:

- Assessed the Company's process in respect of impairment assessment of intangible assets and goodwill;
- Assessed the appropriateness of key assumptions used in the management's value in use calculation and performed sensitivity analysis on key assumptions through use of our valuation specialists;
- Compared key assumptions against industry benchmarks, applied our understanding of the future prospects of the business from internal and external sources, and compared forecasts to historical performance;
- Checked the accuracy and completeness of the information used for the basis of the impairment assessment; and
- Assessed adequacy of the financial statement disclosures, including disclosures of key assumptions, judgements and sensitivities.

Recoverability of trade receivables

Refer to Note: 3 (e) for the accounting policy relating to trade receivables and note: 9 for the related disclosure.

Key audit matter

At 31 December 2017, the Company's gross trade receivables including related party receivables amounted to SR 1,169 million, against which allowances for doubtful debts of SR 109 million were recorded.

The Company's allowances for doubtful debts are based on management's best estimate which is estimated by taking into account the credit history of the Company's customers and current market and customer specific conditions.

How the matter was addressed in our audit

Our audit procedures included the following:

- Assessed the design and implementation and tested operating effectiveness of management's key internal controls relating to credit monitoring control and determining allowances for doubtful debts;
- Assessed appropriateness of management policy for determining allowance for doubtful debts;
- Evaluated the reliability of trade receivables ageing report used by management in its assessment of allowance for doubtful debts through use of our IT specialists;



Recoverability of trade receivables (continued)

Key audit matter

We identified assessing the recoverability of trade receivables as a key audit matter because estimating the recoverable amount involves inherent uncertainty and requires exercising significant management judgement.

How the matter was addressed in our audit

- For a sample of receivables; discussed and challenged management's understanding of the debtors' financial condition and the industry in which the debtors operate;
- Requested confirmations from major customers for year end balances and tested reconciliations performed by the management;
- For a sample of receivables, reviewed post year-end cash receipts to corroborate management's view on recoverability of these receivables; and
- Checked the mathematical accuracy of the allowance for doubtful debts using the methodology adopted by the management, assumptions used and trade receivables ageing report.

Change in financial reporting framework

Refer to Note: 2 for basis of preparation of financial statements relating to IFRS adoption and note: 29 for the related disclosure of effects of IFRS adoption.

Key audit matter

For all periods up to and including the year ended December 31, 2016, the Company prepared and presented its statutory financial statements in accordance with generally accepted accounting standards in the Kingdom of Saudi Arabia issued by SOCPA.

For the financial periods commencing 1 January 2017, the applicable regulations require the Company to prepare and present its financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board and endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements that are issued by SOCPA (IFRS as endorsed in Kingdom of Saudi Arabia).

Accordingly, the Company has prepared its financial statements, for the year ended 31 December 2017, under IFRS as endorsed in Kingdom of Saudi Arabia using IFRS 1 - "First time Adoption of International Financial Reporting Standards" (IFRS 1).

How the matter was addressed in our audit

We performed the following procedures in relation to change in financial reporting framework:

- Considered the Company's governance process around the adoption of IFRS as endorsed in Kingdom of Saudi Arabia, especially, in relation to matters requiring management to exercise its judgment;
- Obtained an understanding of the analysis performed by management to identify all significant differences between previous reporting framework and IFRS as endorsed in Kingdom of Saudi Arabia which can impact the Company's financial statements;
- Evaluated the results of management's analysis and key decisions taken in respect of the transition using our knowledge of the relevant requirements of the IFRS as endorsed in Kingdom of Saudi Arabia and our understanding of the Company's business and its operations;
- Tested the transition adjustments by considering management's gap analysis, the underlying financial information and the computation of these adjustments; and
- Evaluated the disclosures made in relation to the transition to IFRS as endorsed in Kingdom of Saudi Arabia by considering the relevant requirements of IFRS



Change in financial reporting framework (continued)

Key audit matter

How the matter was addressed in our audit

As part of this transition to IFRS as endorsed in Kingdom of Saudi Arabia, the Company's management performed a detailed gap analysis to identify differences between previous reporting framework and IFRS as endorsed in Kingdom of Saudi Arabia, determined the transition adjustments in light of this gap analysis and relevant requirements of IFRS 1, and assessed the additional disclosures required in the financial statements.

We considered this as a key audit matter as the transitional adjustments due to change in framework and transition related disclosures in the financial statements required additional attention during our audit.

Other Information

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

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

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

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

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

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

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

Those Charged with Governance are responsible for overseeing the Company's financial reporting process.



Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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

For KPMG Al Fozan & Partners
Certified Public Accountants

Ebrahim Oboud Baeshen
License No: 382



Rajab 11, 1439H
Corresponding to March 28, 2018

SAUDI GROUND SERVICES COMPANY
(A Saudi Joint Stock Company)


STATEMENT OF FINANCIAL POSITION


As at 31 December 2017

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

	Note	31 December 2017	31 December 2016	1 January 2016
ASSETS				
Property and equipment	6	615,791	479,573	473,140
Intangible assets and goodwill	7	887,324	910,748	934,172
Equity accounted investee	8	121,780	98,337	76,201
Prepayments and other receivables	10	5,961	16,366	16,018
Non-current assets		1,630,856	1,505,024	1,499,531
Inventories		--	--	289
Trade receivables	9	1,060,362	1,071,720	809,437
Prepayments and other receivables	10	390,393	291,243	154,496
Investment - held for trading	11	655,804	454,806	--
Short term bank deposits	12	--	404,821	--
Cash and cash equivalents	13	36,363	97,804	779,438
Current assets		2,142,922	2,320,394	1,743,660
Total assets		3,773,778	3,825,418	3,243,191
EQUITY				
Share capital	16	1,880,000	1,880,000	1,880,000
Statutory reserve	17	419,847	369,697	301,114
Retained earnings		572,218	727,014	449,790
Total equity		2,872,065	2,976,711	2,630,904
LIABILITIES				
Employee benefits	24	432,280	383,230	332,122
Non-current liability		432,280	383,230	332,122
Trade payables	14	67,748	28,233	51,792
Other payables	15	336,097	389,928	202,514
Accrued Zakat	23	65,588	47,316	25,859
Current liabilities		469,433	465,477	280,165
Total liabilities		901,713	848,707	612,287
Total equity and liabilities		3,773,778	3,825,418	3,243,191


Chief Financial Officer


Chief Executive Officer


Chairman

The notes on pages from 5 to 48 form an integral part of these financial statements.

SAUDI GROUND SERVICES COMPANY

(A Saudi Joint Stock Company)

STATEMENT OF PROFIT OR LOSS AND COMPREHENSIVE INCOME


For the year ended 31 December 2017

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

	<u>Notes</u>	<u>2017</u>	<u>2016</u>
Revenue		2,585,531	2,726,673
Operating costs		<u>(1,713,277)</u>	<u>(1,802,435)</u>
Gross profit		872,254	924,238
Administrative expenses	19	<u>(382,423)</u>	<u>(248,821)</u>
Operating profit		489,831	675,417
Finance income - net	20	16,433	14,764
Share of profit of equity accounted investee, net of Zakat	8	23,443	22,136
Other income	21	<u>5,193</u>	<u>7,583</u>
Profit before Zakat		534,900	719,900
Zakat expense	23	<u>(33,400)</u>	<u>(34,132)</u>
Profit for the year		501,500	685,768
Other comprehensive income:			
<i>Items that will not be reclassified to profit or loss</i>			
Re-measurements of defined benefit obligation	24	<u>4,854</u>	<u>319</u>
Total comprehensive income for the year		506,354	686,087
Earnings per share:			
Basic and diluted earnings per share	18	<u>2.67</u>	<u>3.65</u>



Chief Financial Officer



Chief Executive Officer



Chairman

The notes on pages from 5 to 48 form an integral part of these financial statements.

SAUDI GROUND SERVICES COMPANY

(A Saudi Joint Stock Company)

STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2017

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

	<u>Share capital</u>	<u>Statutory reserve</u>	<u>Retained earnings</u>	<u>Total equity</u>
Balance at 1 January 2016	1,880,000	301,114	449,790	2,630,904
Total comprehensive income				
Profit for the year	--	--	685,768	685,768
Other comprehensive income	--	--	319	319
Total comprehensive income	--	--	686,087	686,087
Transactions with owners of the Company				
Dividend (note 22)	--	--	(340,280)	(340,280)
Other transactions				
Transfer to statutory reserve	--	68,583	(68,583)	--
Balance at 31 December 2016	1,880,000	369,697	727,014	2,976,711
Balance at 1 January 2017	1,880,000	369,697	727,014	2,976,711
Total comprehensive income				
Profit for the year	--	--	501,500	501,500
Other comprehensive income	--	--	4,854	4,854
Total comprehensive income	--	--	506,354	506,354
Transactions with owners of the Company				
Dividend (note 22)	--	--	(611,000)	(611,000)
Other transactions				
Transfer to statutory reserve	--	50,150	(50,150)	--
Balance at 31 December 2017	1,880,000	419,847	572,218	2,872,065


 Chief Financial Officer


 Chief Executive Officer


 Chairman

The notes on pages from 5 to 48 form an integral part of these financial statements.

SAUDI GROUND SERVICES COMPANY
(A Saudi Joint Stock Company)

STATEMENT OF CASH FLOWS

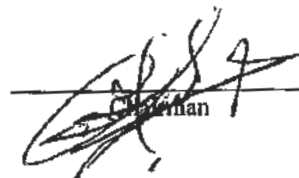
For the year ended 31 December 2017

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

	Notes	2017	2016
Cash flows from operating activities			
Profit before Zakat		534,900	719,900
<i>Adjustments for:</i>			
Depreciation	6	98,116	96,222
Amortization	7	23,424	23,424
Share of profit of equity accounted investee, net of Zakat	8	(23,443)	(22,136)
Gain on disposal of property and equipment	21	(120)	(71)
Impairment loss on trade receivables	9	130,250	29,056
Unrealized/realized gain on investment - held for trading	20	(16,336)	(4,806)
<i>Changes in:</i>		746,791	841,589
Inventories		--	289
Trade receivables		(118,892)	(291,339)
Prepayments and other receivables		(88,745)	(137,095)
Trade payables		39,515	(23,559)
Other payables		(53,831)	187,414
Employee benefits	24	53,904	51,427
Cash generated from operating activities		578,742	628,726
Zakat paid	23	(15,128)	(12,675)
Net cash from operating activities		563,614	616,051
Cash flows from investing activities			
Proceeds from sale of property and equipment		201	105
Acquisition of property and equipment	6	(234,415)	(102,689)
Investment - held for trading	11	(1,227,007)	(950,000)
Redemption/(investment) in short term bank deposits	12	404,821	(404,821)
Proceeds from disposal of investment-held for trading		1,042,345	500,000
Net cash used in investing activities		(14,055)	(957,405)
Cash flows from financing activities			
Dividends paid	22	(611,000)	(340,280)
Cash used in financing activities		(611,000)	(340,280)
Net decrease in cash and cash equivalents		(61,441)	(681,634)
Cash and cash equivalents at beginning of the year		97,804	779,438
Cash and cash equivalents at the end of the year	13	36,363	97,804


Chief Financial Officer


Chief Executive Officer


Chairman

The notes on pages from 5 to 48 form an integral part of these financial statements.

SAUDI GROUND SERVICES COMPANY
(A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

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

1. REPORTING ENTITY

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

Saudi Ground Services Company
Nahda District, Henaki Business Centre
Prince Sultan Street
P. O. Box 48154
Jeddah 21572
Kingdom of Saudi Arabia.

SAUDI GROUND SERVICES COMPANY
(A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

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

2. BASIS OF PREPARATION

2.1 Statement of compliance

Saudi Organization for Certified Public Accountants (SOCPA) requires all listed companies with reporting period beginning on or after 1 January 2017 to prepare and present their first IFRS financial statements in accordance with International Financial Reporting Standards that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements that are issued by SOCPA with early adoption permitted. Resultantly, the Company has prepared these IFRS financial statements as at and for the year ended 31 December 2017 in accordance with International Financial Reporting Standards. Moreover, IFRS 1 First-time Adoption of International Financial Reporting Standards ("IFRS 1") has been applied in the preparation of these IFRS financial statements. Accordingly, 1 January 2016 is the first date of convergence to IFRS for the purpose of these financial statements.

An explanation of how the transition to IFRS has affected the previously reported equity as at 31 December 2016 and 1 January 2016; and comprehensive income of the Company for the year then ended, 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 and 1 January 2016 is provided in Note 29.

2.2 Basis of measurement

The financial statements has been prepared under the historical cost basis, using the accrual basis of accounting and the going concern concept.

2.3 Functional and presentation currency

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

2.4 Use of estimates and judgments

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

i) Judgments

Information about judgments made in applying accounting policies that have the most significant effect on the amounts recognized in the 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

SAUDI GROUND SERVICES COMPANY
(A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

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

2. BASIS OF PREPARATION (continued)

2.4 Use of estimates and judgments (continued)

ii) Assumptions and estimation uncertainties

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

- a) Note 3 (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 financial statements.

(a) Business combinations

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

(b) Business combination under common control

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

(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 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.

SAUDI GROUND SERVICES COMPANY
(A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

(d) Foreign currency

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

(e) Financial instruments

The Company classifies financial assets into the following categories:

- financial assets at fair value through profit and 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.

SAUDI GROUND SERVICES COMPANY
(A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Financial instruments (continued)

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 and loss

A financial asset is classified as at fair value through profit or loss if it is classified as held for trading or designated as such on initial recognition. Directly attributable transaction costs are recognized 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 recognized in 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.

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.

SAUDI GROUND SERVICES COMPANY
(A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Property and equipment (continued)

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.

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.

SAUDI GROUND SERVICES COMPANY
(A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Intangible assets (continued)

ii) Other intangible assets

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

Subsequent expenditure

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

Amortization

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

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.

SAUDI GROUND SERVICES COMPANY
(A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Leases (continued)

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.

(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.

SAUDI GROUND SERVICES COMPANY
(A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Impairment (continued)

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.

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

SAUDI GROUND SERVICES COMPANY
(A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(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 activity falls within a single business segment which are subject to same risks and returns.

(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.

SAUDI GROUND SERVICES COMPANY
(A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) Employee benefits (continued)

iii) Termination benefits

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

(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.

SAUDI GROUND SERVICES COMPANY
(A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(p) Finance income and finance costs

Finance income mainly includes dividend income, interest income on short term deposits, realized/unrealized gain on 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.

(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 expenses 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, amortization of intangible 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.

SAUDI GROUND SERVICES COMPANY
(A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

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

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, Saudi and the Company had entered into a Sale and Purchase Agreement (SPA) for the GSS business unit (SBU) of Saudi.

The assets and liabilities transferred by Saudi, as presented in an independent professional study and shares issued as consideration are summarized as follows:

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.

SAUDI GROUND SERVICES COMPANY
(A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

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

4. BUSINESS COMBINATIONS (continued)

ii) *National Handling Services Company Limited (continued)*

Net identifiable assets at fair value	110,396
Goodwill (note 7)	519,164
Intangible assets (note 7)	545,441
Total assets	<u>1,175,001</u>
 Fair value of consideration	 <u>1,175,001</u>

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:

Net identifiable assets	29,135
Goodwill (note 7)	63,652
Intangible assets (note 7)	76,213
Total assets	<u>169,000</u>
 Fair value of consideration	 <u>169,000</u>

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.

SAUDI GROUND SERVICES COMPANY
(A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

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

5. SECONDMENT AGREEMENTS

According to the Sale Purchase Agreement signed between Saudia and the Company, Saudia employees (SV Employees) have been seconded by Saudia to the Company with effect from 1 January 2011 until the issuance of the Transfer Resolution (the Secondment Period).

During the Secondment Period the Company is responsible for all liabilities and obligations of Saudia in respect of the SV Employees pursuant to their terms of employment with Saudia and in accordance with terms and conditions of the Sale Purchase agreement (including, without limitation, salary, benefits, and any bonus payment or payments due as a result of a change of the terms of employment of such an employee during the Secondment Period).

Pursuant to terms of the Sale Purchase Agreement, Saudia shall reimburse to the Company all costs associated with each SV Employee who is forty-five years of age or older as at the Effective Time which exceed SR 10,000 per employee per Gregorian calendar month.

The Company agreed that it will enter into an employment contract with each of the SV Employee who elects to transfer to the Company at the end of the Secondment Period. SV Employees may at any time including the Effective Time elect not to be transferred to the Company pursuant to this Agreement.

Saudia will indemnify the Company in respect of each loss, liability and cost which it may sustain arising under or in connection with the contract of employment or appointment resolution of a SV Employee who elects not to transfer to the Company and/or, following such election, the termination of his or her employment, whether relating to an act or omission that occurred before or after 1 January 2011 including without limitation in respect of any arrears of salary, any accrued benefits, any payments in lieu of notice, holiday pay, redundancy payments, compensation for wrongful or unfair dismissal or discrimination or any other order for damages or compensation for any failure by Saudia to perform any duty imposed under any such SV Employee's contract of employment (including, without limitation, each loss, liability and cost incurred as a result of defending or settling a claim alleging such liability) or under applicable law.

SAUDI GROUND SERVICES COMPANY
(A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

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

6. PROPERTY AND EQUIPMENT

a) Reconciliation of carrying amounts:

	<u>Land</u>	<u>Leasehold improvements</u>	<u>Airport equipment</u>	<u>Motor vehicles</u>	<u>Furniture, fixtures and equipment</u>	<u>Computer equipment</u>	<u>Capital work in progress</u>	<u>Total</u>
<u>Cost:</u>								
Balance at 1 January 2016	27,464	36,423	934,031	32,689	36,897	32,419	11,631	1,111,554
Additions	--	--	50,810	270	2,266	1,954	47,389	102,689
Transfer from CWIP	--	--	22,383	--	--	--	(22,383)	--
Disposals	--	--	--	(366)	--	(5)	--	(371)
Balance at 31 December 2016	27,464	36,423	1,007,224	32,593	39,163	34,368	36,637	1,213,872
Balance at 1 January 2017	27,464	36,423	1,007,224	32,593	39,163	34,368	36,637	1,213,872
Additions	--	--	55,388	335	1,478	1,124	176,090	234,415
Transfer from CWIP	--	--	146,607	--	--	--	(146,607)	--
Disposals	--	(42)	(42,186)	(1,084)	(420)	(10)	--	(43,742)
Balance at 31 December 2017	27,464	36,381	1,167,033	31,844	40,221	35,482	66,120	1,404,545
<u>Accumulated depreciation:</u>								
Balance at 1 January 2016	--	25,599	536,945	21,793	25,533	28,544	--	638,414
Charge for the year	--	3,715	81,625	4,286	4,318	2,278	--	96,222
Disposals	--	--	--	(332)	--	(5)	--	(337)
Balance at 31 December 2016	--	29,314	618,570	25,747	29,851	30,817	--	734,299
Balance at 1 January 2017	--	29,314	618,570	25,747	29,851	30,817	--	734,299
Charge for the year	--	3,652	84,659	3,663	4,272	1,870	--	98,116
Disposals	--	(42)	(42,174)	(1,015)	(420)	(10)	--	(43,661)
Balance at 31 December 2017	--	32,924	661,055	28,395	33,703	32,677	--	788,754
<u>Carrying amounts:</u>								
At 1 January 2016	27,464	10,824	397,086	10,896	11,364	3,875	11,631	473,140
At 31 December 2016	27,464	7,109	388,654	6,846	9,312	3,551	36,637	479,573
At 31 December 2017	27,464	3,457	505,978	3,449	6,518	2,805	66,120	615,791

SAUDI GROUND SERVICES COMPANY
(A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

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

6. PROPERTY AND EQUIPMENT (continued)

b) Depreciation charge for the year is allocated as follows:

	<u>2017</u>	<u>2016</u>
Operating costs	90,746	87,589
Administrative expenses (note 19)	7,370	8,633
	<u>98,116</u>	<u>96,222</u>

c) Capital work in progress relates to the progress payments made towards purchase of airport equipment committed and ordered.

7. INTANGIBLE ASSETS AND GOODWILL

Reconciliation of carrying amounts:

	<u>Goodwill</u>	<u>Customer contracts</u>	<u>Customer relationships</u>	<u>Total</u>
<u>Cost:</u>				
Balance at 1 January 2016, 31 December 2016 and 31 December 2017	582,816	153,179	468,475	1,204,470
<u>Accumulated amortization:</u>				
Balance at 1 January 2016	--	153,179	117,119	270,298
Amortization	--	--	23,424	23,424
Balance at 31 December 2016	--	153,179	140,543	293,722
Balance at 1 January 2017	--	153,179	140,543	293,722
Amortization	--	--	23,424	23,424
Balance at 31 December 2017	--	153,179	163,966	317,146
<u>Carrying amounts</u>				
At 1 January 2016	582,816	--	351,356	934,172
At 31 December 2016	582,816	--	327,932	910,748
At 31 December 2017	582,816	--	304,508	887,324

7.1 Refer note 4 for details regarding initial recognition of intangible assets and goodwill during business combinations.

SAUDI GROUND SERVICES COMPANY
(A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

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

7. INTANGIBLE ASSETS AND GOODWILL (continued)

- 7.2 The Company has reviewed the carrying amounts of its non-financial assets including goodwill to determine whether their carrying values exceeds the recoverable amounts. The latest impairment study was finalized by an independent firm on 25 February 2018. For the 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 (i.e. Company as a single cash-generating unit). The management reviews good will for impairment annually for the purpose of impairment testing.

The recoverable amount of a non-financial asset or CGU is the greater of its value in use and its fair value less costs to sell. The value in use has been estimated based on the income approach to valuation using the discounted cash flow method. Value in use is based on the estimated future cash flows based on 5-year management's approved business plan projected up to the year 2022, discounted to their present value using the following key assumptions:

<u>Key assumptions</u>	<u>Percentage</u>
Revenue growth rate	1.67%
Projected EBITDA growth rate	-4.2%
Discount rate (weighted average cost of capital)	11.5%
Terminal value growth rate	3%

Management believes that such growth rate does not exceed the long-term average growth rate for the market in which it operates.

The calculation of value-in-use is most sensitive to the following key assumptions used:

- Future performance improvements
- Discount rate applied to cash flows projections
- Service

8. 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, deportees 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 31 December 2017 is as follows:

SAUDI GROUND SERVICES COMPANY
(A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

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

8. EQUITY ACCOUNTED INVESTEE (continued)

<u>Name</u>	<u>Country of incorporation</u>	<u>Effective ownership interest (%)</u>		<u>Carrying value</u>		
		<u>2017</u>	<u>2016</u>	<u>31 December 2017</u>	<u>31 December 2016</u>	<u>1 January 2016</u>
SAAS	Kingdom of Saudi Arabia	50%	50%	<u>121,780</u>	<u>98,337</u>	<u>76,201</u>

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

	<u>2017</u>	<u>2016</u>
Balance at the beginning of the year	<u>98,337</u>	<u>76,201</u>
Share in net income	<u>23,443</u>	<u>22,136</u>
Balance at the end of the year	<u>121,780</u>	<u>98,337</u>

c) The following table summarizes the financial information of SAAS as included in its own financial statements, adjusted for fair value adjustments at acquisition and differences in accounting policies. The table also reconciles the summarized financial information to the carrying amount of the Company's interest in SAAS.

	<u>31 December 2017</u>	<u>31 December 2016</u>	<u>1 January 2016</u>
Non-current assets	<u>99,630</u>	<u>96,918</u>	<u>110,513</u>
Current assets	<u>213,598</u>	<u>148,427</u>	<u>56,584</u>
Non-current liabilities	<u>(1,733)</u>	<u>(1,297)</u>	<u>(719)</u>
Current liabilities	<u>(64,287)</u>	<u>(47,147)</u>	<u>(17,454)</u>
Net assets (100%)	<u>247,208</u>	<u>196,901</u>	<u>148,924</u>
Company's share of net assets (50%)	<u>123,604</u>	<u>98,450</u>	<u>74,462</u>
Difference due to provisional share of profit recorded	<u>(1,824)</u>	<u>(113)</u>	<u>1,739</u>
Carrying amount of interest in joint venture	<u>121,780</u>	<u>98,337</u>	<u>76,201</u>

SAUDI GROUND SERVICES COMPANY
(A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

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

9. TRADE RECEIVABLES

	31 December 2017	31 December 2016	1 January 2016
Trade receivables due from related parties (note 25(a))	785,208	888,292	641,101
Other trade receivables	384,149	301,759	257,611
	<u>1,169,357</u>	<u>1,190,051</u>	<u>898,712</u>
Less: allowance for impairment losses	<u>(108,995)</u>	<u>(118,331)</u>	<u>(89,275)</u>
	<u>1,060,362</u>	<u>1,071,720</u>	<u>809,437</u>

The movement in impairment losses is as follows:

	2017	2016
Balance at beginning of the year	118,331	89,275
Charge for the year (note 19)	130,250	29,056
Allowance written off	<u>(139,586)</u>	<u>--</u>
Balance at end of the year	<u>108,995</u>	<u>118,331</u>

10. PREPAYMENTS AND OTHER RECEIVABLES

	31 December 2017	31 December 2016	1 January 2016
Receivables from related parties (note 25 (b))	286,329	203,799	64,187
Prepayments	61,054	35,364	43,698
Employee loans at amortized cost	37,564	39,546	28,098
Deposits at amortized cost	217	11,127	15,078
Advance to suppliers	3,312	8,764	11,860
Others	7,878	9,009	7,593
	<u>396,354</u>	<u>307,609</u>	<u>170,514</u>
Less: non-current (note 10.1)	<u>(5,961)</u>	<u>(16,366)</u>	<u>(16,018)</u>
Current receivables	<u>390,393</u>	<u>291,243</u>	<u>154,496</u>

- 10.1 This represents bank guarantee deposits and employee loans which are long term in nature and hence discounted at market borrowing rates on the date of origination to determine the amortized cost at the reporting date.

SAUDI GROUND SERVICES COMPANY
(A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

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

11. INVESTMENT- HELD FOR TRADING

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

	31 December 2017	31 December 2016	1 January 2016
Balance at beginning of the year	454,806	--	--
Investment made	1,227,007	950,000	--
Disposal of investment	(1,034,609)	(497,426)	--
Unrealized fair value gain (note 20)	8,600	2,232	--
Balance at the end of the year	655,804	454,806	--

Investment-held for trading have stated interest rates 1.5% to 2 % and mature with in one year.

12. SHORT TERM BANK DEPOSITS

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

13. CASH AND CASH EQUIVALENTS

	31 December 2017	31 December 2016	1 January 2016
Cash in hand	372	380	364
Cash at bank in current accounts	35,991	94,317	775,967
Short-term bank deposits, with original maturity of less than 90 days (note 12)	--	3,107	3,107
	36,363	97,804	779,438

14. TRADE PAYABLES

	31 December 2017	31 December 2016	1 January 2016
Trade payables due to related parties (note 25(c))	48,035	22,233	44,715
Other trade payables	19,713	6,000	7,077
	67,748	28,233	51,792

SAUDI GROUND SERVICES COMPANY
(A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

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

15. OTHER PAYABLES

	31 December 2017	31 December 2016	1 January 2016
Employee related accruals	102,149	98,177	84,598
Related party payables (note 25(d))	118,825	202,358	48,799
Accrued rent and charges	23,214	18,919	19,695
Accrued outsourced service charges	34,664	28,811	19,482
Other accruals	44,240	30,257	17,343
Advances from customers and others	13,005	11,406	12,597
	<u>336,097</u>	<u>389,928</u>	<u>202,514</u>

16. SHARE CAPITAL

At 31 December 2017, the authorized, issued and paid up share capital of SR 1,880 million consists of 188 million fully paid shares of SR 10 each (31 December 2016 and 1 January 2016: SR 1,880 million consist of 188 million shares of SR 10 each) (refer note 4).

	31 December 2017			31 December 2016			1 January 2016		
	Number of shares	%	Amount	Number of shares	%	Amount	Number of shares	%	Amount
Founding share holders	131,600,000	70	1,316,000	131,600,000	70	1,316,000	131,600,000	70	1,316,000
General public	56,400,000	30	564,000	56,400,000	30	564,000	56,400,000	30	564,000
Total	188,000,000	100	1,880,000	188,000,000	100	1,880,000	188,000,000	100	1,880,000

17. 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.

SAUDI GROUND SERVICES COMPANY

(A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

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

18. EARNINGS PER SHARE

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

19. ADMINISTRATIVE EXPENSES

	<u>2017</u>	<u>2016</u>
Employees' related expenses	112,883	106,961
Rent, motor vehicle expenses and other office costs	108,496	80,747
Amortization of intangible assets (note 7)	23,424	23,424
Allowance for impairment losses (note 9)	130,250	29,056
Depreciation (note 6 (b))	7,370	8,633
	<u>382,423</u>	<u>248,821</u>

20. FINANCE INCOME / COST - NET

	<u>2017</u>	<u>2016</u>
Finance income:		
Interest income on short term deposits	2,339	11,363
Unwinding of discounts on interest free employees' loans	279	258
Unrealized gain on fair valuation of investment-held for trading (note 11)	8,600	2,232
Realized gain on disposal of investment-held for trading	7,736	2,574
	<u>18,954</u>	<u>16,427</u>
Finance cost:		
Bank charges	(1,026)	(949)
Exchange loss	(1,495)	(714)
	<u>(2,521)</u>	<u>(1,663)</u>
Finance income – net	<u>16,433</u>	<u>14,764</u>

SAUDI GROUND SERVICES COMPANY
(A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

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

21. OTHER INCOME

	<u>2017</u>	<u>2016</u>
Human Resource Development Fund claims received	2,287	4,862
Penalty for delayed services	1,758	1,834
Gain on disposal of property and equipment	120	71
Miscellaneous income	1,028	816
	<u>5,193</u>	<u>7,583</u>

22. DIVIDEND DISTRIBUTION

During the year, the Company declared a cumulative dividend of SR 611 million (2016: SR 340 million) out of retained earnings and the profits of 2017. The dividend was approved by the Board of Directors as stated below:

	<u>2017</u>	<u>2016</u>
Annual dividend for 2015	--	95,880
Interim dividend for 2016	--	244,400
Annual dividend for 2016	244,400	--
Interim dividend for 2017	366,600	--
	<u>611,000</u>	<u>340,280</u>

SAUDI GROUND SERVICES COMPANY
(A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

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

23. ZAKAT

a) Zakat expense for the year

The significant components of Zakat base as per relevant GAZT regulations are as follows:

	<u>2017</u>	<u>2016</u>
Share capital	1,880,000	1,880,000
Statutory reserves	369,697	301,114
Retained earnings	727,014	522,737
Adjusted net profit	712,215	790,816
Provisions made during the year	340,516	340,998
Dividend paid	(611,000)	(340,280)
Deduction against written down value of property and equipment	<u>(2,301,295)</u>	<u>(2,173,992)</u>
Zakat base	<u>1,117,147</u>	<u>1,321,393</u>
Zakat @ 2.5% higher of adjusted net profit or Zakat base	27,929	33,035
Excess provision made	<u>5,471</u>	<u>1,097</u>
Zakat expense for the year	<u>33,400</u>	<u>34,132</u>

The differences between the financial and the Zakatable results are due to certain adjustments in accordance with the relevant GAZT regulations.

b) Accrued Zakat

The movement in the accrued Zakat during the year is analysed as under:

	<u>2017</u>	<u>2016</u>
Balance at the beginning of the year	47,316	25,859
Charge for the year	33,400	34,132
Payments during the year	<u>(15,128)</u>	<u>(12,675)</u>
Balance at the end of the year	<u>65,588</u>	<u>47,316</u>

SAUDI GROUND SERVICES COMPANY
(A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

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

23. ZAKAT (continued)

c) Status of Zakat

The Company has filed declaration up to financial year end 31 December 2016 with the General Authority of Zakat and Income Tax (GAZT). The Company also obtained Zakat certificate valid until 30 April 2018. The GAZT has issued the final Zakat assessment order for 2008 to 2011 subject to an additional Zakat liability of SR 900,000. However, the Company has filed an objection against this assessment.

24. EMPLOYEES' BENEFITS

a) General Description of the plan

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

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

	December 31, 2017	December 31, 2016	January 1, 2016
Present value of defined benefit obligation	<u>432,280</u>	<u>383,230</u>	<u>332,122</u>

b) Movement in net defined benefit liability

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

	2017	2016
Balance at beginning of year	383,230	332,122
<i>Included in profit or loss</i>		
Current service cost	51,764	47,769
Interest cost	18,746	16,290
	70,510	64,059
<i>Included in other comprehensive income</i>		
Actuarial gain	(4,854)	(319)
Benefits paid	(16,606)	(12,632)
Balance at end of year	<u>432,280</u>	<u>383,230</u>

SAUDI GROUND SERVICES COMPANY
(A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

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

24. EMPLOYEES' BENEFITS (continued)

- c) As described in accounting policy note 3 (m) the valuation for end of service liability is prepared by an independent external firm of actuaries using the following key assumptions at the reporting date

Key assumptions	2017	2016
Discount rate	4.35%	5%
Future salary growth / Expected rate of salary increase	4.5%	6%
Mortality rate	0.1%	0.1%
Employee turnover / withdrawal rates	9.5%	13%
Retirement age	60 years	60 years

An independent actuarial exercises have been conducted as at 1 January 2016, 31 December 2016 and 31 December 2017 to ensure the adequacy of provisions for employees' end of service benefits in accordance with the rules stated under the Saudi Arabian Labour and Workmen Law by using the Projected Unit Credit Method as required under International Accounting Standards 19: Employee Benefits.

- d) The sensitivity of EOSB to changes in the weighted principal assumptions is as follows:

<u>Assumptions</u>	<u>Change in assumption by</u>	<u>2017</u>		<u>2016</u>	
		<u>Increase in liability by</u>	<u>Decrease in liability by</u>	<u>Increase in liability by</u>	<u>Decrease in liability by</u>
Discount rate	1%	62,921	(51,897)	52,367	(43,504)
Future salary growth	1%	64,461	(54,041)	53,296	(45,067)

The weighted average duration of the defined benefit obligation is 13.28 years (2016: 12.43 years)

25. 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:

SAUDI GROUND SERVICES COMPANY
(A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

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

25. RELATED PARTY (continued)

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

<u>Name</u>	<u>Relationship</u>	<u>Nature of transaction</u>	<u>Amount of transactions for the year ended 31 December</u>		<u>Closing balance</u>		
			<u>2017</u>	<u>2016</u>	<u>31 December 2017</u>	<u>31 December 2016</u>	<u>1 January 2016</u>
Saudi Arabian Airlines Corporation	Parent Company	Services provided	1,268,155	1,328,705	515,971	721,353	552,899
National Air Services	Affiliate	Services provided	261,890	251,461	153,832	78,327	18,584
Saudi Airlines – Cargo Company Limited	Affiliate	Services provided	17,777	22,152	29,904	22,381	21,606
Saudi Aerospace Engineering Industries	Affiliate	Services provided	676	131	497	--	2
Saudi Airlines Catering	Affiliate	Services provided	117	93	300	171	31
Saudi Private Aviation	Affiliate	Services provided	17,036	36,240	35,740	49,006	36,179
Royal Fleet Services	Affiliate	Services provided	41,777	16,213	43,880	17,052	11,798
National Aviation Ground Support	Affiliate	Services provided	22	--	2	2	2
Fly ideal	Affiliate	Services provided	5,196	--	5,082	--	--
					<u>785,208</u>	<u>888,292</u>	<u>641,101</u>

SAUDI GROUND SERVICES COMPANY
(A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

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

25. RELATED PARTY (continued)

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

<u>Name</u>	<u>Relationship</u>	<u>Nature of transactions</u>	<u>Amount of transactions for the year ended 31 December</u>		<u>Closing balance</u>		
			<u>2017</u>	<u>2016</u>	<u>31 December 2017</u>	<u>31 December 2016</u>	<u>1 January 2016</u>
Saudia Arabian Airlines Corporation	Parent Company	Recharge of seconded staff cost	273,001	347,337	267,005	187,543	53,876
Saudi Aerospace Engineering Industries	Affiliate	GACA rent recharge	1,424	1,424	--	996	2,420
Saudi Amad for Airport Services and Transport Support Company	Joint Venture	Manpower & Operational Services	2,910	3,017	18,740	14,675	7,308
Attar Travels	Affiliate	Recharge of expenses	--	--	584	583	583
					<u>286,329</u>	<u>203,799</u>	<u>64,187</u>

SAUDI GROUND SERVICES COMPANY
(A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

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

25. RELATED PARTY (continued)

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

Name	Relationship	Nature of transactions	Amount of transactions for the year ended		Closing balance		
			31 December 2017	2016	31 December 2017	31 December 2016	1 January 2016
Saudi Arabian Airlines Corporation	Parent Company	Expenses incurred on behalf of company	18,995	19,660	15,253	13,883	12,512
Saudi Airlines Catering	Affiliate	Expenses incurred on behalf of company	62,095	54,232	4,811	--	3,671
Saudia Aerospace Engineering Industries	Affiliate	Expenses incurred on behalf of company	83,836	82,225	21,689	6,177	28,532
Saudi Amad for Airport Services and Transport Support Company	Affiliate	Expenses incurred on behalf of company	7,095	5,076	5,982	2,041	--
Saudi Airlines Real Estate Developers	Affiliate	Expenses incurred	996	--	76	--	--
Saudia Airlines Cargo Limited	Affiliate	Services	92	132	224	132	--
					48,035	22,233	44,715

SAUDI GROUND SERVICES COMPANY
(A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

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

25. RELATED PARTY (continued)

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

Name	Relationship	Nature of transactions	Amount of transactions for the year ended		Closing balance		
			31 December 2017	31 December 2016	31 December 2017	31 December 2016	1 January 2016
Saudi Arabian Airlines Corporation	Parent Company	Saudia staff pension	46,930	36,636	67,882	141,635	31,195
Saudi Amad for Airport Services and Transport Support Company	Affiliate	Payment received on behalf of the company	32,637	36,136	29,388	32,420	--
Saudi Airlines Catering Company	Affiliate	Services received	--	--	11,112	13,314	17,235
Saudi Aerospace Engineering Industries	Affiliate	Services received	--	--	2,064	8,303	--
National Air Services	Affiliate	Expense claims	--	600	600	600	--
Saudia Airlines Cargo Limited	Affiliate	Expense claims	--	--	859	86	9
Saudi Private Aviation	Affiliate	Services	--	3,000	3,000	3,000	--
Royal Fleet Services	Affiliate	Services	--	3,000	3,000	3,000	--
Saudi Arabia Real Estate Development	Affiliate	Services	--	1,520	920	--	360
					<u>118,825</u>	<u>202,358</u>	<u>48,799</u>

SAUDI GROUND SERVICES COMPANY
(A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

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

25. RELATED PARTY (continued)

(e) Remuneration:

<u>Name</u>	<u>Nature of transactions</u>	<u>2017</u>	<u>2016</u>
Key management personnel	Remuneration	12,916	8,050
Board of Directors	Meeting attendance fee	3,528	4,206
		<u>16,444</u>	<u>12,256</u>

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

	<u>2017</u>	<u>2016</u>
Short term	16,080	11,857
End of service benefits	364	399
	<u>16,444</u>	<u>12,256</u>

The Company's revenues derived from services rendered to Saudi Arabian Airlines Corporation ("Saudia") amounted to approximately 49% (2016: 49%) of the total revenue. During the year, SR 140 million worth of receivables from Saudia were written off against the available provision balance.

26. CONTINGENT LIABILITIES AND COMMITMENTS

As at 31 December 2017 the Company has provided, in the normal course of business, bank guarantees amounting to SR 0.05 million (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 31 December 2017, the commitments under non-cancelable operating lease rentals are SR 10.58 million (2016: SR 10.66 million). Commitments amounting to SR 40.77 million (2016: SR 37.16 million) are in respect of capital expenditure committed but not paid.

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

SAUDI GROUND SERVICES COMPANY
(A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

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

27. FINANCIAL RISK MANAGEMENT

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

- Credit risk
- Liquidity risk
- Market risk

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

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

Risk management framework

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

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

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

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

Financial instruments carried on the statement of financial position include cash and cash equivalents, 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.

SAUDI GROUND SERVICES COMPANY
(A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

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

27. FINANCIAL RISK MANAGEMENT (continued)

Market risk

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

Interest rate risk

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

Currency risk

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

Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's trade receivables, other receivables, cash at bank, investment- held for trading and short term bank deposits.

Trade and other receivables (including related parties)

The Company has established a credit policy under which new customers are analyzed individually for creditworthiness before the Company's standard payment and service terms and conditions are offered. Credit limits are established for customers, which represents the maximum open amount without requiring further approval from the management; these limits are reviewed periodically. Customers that fail to meet the Company's benchmark creditworthiness may transact with the Company only on advance payment basis.

The Company establishes an allowance for impairment that represents its estimate of incurred losses in respect of trade and other receivables. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified. The collective loss allowance is determined based on historical data of payment statistics for similar financial assets.

Cash at banks

The Company's cash is placed with banks of repute.

SAUDI GROUND SERVICES COMPANY

(A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

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

27. FINANCIAL RISK MANAGEMENT (continued)**Credit risk**

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

	31 December 2017	31 December 2016	1 January 2016
Financial assets			
Trade receivables	1,169,357	1,190,051	898,712
Other receivables (excluding advances)	293,924	243,697	86,860
Investment – held for trading	655,804	454,806	--
Short term bank deposits	--	407,928	3,107
Cash at banks	35,991	94,317	775,967
	<u>2,155,076</u>	<u>2,390,799</u>	<u>1,764,646</u>

The maximum exposure to credit risk for trade receivables including related parties by geographical region at the reporting date was:

	31 December 2017	31 December 2016	1 January 2016
Gulf countries	927,751	1,003,072	736,306
Other Asian countries	124,313	79,149	69,803
Europe	8,828	7,381	17,412
Other regions	108,465	100,449	75,191
	<u>1,169,357</u>	<u>1,190,051</u>	<u>898,712</u>

At 31 December 2017, trade receivables are mainly due from Saudia (note 25 (a)) and other foreign airlines and are stated at their estimated realisable values. 53 % (2016: 45%) of accounts receivable from other customers comprise of ten customers.

Impairment losses

The ageing of trade receivables including related parties at the reporting date was:

	31 December 2017		31 December 2016		1 January 2016	
	Gross	Impairment loss	Gross	Impairment loss	Gross	Impairment loss
Not past due	540,712	--	725,296	--	491,263	--
Past due 0-90 days	242,704	--	151,153	--	130,040	--
Past due 91-180 days	118,720	7,244	45,547	3,295	140,651	3,750
Past due 181-365 days	61,318	16,892	50,917	5,593	136,758	85,525
Past due 365 – days	205,905	84,859	217,138	109,443	--	--
Total	<u>1,169,357</u>	<u>108,995</u>	<u>1,190,051</u>	<u>118,331</u>	<u>898,712</u>	<u>89,275</u>

SAUDI GROUND SERVICES COMPANY
(A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

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

27. FINANCIAL RISK MANAGEMENT (continued)

Credit risk (continued)

Impairment losses (continued)

Impairment losses are calculated as follows:

	31 December 2017	31 December 2016	1 January 2016
Impairment - individually significant customers	58,780	93,302	64,246
Impairment - collective basis	50,215	25,029	25,029
	108,995	118,331	89,275

Interest rate risk

The interest rate profile of the Company's interest-bearing financial instruments as reported to the management of the Company is as follows:

	31 December 2017	31 December 2016	1 January 2016
Fixed rate instruments			
Financial assets			
- Short term bank deposits	--	404,821	--
Variable rate instruments			
Financial assets			
- Investment – held for trading	655,804	454,806	--

Fair value sensitivity analysis for fixed interest rate instruments

The Company does not account for any fixed rate financial assets and liabilities at fair value through profit or loss, therefore, a change in interest rates at the reporting date would not affect the statement of profit or loss and other comprehensive income.

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates at the reporting date would have increased/(decreased) profit or loss by SR 6.56 million (2016 :SR 4.55 million). This analysis assumes that all other variables, in particular foreign currency rates, remain constant.

SAUDI GROUND SERVICES COMPANY
(A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

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

27. FINANCIAL RISK MANAGEMENT (continued)

Liquidity risk

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

Exposure to liquidity risk

The following contractual maturities of financial liabilities at the reporting date:

Non-derivative financial liabilities	Carrying amount	Contractual cash flows	Less than six months
<i>At 31 December 2017</i>			
Trade payables	67,748	67,748	67,748
Other payables (excluding advances)	323,092	323,092	323,092
Accrued Zakat	65,588	65,588	65,588
	<u>456,428</u>	<u>456,428</u>	<u>456,428</u>
<i>At 31 December 2016</i>			
Trade payables	28,233	28,233	28,233
Other payables (excluding advances)	378,522	378,522	378,522
Accrued Zakat	47,316	47,316	47,316
	<u>454,071</u>	<u>454,071</u>	<u>454,071</u>
<i>At 1 January 2016</i>			
Trade payables	51,792	51,792	51,792
Other payables (excluding advances)	189,918	189,918	189,918
Accrued Zakat	25,859	25,859	25,859
	<u>267,569</u>	<u>267,569</u>	<u>267,569</u>

Capital risk management

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

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

SAUDI GROUND SERVICES COMPANY
(A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

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

27. FINANCIAL RISK MANAGEMENT (continued)

Fair value of assets and liabilities

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

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

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

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

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

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

As at 31 December 2017, the fair values of the Company's financial instruments are estimated to approximate their carrying values. No significant inputs were applied in the valuation of trade receivables as at 31 December 2017. Investment – held for trading falls under level 1 in the fair value hierarchy.

SAUDI GROUND SERVICES COMPANY
(A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

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

28. NEW STANDARDS ISSUED AND NOT YET EFFECTIVE

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

IFRS 15 Revenue from Contracts with Customers

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes. IFRS 15 is effective for annual periods beginning on or after 1 January 2018. There is not going to be a significant impact on Company's revenue recognition policy.

IFRS 9 Financial Instruments

In July 2014, the International Accounting Standards Board issued the final version of IFRS 9 Financial Instruments. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early adoption permitted.

Classification – Financial assets

IFRS 9 contains a new classification and measurement approach for financial assets that reflects the business model in which assets are managed and their cash flow characteristics. IFRS 9 contains three principal classification categories for financial assets: measured at amortised 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.

Impairment – Financial Assets and Contract Assets

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.

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:

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

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.

SAUDI GROUND SERVICES COMPANY
(A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

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

28. PROSPECTIVE CHANGES IN ACCOUNTING POLICIES (continued)

IFRS 9 Financial Instruments (continued)

Classification – Financial Liabilities

IFRS 9 largely retains the existing requirements in IAS 39 for the classification of financial liabilities. However, under IAS 39 all fair value changes of liabilities designated as at FVTPL are recognized in profit or loss, whereas under IFRS 9 these fair value changes are generally presented as follows:

- the amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in Other Comprehensive Income
- the remaining amount of change in the fair value is presented in profit or loss.

Disclosures

IFRS 9 will require extensive new disclosures, in particular about credit risk and expected credit losses.

Transition

Changes in accounting policies resulting from the adoption of IFRS 9 will generally be applied retrospectively, except as described below.

The Company plans to take advantage of the exemption allowing it not to restate comparative information for prior periods with respect to classification and measurement (including impairment) changes. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9 generally will be recognised in retained earnings and reserves as at 1 January 2018.

IFRS 16 Leases

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

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

Determining whether an arrangement contains a lease

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

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

SAUDI GROUND SERVICES COMPANY
(A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

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

28. PROSPECTIVE CHANGES IN ACCOUNTING POLICIES (continued)

IFRS 16 Leases (continued)

Transition

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

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

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

29. EXPLANATION OF TRANSITION TO IFRS

As stated in note 2.1, this is the Company's first financial statements prepared in accordance with the requirements of IFRS 1.

The accounting policies set out in note 3 have been applied in preparing the financial statements for the year ended 31 December 2017, 31 December 2016 and in the preparation of an opening IFRS statement of financial position as at 1 January 2016 (the Company's date of transition).

In preparing its opening IFRS statement of financial position, the Company has adjusted amounts reported previously in financial statements prepared in accordance with SOCPA standards. An explanation of how the transition from SOCPA standards (pre-convergence GAAP) to IFRSs has affected the Company's financial position, is set out in the following tables and the notes that accompany the tables.

SAUDI GROUND SERVICES COMPANY
(A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

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

29. EXPLANATION OF TRANSITION TO IFRS (continued)

	Notes	<u>SOCPA</u>	<u>IFRS</u> <u>impact</u>	<u>IFRS</u>	<u>SOCPA</u>	<u>IFRS</u> <u>impact</u>	<u>IFRS</u>
		as at 1 January 2016			as at 31 December 2016		
ASSETS							
Property and equipment		473,140	--	473,140	479,573	--	479,573
Intangible assets and goodwill		934,172	--	934,172	910,748	--	910,748
Equity accounted investee		76,201	--	76,201	98,337	--	98,337
Prepayments and other receivables	29(b)	--	16,018	16,018	--	16,366	16,366
Non-current assets		1,483,513	16,018	1,499,531	1,488,658	16,366	1,505,024
Inventories		289	--	289	--	--	--
Trade receivables		809,437	--	809,437	1,071,720	--	1,071,720
Prepayments and other receivables	29(b)	176,607	(22,111)	154,496	313,444	(22,201)	291,243
Investment – held for trading		--	--	--	454,806	--	454,806
Short term deposits		--	--	--	404,821	--	404,821
Cash and cash equivalents		779,438	--	779,438	97,804	--	97,804
Current assets		1,765,771	(22,111)	1,743,660	2,342,595	(22,201)	2,320,394
Total assets		3,249,284	(6,093)	3,243,191	3,831,253	(5,835)	3,825,418
EQUITY							
Share capital		1,880,000	--	1,880,000	1,880,000	--	1,880,000
Statutory reserve		301,114	--	301,114	369,697	--	369,697
Retained earnings	29(a)	522,737	(72,947)	449,790	799,703	(72,689)	727,014
Total equity		2,703,851	(72,947)	2,630,904	3,049,400	(72,689)	2,976,711
LIABILITIES							
Employees' benefits	29(c)	265,268	66,854	332,122	316,376	66,854	383,230
Non-current liability		265,268	66,854	332,122	316,376	66,854	383,230
Trade payables		51,792	--	51,792	28,233	--	28,233
Other payables		202,514	--	202,514	389,928	--	389,928
Accrued Zakat		25,859	--	25,859	47,316	--	47,316
Current liabilities		280,165	--	280,165	465,477	--	465,477
Total liabilities		545,433	66,854	612,287	781,853	66,854	848,707
Total equity and liabilities		3,249,284	(6,093)	3,243,191	3,831,253	(5,835)	3,825,418

SAUDI GROUND SERVICES COMPANY
(A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

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

29. EXPLANATION OF TRANSITION TO IFRS (continued)

Reconciliation of comprehensive income for the year ended 31 December 2016

	For the year ended 31 December 2016		
	<u>SOCPA</u>	<u>IFRS impact</u>	<u>IFRS as at 31 December 2016</u>
Revenue	2,726,673	—	2,726,673
Operating costs	(1,802,116)	(319)	(1,802,435)
Gross profit	924,557	(319)	924,238
Administrative expenses	(248,821)	--	(248,821)
Operating Profit	675,736	(319)	675,417
Other income	7,583	--	7,583
Share of profit from an equity accounted investee	22,136	--	22,136
Finance income, net	14,506	258	14,764
Profit before Zakat	719,961	(61)	719,900
Zakat	(34,132)	--	(34,132)
Profit for the year	685,829	(61)	685,768
Other comprehensive income			
Actuarial gain on obligation	--	319	319
Total comprehensive income	685,829	258	686,087
Earning per share	3.65	--	3.65

Notes to the reconciliations

a) Details of decrease in the retained earnings resulting from transition to IFRS are as follows:

	<u>Note</u>	<u>31 December 2016</u>	<u>1 January 2016</u>
Retained earnings under SOCPA		799,703	522,737
Interest free loans to employees	29 (b)	(5,835)	(6,093)
Employees' end of service benefits	29 (c)	(66,854)	(66,854)
Decrease in retained earnings		(72,689)	(72,947)
Retained earnings under IFRS		727,014	449,790

SAUDI GROUND SERVICES COMPANY

(A Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2017

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

29. EXPLANATION OF TRANSITION TO IFRS (continued)**Notes to the reconciliations (continued)****b) Prepayments and other receivables****Bank guarantee deposit**

Bank guarantees have been 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 SOCPA.

Interest free loans to employees

The Company has 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 are 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 SOCPA.

	31 December <u>2016</u>	1 January <u>2016</u>
Long term bank guarantee deposits	9,374	8,921
Long term interest free loans to employees	<u>12,827</u>	<u>13,190</u>
Reclassified from prepayments and other receivables	<u>22,201</u>	<u>22,111</u>
Amortised cost adjustment	<u>(5,835)</u>	<u>(6,093)</u>
Shown as long term assets	<u>16,366</u>	<u>16,018</u>

c) Employee benefits

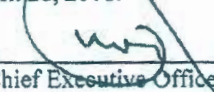
Under SOCPA, the Company accounted for employees' end of service benefit obligations ("EOSB") with reference to the mode of computation stipulated under the Saudi Arabian Labor law. Upon transition to IFRS, the Company accounts for EOSB as a defined benefit obligation. Accordingly, the Company had appointed an independent actuary for the computation of the IFRS transitional defined benefit liability as at 1 January 2016 and onwards. As at 31 December 2016, a difference of SR 66.8 million (1 January 2016: SR 66.8 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).

30. BOARD OF DIRECTORS' APPROVAL

The financial statements were approved and authorized for issue by the Board of Directors on Rajab 11, 1439H, corresponding to March 28, 2018.



Chief Financial Officer



Chief Executive Officer



Chairman