# SAUDI GROUND SERVICES COMPANY
# (A SAUDI JOINT STOCK COMPANY)

## UNAUDITED INTERIM CONDENSED FINANCIAL STATEMENTS AND INDEPENDENT AUDITOR'S REVIEW REPORT

### FOR THE THREE-MONTH AND NINE-MONTH PERIODS ENDED 30 SEPTEMBER 2022

**SAUDI GROUND SERVICES COMPANY**
**(A SAUDI JOINT STOCK COMPANY)**

**UNAUDITED INTERIM CONDENSED FINANCIAL STATEMENTS**
**AND INDEPENDENT AUDITOR'S REVIEW REPORT**
**For the three-month and nine-month periods ended 30 September 2022**

**Ernst & Young Professional Services (Professional LLC)**
**Paid-up capital (SR 5,500,000 – Five million five hundred thousand Saudi Riyal)**
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## INDEPENDENT AUDITOR'S REVIEW REPORT ON THE INTERIM CONDENSED FINANCIAL STATEMENTS TO THE SHAREHOLDERS OF SAUDI GROUND SERVICES COMPANY (A SAUDI JOINT STOCK COMPANY)

### Introduction

We have reviewed the accompanying interim condensed statement of financial position of Saudi Ground Services Company (A Saudi Joint Stock Company) (the "Company") as at 30 September 2022, and the related interim condensed statement of profit or loss and other comprehensive income for the three-month and nine-month periods ended 30 September 2022, and the related interim condensed statements of changes in equity ,and interim condensed cash flows for the nine-month period then ended, and other explanatory notes. Management is responsible for the preparation and fair presentation of these interim condensed financial statements in accordance with International Accounting Standard 34, "Interim Financial Reporting" ("IAS 34") as endorsed in the Kingdom of Saudi Arabia. Our responsibility is to express a conclusion on these interim condensed financial statements based on our review.

### Scope of review

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

### Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying interim condensed financial statements are not prepared, in all material respects, in accordance with IAS 34 as endorsed in the Kingdom of Saudi Arabia.

### Other matter

The financial statements of the Company for the year ended 31 December 2021 were audited by another auditor who expressed an unmodified opinion on those financial statements on 30 March 2022 (corresponding to 27 Sha'ban 1443H). Further, the interim condensed financial statements of the Company for the three-month and nine-month periods ended 30 September 2021 were reviewed by another auditor who expressed an unmodified conclusion on those interim condensed financial statements on 10 November 2021 (corresponding to 05 Rabi Al-Thani 1443H).

for Ernst & Young Professional Services

Hussain Saleh Asiri
Certified Public Accountant
License No. 414

Jeddah: 15 Rabi Al-Thani 1444H
9 November 2022G

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CR. 4030276644
شركة إرنست ويونغ للخدمات المهنية
(مهنية ذات مسؤولية محدودة)
Ernst & Young Professional Services
(Professional LLC)

SAUDI GROUND SERVICES COMPANY (A SAUDI JOINT STOCK COMPANY)

INTERIM CONDENSED STATEMENT OF FINANCIAL POSITION

As at 30 September 2022

| | Note | ***30 September 2022 (Unaudited) SR'000*** | *31 December 2021 (Audited) SR'000* |
|---|---|---|---|
| **ASSETS** | | | |
| **NON-CURRENT ASSETS** | | | |
| Property and equipment | 6 | **531,346** | 528,198 |
| Right-of-use assets | 7 | **134,564** | 122,210 |
| Intangible assets and goodwill | 8 | **785,460** | 812,571 |
| Equity-accounted investments | 9 | **50,359** | 51,921 |
| Prepayments and other assets | | **4,067** | 4,264 |
| **TOTAL NON-CURRENT ASSETS** | | **1,505,796** | 1,519,164 |
| **CURRENT ASSETS** | | | |
| Inventories | | **8,963** | 6,069 |
| Trade receivables | 10 | **1,175,002** | 1,067,241 |
| Prepayments and other current assets | | **598,100** | 608,289 |
| Financial assets at fair value through profit or loss (FVTPL) | 11 | **1,043,560** | 1,391,055 |
| Cash and cash equivalents | | **67,029** | 254,868 |
| **TOTAL CURRENT ASSETS** | | **2,892,654** | 3,327,522 |
| **TOTAL ASSETS** | | **4,398,450** | 4,846,686 |
| **EQUITY AND LIABILITIES** | | | |
| **EQUITY** | | | |
| Share capital | 1 | **1,880,000** | 1,880,000 |
| Statutory reserve | | **499,025** | 499,025 |
| Accumulated losses | | **(251,026)** | (114,311) |
| **TOTAL EQUITY** | | **2,127,999** | 2,264,714 |
| **NON-CURRENT LIABILITIES** | | | |
| Loans and borrowings | 12 | **472,889** | 471,259 |
| Lease liabilities | 7 | **84,945** | 79,172 |
| Employee defined benefit liabilities | | **616,412** | 580,696 |
| **TOTAL NON-CURRENT LIABILITIES** | | **1,174,246** | 1,131,127 |
| **CURRENT LIABILITIES** | | | |
| Loans and borrowings- current portion | 12 | **225,000** | 712,500 |
| Lease liabilities- current portion | 7 | **39,780** | 35,684 |
| Trade payables | | **108,813** | 68,716 |
| Accruals and other current liabilities | | **464,717** | 475,145 |
| Zakat provision | 13 | **257,895** | 158,800 |
| **TOTAL CURRENT LIABILITIES** | | **1,096,205** | 1,450,845 |
| **TOTAL LIABILITIES** | | **2,270,451** | 2,581,972 |
| **TOTAL EQUITY AND LIABILITIES** | | **4,398,450** | 4,846,686 |

The attached notes from 1 to 21 form an integral part of these interim condensed financial statements.

Chief Financial Officer | Chief Executive Officer | Chairman of the Board

SAUDI GROUND SERVICES COMPANY (A SAUDI JOINT STOCK COMPANY)

INTERIM CONDENSED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the three-month and nine-month periods ended 30 September 2022

| | Note | *Three-month period ended 30 September* | | *Nine-month period ended 30 September* | |
|---|---|---|---|---|---|
| | | ***2022 (Unaudited) SR'000*** | *2021 (Unaudited) SR'000* | ***2022 (Unaudited) SR'000*** | *2021 (Unaudited) SR'000* |
| Revenue | 14 | **555,091** | 420,692 | **1,475,595** | 1,168,469 |
| Costs of revenue | | **(507,589)** | (363,757) | **(1,328,403)** | (1,043,077) |
| **GROSS PROFIT** | | **47,502** | 56,935 | **147,192** | 125,392 |
| Other income | | **4,885** | 3,236 | **12,279** | 8,266 |
| General and administrative expenses | | **(69,059)** | (67,447) | **(204,149)** | (200,559) |
| Impairment losses on trade receivables | | **(3,103)** | (21,500) | **(6,646)** | (37,000) |
| **OPERATING LOSS** | | **(19,775)** | (28,776) | **(51,324)** | (103,901) |
| Finance costs | | **(8,721)** | (8,521) | **(24,871)** | (22,603) |
| Realized and unrealized gain on financial assets at FVTPL | 11 | **6,402** | 10,440 | **38,137** | 16,782 |
| Share of profit / (loss) from equity-accounted investments | 9 | **1,243** | (503) | **438** | (15,493) |
| **LOSS BEFORE ZAKAT** | | **(20,851)** | (27,360) | **(37,620)** | (125,215) |
| Zakat charge | 13 | **(30,000)** | (16,127) | **(99,095)** | (28,127) |
| **LOSS FOR THE PERIOD** | | **(50,851)** | (43,487) | **(136,715)** | (153,342) |
| Other comprehensive income | | **-** | - | **-** | - |
| **TOTAL COMPREHENSIVE LOSS FOR THE PERIOD** | | **(50,851)** | (43,487) | **(136,715)** | (153,342) |
| **Loss per share** | | | | | |
| Basic and diluted (in SR) | 15 | **(0.27)** | (0.23) | **(0.73)** | (0.82) |

The attached notes from 1 to 21 form an integral part of these interim condensed financial statements.

| Chief Financial Officer | Chief Executive Officer | Chairman of the Board |
|---|---|---|

SAUDI GROUND SERVICES COMPANY (A SAUDI JOINT STOCK COMPANY)

INTERIM CONDENSED STATEMENT OF CHANGES IN EQUITY

For the nine-month period ended 30 September 2022

| | ***Share capital*** | ***Statutory reserve*** | ***Retained earnings/ (Accumulated losses)*** | ***Total*** |
|---|---|---|---|---|
| | ***SR'000*** | ***SR'000*** | ***SR'000*** | ***SR'000*** |
| Balance as at 1 January 2021 (Audited) | 1,880,000 | 499,025 | 120,159 | 2,499,184 |
| Loss for the period | - | - | (153,342) | (153,342) |
| Other comprehensive income for the period | - | - | - | - |
| *Total comprehensive loss for the period* | - | - | (153,342) | (153,342) |
| Balance as at 30 September 2021 (Unaudited) | 1,880,000 | 499,025 | (33,183) | 2,345,842 |
| Balance as at 1 January 2022 (Audited) | 1,880,000 | 499,025 | (114,311) | 2,264,714 |
| Loss for the period | - | - | **(136,715)** | **(136,715)** |
| Other comprehensive income for the period | - | - | - | - |
| *Total comprehensive loss for the period* | - | - | **(136,715)** | **(136,715)** |
| **Balance as at 30 September 2022 (Unaudited)** | **1,880,000** | **499,025** | **(251,026)** | **2,127,999** |

The attached notes from 1 to 21 form an integral part of these interim condensed financial statements.

Chief Financial Officer

Chief Executive Officer

Chairman of the Board

SAUDI GROUND SERVICES COMPANY (A SAUDI JOINT STOCK COMPANY)

INTERIM CONDENSED STATEMENT OF CASH FLOWS

For the nine-month period ended 30 September 2022

| | Note | *Nine-month period ended 30 September* | |
|---|---|---|---|
| | | ***2022*** | *2021* |
| | | ***(Unaudited)*** | *(Unaudited)* |
| | | ***SR'000*** | *SR'000* |
| **OPERATING ACTIVITIES** | | | |
| Loss before zakat | | **(37,620)** | (125,215) |
| *Adjustments for:* | | | |
| Depreciation on property and equipment | 6 | **74,490** | 70,592 |
| Depreciation on right-of-use assets | 7 | **33,001** | 30,482 |
| Amortization of intangible assets | 8 | **27,111** | 27,111 |
| Share of (profit)/loss on equity-accounted investments | 9 | **(438)** | 15,493 |
| Impairment loss on trade receivables | 10 | **6,646** | 37,000 |
| Provision for employee defined benefit liabilities | | **55,888** | 58,436 |
| Gain on disposal of financial assets at FVTPL | 11 | **(24,230)** | (256) |
| Fair value gain on financial assets at FVTPL | 11 | **(13,907)** | (16,526) |
| Gain on disposal of property and equipment | | **-** | (4,145) |
| Finance costs | | **24,871** | 22,603 |
| | | **145,812** | 115,575 |
| *Working capital adjustments:* | | | |
| Inventories | | **(2,894)** | (2,516) |
| Trade receivables | | **(114,407)** | (138,575) |
| Prepayments and other current assets | | **10,386** | (23,034) |
| Trade payables | | **40,097** | (17,233) |
| Accruals and other liabilities | | **(10,130)** | (121,411) |
| **Cash from / (used in) operations** | | **68,864** | (187,194) |
| Finance costs paid | | **(19,796)** | (5,573) |
| Employee defined benefit paid | | **(20,172)** | (25,692) |
| Zakat paid | | **-** | (7,502) |
| **Net cash flows from / (used in) operating activities** | | **28,896** | (225,961) |
| **INVESTING ACTIVITIES** | | | |
| Additions to property and equipment | 6 | **(77,638)** | (74,082) |
| Proceeds from disposal of property and equipment | | **-** | 6,896 |
| Addition to equity-accounted investments | 9 | **-** | (9,375) |
| Proceeds from disposal of financial assets at FVTPL | 11 | **385,632** | 50,000 |
| Purchase of financial assets at FVTPL | 11 | **-** | (450,000) |
| Dividends received from equity-accounted investments | 9 | **2,000** | 21,589 |
| Dividends received from financial assets at FVTPL | 11 | **-** | 4,774 |
| **Net cash flows from / (used in) investing activities** | | **309,994** | (450,198) |
| **FINANCING ACTIVITIES** | | | |
| Repayments of loans and borrowings | 12 | **(487,500)** | - |
| Proceeds from loans and borrowings | | **-** | 750,000 |
| Payments of lease liabilities | 7 | **(39,229)** | (33,036) |
| **Net cash flows (used in) / from financing activities** | | **(526,729)** | 716,964 |
| Net (decrease) / increase in cash and cash equivalents | | **(187,839)** | 40,805 |
| Cash and cash equivalents at the beginning of the period | | **254,868** | 95,836 |
| **CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD** | | **67,029** | 136,641 |
| **SUPPLEMENTARY SIGNIFICANT NON-CASH INFORMATION** | | | |
| Addition to right-of-use assets and lease liabilities | 7 | **29,740** | 38,714 |
| Modification to right-of-use assets and lease liabilities | 7 | **16,204** | - |

The attached notes from 1 to 21 form an integral part of these interim condensed financial statements.

Chief Financial Officer

Chief Executive Officer

Chairman of the Board

## 1 CORPORATE INFORMATION

Saudi Ground Services Company ("the Company") is a Saudi Joint Stock Company incorporated in the Kingdom of Saudi Arabia. The Company was registered as a limited liability company in the Kingdom of Saudi Arabia under Commercial Registration number 4030181005 dated 11 Rajab 1429H, (corresponding to 14 July 2008).

The Company is engaged in providing ground handling services, aircraft cleaning, passenger handling, baggage, and fuel to Saudi Airlines Air Transport Company, other local and foreign airlines, and other customers in the Kingdom of Saudi Arabia.

The registered address of the Company is Al Yasmin Commercial Center King Abdul Aziz Road, Al Basatin District P.O. Box 48154, Jeddah 21572, Kingdom of Saudi Arabia.

The Company's parent is Saudi Arabian Airlines Corporation (the "Parent Company"), having 52.5% of shares in the Company. At 30 September 2022 and 31 December 2021 the authorized, issued, and paid-up share capital of SR 1,880 million consists of 188 million fully paid shares of SR 10 each. The shareholding of Parent Company and General public is as follows:

| | *Percentage %* | *Number of shares* | *Amount SR'000* |
|---|---|---|---|
| Parent Company | 52.5 | 98,700,000 | 987,000 |
| General public | 47.5 | 89,300,000 | 893,000 |
| | 100 | 188,000,000 | 1,880,000 |

## 2 BASIS OF PREPARATION

### 2.1 Statement of compliance

The interim condensed financial statements for the nine-months period ended 30 September 2022 have been prepared in accordance with International Accounting Standard 34 - Interim Financial Reporting ("IAS 34") as endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements that are endorsed by Saudi Organization for Chartered and Professional Accountants ("SOCPA"). The Company has prepared the interim condensed financial statements on the basis that it will continue to operate as a going concern. The management consider that there are no material uncertainties that may cast significant doubt over this assumption. They have formed a judgement that there is a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future, and not less than 12 months from the end of the reporting period.

The interim condensed financial statements do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the Company's annual financial statements for the year ended 31 December 2021. In addition, results of the interim period ended 30 September 2022 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2022.

### 2.2 Basis of measurement

These interim condensed financial statements are prepared under the historical cost convention using the accrual basis of accounting and going concern concept, except for the following items which are measured as follows:

| **Items** | **Measurement basis** |
|---|---|
| Employee defined benefit liabilities | Present value of the defined benefit obligation using projected credit unit method |
| Financial asset held at fair value through profit or loss | Fair value |

### 2.3 Functional and presentation currency

These interim condensed financial statements are presented in Saudi Riyals (SR), which is also the Company's functional and presentation currency. All figures are rounded off to the nearest thousands (SR '000) unless when otherwise stated.

## 2 BASIS OF PREPARATION (continued)

### 2.4 Significant accounting judgements, estimates and assumptions

The preparation of the Company's interim condensed financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. The significant judgments made by management in applying the Company's accounting policies and the methods of computation and the key sources of estimation are the same as those that applied to the financial statements for the year ended 31 December 2021.

However, in the view of the uncertainty initially created due to COVID-19, which continued to affect the Company, any future change in the assumptions and estimates could result in outcomes that could require adjustment to the carrying amounts of the assets or liabilities affected in the future periods.

## 3 NEW STANDARDS, INTERPRETATIONS AND AMENDMENTS ADOPTED BY THE COMPANY

The accounting policies adopted in the preparation of the interim condensed financial statements are consistent with those followed in the preparation of the Company's annual financial statements for the year ended 31 December 2021, except for the adoption of new standards effective as of 1 January 2022. The Company has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

Several amendments and interpretations apply for the first time in 2022, but do not have an impact on the interim condensed financial statements of the Company.

**Onerous Contracts – Costs of Fulfilling a Contract – Amendments to IAS 37**
An onerous contract is a contract under which the unavoidable costs (i.e., the costs that the Company cannot avoid because it has the contract) of meeting the obligations under the contract exceed the economic benefits expected to be received under it. The amendments specify that when assessing whether a contract is onerous or loss-making, an entity needs to include costs that relate directly to a contract to provide goods or services include both incremental costs (e.g., the costs of direct labour and materials) and an allocation of costs directly related to contract activities (e.g., depreciation of equipment used to fulfil the contract as well as costs of contract management and supervision). General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract.

These amendments relating to costs of fulfilling a contract had no impact on the interim condensed financial statements of the Company.

**Reference to the Conceptual Framework – Amendments to IFRS 3**
The amendments replace a reference to a previous version of the International Accounting Standards Board (IASB's) Conceptual Framework with a reference to the current version issued in March 2018 without significantly changing its requirements. The amendments add an exception to the recognition principle of IFRS 3 Business Combinations to avoid the issue of potential 'day 2' gains or losses arising for liabilities and contingent liabilities that would be within the scope of IAS 37 Provisions, Contingent Liabilities and Contingent Assets or IFRIC 21 Levies, if incurred separately. The exception requires entities to apply the criteria in IAS 37 or IFRIC 21, respectively, instead of the Conceptual Framework, to determine whether a present obligation exists at the acquisition date.

The amendments also add a new paragraph to IFRS 3 to clarify that contingent assets do not qualify for recognition at the acquisition date. These amendments had no impact on the interim condensed financial statements of the Company as there were no contingent assets, liabilities and contingent liabilities within the scope of these amendments arisen during the period.

**Covid-19-Related Rent Concessions beyond 30 June 2021 Amendments to IFRS 16**
On 28 May 2020, the IASB issued Covid-19-Related Rent Concessions - amendment to IFRS 16 Leases. The amendments provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the Covid-19 pandemic. As a practical expedient, a lessee may elect not to assess whether a Covid-19 related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from the Covid-19 related rent concession the same way it would account for the change under IFRS 16, if the change were not a lease modification.

The amendment applies to annual reporting periods beginning on or after 1 April 2021. However, the Company has not received Covid-19-related rent concessions, but plans to apply the practical expedient if it becomes applicable within allowed period of application.

## 3 NEW STANDARDS, INTERPRETATIONS AND AMENDMENTS ADOPTED BY THE COMPANY (continued)

**IFRS 9 Financial Instruments – Fees in the '10 per cent' test for derecognition of financial liabilities**
The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. There is no similar amendment proposed for IAS 39 Financial Instruments: Recognition and Measurement.

These amendments had no impact on the interim condensed financial statements of the Company as there were no modifications of the Company's financial instruments during the period.

**Property and Equipment: Proceeds before Intended Use – Amendments to IAS 16**
The amendment prohibits entities from deducting from the cost of an item of property and equipment, any proceeds of the sale of items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the costs of producing those items, in profit or loss.

These amendments had no impact on the interim condensed financial statements of the Company as there were no sales of such items produced by property and equipment made available for use on or after the beginning of the earliest period presented.

## 4 STANDARDS ISSUED BUT NOT YET EFFECTIVE

Standards issued but not yet effective up to the date of issuance of the Company's interim condensed financial statements are listed below. The Company intends to adopt these standards when they become effective.

| *Standard/ Interpretation* | *Description* | *Effective date* |
|---|---|---|
| IFRS 17 | Insurance Contracts | 1 January 2023 |
| IFRS 9 | Financial Instruments | 1 January 2023 |
| Amendments to IAS 1 and IFRS Practice Statement 2 | Disclosure of accounting policies | 1 January 2023 |
| Amendments to IAS 1 | Classification of Liabilities as Current or Non-current | 1 January 2023 |
| Amendments to IAS 8 | Definition of accounting estimates | 1 January 2023 |
| Amendments to IAS 12 | Deferred Tax related to Assets and Liabilities arising from a Single Transaction | 1 January 2023 |

## 5 OPERATING 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 local and foreign airlines at all airports in the Kingdom of Saudi Arabia. Other operations are related to the supply of fuel to the local and foreign airlines and other customers. The operations related to supply of fuel and other services has not met the quantitative thresholds for reportable segments for the nine-month period ended 30 September 2022 and 30 September 2021. Accordingly, the management believes that the Company's business falls within a single reportable business segment and is subject to similar risks and returns.

## 6 PROPERTY AND EQUIPMENT

### a) Reconciliation of carrying amounts:

| | ***30 September 2022 (Unaudited) SR'000*** | *31 December 2021 (Audited) SR'000* |
|---|---|---|
| Carrying amount at beginning of the period / year | **528,198** | 525,695 |
| Additions during the period / year | **77,638** | 100,568 |
| Disposals during the period / year | **-** | (2,752) |
| Impairment loss during the period / year | **-** | (442) |
| Depreciation during the period / year | **(74,490)** | (94,871) |
| At the end of the period/year | **531,346** | 528,198 |

**6 PROPERTY AND EQUIPMENT (continued)**

**b) Category-wise carrying amounts are as follows:**

| | ***30 September 2022 (Unaudited) SR'000*** | *31 December 2021 (Audited) SR'000* |
|---|---|---|
| Land | **27,464** | 27,464 |
| Leasehold improvements | **17,095** | 17,422 |
| Airport equipment | **394,975** | 416,698 |
| Motor vehicles | **91** | 128 |
| Furniture, fixture and equipment | **7,675** | 4,759 |
| Computer equipment | **6,384** | 4,442 |
| Capital work-in-progress ("CWIP") | **77,662** | 57,285 |
| At the end of the period/year | **531,346** | 528,198 |

**c)** Capital work-in-progress mainly relates to the purchases of specialised airport equipment and leasehold improvements. During the period, an amount equal to SR 49 million was transferred from CWIP to the relevant class of assets.

**7 LEASES**

The Company has various leased motor vehicles and office buildings from the various lessors around the region. The leases of office buildings have lease terms between 2 to 22 years and motor vehicles have lease term of 2.8 years.

The Company also has certain leases of buildings and motor vehicles with lease terms of 12 months or less. The Company applies the 'short-term lease' and 'lease of low-value assets' recognition exemptions for these leases.

**a) Right of use assets**

| | ***30 September 2022 (Unaudited) SR'000*** | *31 December 2021 (Audited) SR'000* |
|---|---|---|
| At the beginning of the period/year | **122,210** | 130,885 |
| Additions during the period / year | **29,740** | 43,138 |
| Modification during the period / year | **16,204** | (6,011) |
| Derecognition during the period / year | **(589)** | (7,230) |
| Depreciation during the period / year | **(33,001)** | (38,572) |
| At the end of the period/year | **134,564** | 122,210 |

**b) Lease liabilities**

Movement in lease liabilities is summarized as follows:

| | ***30 September 2022 (Unaudited) SR'000*** | *31 December 2021 (Audited) SR'000* |
|---|---|---|
| At the beginning of the period/year | **114,856** | 122,347 |
| Additions during the period / year | **29,740** | 43,138 |
| Derecognition during the period / year | **(510)** | (6,381) |
| Modification during the period / year | **16,204** | (6,011) |
| Accretion of interest during the period / year | **3,664** | 4,950 |
| Payments during the period / year | **(39,229)** | (43,187) |
| At the end of the period/year | **124,725** | 114,856 |
| Less: Current portion | **(39,780)** | (35,684) |
| | **84,945** | 79,172 |

## 8 INTANGIBLE ASSETS AND GOODWILL

| | *Goodwill SR'000* | *Customer contracts SR'000* | *Customer relationships SR'000* | *Software SR'000* | *Total SR'000* |
|---|---|---|---|---|---|
| **Cost:** | | | | | |
| Balance at 31 December 2021 and 30 September 2022 | 582,816 | 153,179 | 468,475 | 64,117 | 1,268,587 |
| **Accumulated amortisation:** | | | | | |
| Balance at 1 January 2021 (Audited) | - | 153,179 | 234,239 | 32,351 | 419,769 |
| Amortisation for the year | - | - | 23,424 | 12,823 | 36,247 |
| Balance at 31 December 2021 (Audited) | - | 153,179 | 257,663 | 45,174 | 456,016 |
| Amortisation for the period | - | - | 17,520 | 9,591 | 27,111 |
| **Balance at 30 September 2022 (Unaudited)** | **-** | **153,179** | **275,183** | **54,765** | **483,127** |
| **Net book value:** | | | | | |
| **At 30 September 2022 (Unaudited)** | **582,816** | **-** | **193,292** | **9,352** | **785,460** |
| At 31 December 2021 (Audited) | 582,816 | - | 210,812 | 18,943 | 812,571 |

On 7 February 2010, the Company has entered into Sale and Purchase Agreement (SPA) for the acquisition of capital of National Handling Services ("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.

Further, on 7 February 2010 the Company has entered into another Sale and Purchase Agreement (SPA) for the acquisition of ground handling business of Attar Ground Handling and Attar Travel in consideration of the Company's shares.

As part of the agreements the Company has recorded the fair value of the net assets acquired and resulting goodwill of SR 582.8 million which comprises the fair value of expected synergies arising from the acquisition.

As at 31 December 2021, an independent impairment assessment of goodwill was conducted to determine whether the carrying values exceed the recoverable amounts and was concluded that goodwill was not impaired. Management believes that no reasonably possible change in any of the key assumptions would cause the carrying value of the goodwill to materially exceed its recoverable amount due to significant headroom available as disclosed in the audited financial statements of the Company for the year ended 31 December 2021. The Company has assessed and concluded that there are no significant indicators of impairment which may impact the goodwill as of 30 September 2022. However, an independent impairment assessment will be conducted as at 31 December 2022.

## 9 EQUITY-ACCOUNTED INVESTMENTS

The equity-accounted investments in joint ventures as at 30 September 2022 are as follows:

| | **Country of incorporation / principal place of business** | **Effective ownership interest (%)** | | | |
|---|---|---|---|---|---|
| | | ***30 September 2022 (Unaudited)*** | *31 December 2021 (Audited)* | ***30 September 2022 (Unaudited) SR'000*** | *31 December 2021 (Audited) SR'000* |
| Saudi Amad for Airport Services and Transport Support Company ("SAAS") | Kingdom of Saudi Arabia | **50%** | 50% | **32,649** | 34,793 |
| TLD Arabia Equipment Services ("TLDAES") | Kingdom of Saudi Arabia | **50%** | 50% | **17,710** | 17,128 |
| | | | | **50,359** | 51,921 |

**9 EQUITY-ACCOUNTED INVESTMENTS (continued)**

The movement summary of equity-accounted investments is as follows:

| | ***30 September 2022 (Unaudited) SR'000*** | *31 December 2021 (Audited) SR'000* |
|---|---|---|
| Balance at beginning of the period / year | **51,921** | 98,834 |
| Investment made during the period / year | **-** | 9,375 |
| Share of profit/(loss) for the period / year | **438** | (34,699) |
| Dividends | **(2,000)** | (21,589) |
| Balance at end of the period / year | **50,359** | 51,921 |

The equity-accounted investments applied the same accounting policies as applied by the Company in these condensed interim financial statements and have no contingent liabilities or capital commitments at 30 September 2022 and 31 December 2021.

**a) Saudi Amad for Airport Services and Transport Support Company ("SAAS")**
This represents Company's 50% investment in a joint venture in Saudi Amad for Airport Services and Transport Support Company ("SAAS") which is one of the Company's strategic suppliers and is principally engaged in providing transportation services for passengers and crew in the Kingdom of Saudi Arabia. The Company's interest in SAAS is accounted for using the equity method in these interim condensed financial statements.

During the nine-month period 30 September 2022, SAAS announced dividends amounting to SR Nil (30 September 2021: SR 43.18 million). The Company records 50% of the dividend in accordance with its percentage of shareholding in SAAS.

**b) TLD Arabia Equipment Services ("TLDAES")**
This represents Company's 50% investment in a joint venture in TLD Arabia Equipment Services ("TLDAES") which is having primary objective to provide maintenance services for the ground handling equipment across all the airports in the Kingdom of Saudi Arabia. The Company's interest in TLDAES is accounted for using the equity method in the interim condensed financial statements.

During the nine-month period 30 September 2022, TLDAES announced and paid dividends amounting to SR 4 million (30 September 2021: SR Nil). The Company records 50% of the dividend in accordance with its percentage of shareholding in TLDAES.

**10 TRADE RECEIVABLES**

Trade receivables as at 30 September 2022 is as follows:

| | ***30 September 2022 (Unaudited) SR'000*** | *31 December 2021 (Audited) SR'000* |
|---|---|---|
| Due from related parties (note 16 (a)) | **955,809** | 955,108 |
| Other trade receivables | **512,872** | 457,658 |
| | **1,468,681** | 1,412,766 |
| Less: allowance for impairment losses | **(293,679)** | (345,525) |
| | **1,175,002** | 1,067,241 |

## 10 TRADE RECEIVABLES (continued)

The movement in the allowance for impairment losses is as follows:

| | ***30 September 2022 (Unaudited) SR'000*** | *31 December 2021 (Audited) SR'000* |
|---|---|---|
| Balance at beginning of the period / year | **345,525** | 266,701 |
| Charge for the period / year | **6,646** | 78,824 |
| Allowance written-off during the period / year | **(58,492)** | - |
| | **293,679** | 345,525 |

## 11 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (FVTPL)

Financial assets at FVTPL mainly comprises investments in the money market – mutual funds and quoted equity investments as follows:

| | ***30 September 2022 (Unaudited) SR'000*** | *31 December 2021 (Audited) SR'000* |
|---|---|---|
| Mutual funds | **1,043,560** | 1,229,106 |
| Quoted equity investments | **-** | 161,949 |
| | **1,043,560** | 1,391,055 |

a) Movement in financial assets at FVTPL is as follows:

| | ***30 September 2022 (Unaudited) SR'000*** | *31 December 2021 (Audited) SR'000* |
|---|---|---|
| Balance at beginning of the period / year | **1,391,055** | 976,679 |
| Investments made during the period / year | **-** | 450,000 |
| Disposal of investments during the period / year | **(385,632)** | (50,000) |
| Gain on disposal during the period / year | **24,230** | 256 |
| Fair value gain during the period / year | **13,907** | 14,120 |
| | **1,043,560** | 1,391,055 |

During the period, the Company disposed-off all its quoted equity investments and certain investment in mutual funds.

During the period income on financial assets at FVTPL is as follows:

| | ***30 September 2022 (Unaudited) SR'000*** | *30 September 2021 (Unaudited) SR'000* |
|---|---|---|
| Realized gain | **24,230** | 256 |
| Unrealized gain | **13,907** | 11,752 |
| Dividend income from quoted equity investments | **-** | 4,774 |
| | **38,137** | 16,782 |

## 12 LOANS AND BORROWINGS

| | *30 September 2022 (Unaudited) SR'000* | *31 December 2021 (Audited) SR'000* |
|---|---|---|
| Gross amount payable | **697,889** | 1,183,759 |
| Less: Current portion | **(225,000)** | (712,500) |
| Non-current portion | **472,889** | 471,259 |

During the year ended 31 December 2020, the Company signed a facility agreement with a local commercial bank for a value of SR 500 million. This amount was withdrawn in full on 28 July 2020. This loan bears financial charges based on prevailing market rates. The loan was initially repayable over a period of three years on flexible repayment terms. During the period, the Company was able to negotiate and revise the terms which extended the facility upto 31 October 2024. The Company has paid a management fee of SR 7 million to obtain the facility in accordance with the agreed terms of the loan agreement. The loan is secured by an order note.

During the nine-month period ended 30 September 2022, the Company repaid an amount of SR 100 million of the total withdrawn loan.

During the year ended 31 December 2020, the Company signed a loan agreement with a local commercial bank for a value of SR 750 million. On 9 February 2021, the Company has withdrawn SR 500 million. This loan bears financial charges based on prevailing market rates. The loan is repayable over a period of 3 years in 8 equal quarterly instalments starting from December 2021. The loan is secured by an order note.

During the nine-month period ended 30 September 2022, the Company repaid an amount of SR 312.5 million which decreased the quarterly repayments for the remaining period.

During the year ended 31 December 2020, the Company signed a facility agreement with a local commercial bank for a value of SR 750 million. On 18 May 2021, the Company has withdrawn SR 250 million from the available facility. This loan bears financial charges based on prevailing market rates. The loan is repayable over a period of 3 years in 8 equal quarterly instalments starting from July 2022. The loan is secured by an order note.

During the nine-month period ended 30 September 2022, the Company repaid an amount of SR 75 million, out of which SR 50 million is in excess to the initially agreed repayment schedule which decreased the quarterly repayments for the remaining period.

The agreements contain certain covenants, which among other conditions require certain financial ratios to be maintained at all times. As at 30 September 2022 and 31 December 2021, the Company complied with loan covenants.

## 13 ZAKAT PROVISION

Movement in provision during the period/ year was as follows:

| | *30 September 2022 (Unaudited) SR'000* | *31 December 2021 (Audited) SR'000* |
|---|---|---|
| Balance at beginning of the period / year | **158,800** | 126,175 |
| Charge during the period / year | **99,095** | 40,127 |
| Payments during the period / year | **-** | (7,502) |
| | **257,895** | 158,800 |

## 13 ZAKAT PROVISION (continued)

*Status of assessments*

The Company has filed Zakat declaration up to the financial year ended 31 December 2021 with the Zakat, Tax and Customs Authority (ZATCA). The Company has also obtained Zakat certificate valid until 30 April 2023. The Company has finalized its assessments upto the year 2013. The ZATCA has issued Zakat assessments for the years from 2014 to 2020 claiming an additional liability of SR 264 million. The Company has filed an appeal against the ZATCA assessments for the years 2014 to 2020 with the Tax Violations and Disputes Resolution Committees (TVDRC) of the General Secretariat of Tax Committees (GSTC) and also approached the ZATCA Settlement Committee for negotiating the zakat liability raised by ZATCA. The Company has not received assessment for the year 2021. Based on the current progress and the available information, management believes that the level of existing provisions for zakat is sufficient to account for any potential liabilities that may arise at the time of final assessments.

## 14 REVENUE

The Company's revenue is derived from contracts with customers by providing aircraft cleaning, passenger handling, fuel, baggage, and ground handling services to its customers.

***Revenue by categories:***

| | ***Three-month period ended 30 September*** | | ***Nine-month period ended 30 September*** | |
|---|---|---|---|---|
| | ***2022 (Unaudited) SR'000*** | *2021 (Unaudited) SR'000* | ***2022 (Unaudited) SR'000*** | *2021 (Unaudited) SR'000* |
| Rendering of services | **550,004** | 416,578 | **1,462,470** | 1,158,033 |
| Sale of goods | **5,087** | 4,114 | **13,125** | 10,436 |
| | **555,091** | 420,692 | **1,475,595** | 1,168,469 |

***Revenue by the type of customers:***

| | ***Three-month period ended 30 September*** | | ***Nine-month period ended 30 September*** | |
|---|---|---|---|---|
| | ***2022 (Unaudited) SR'000*** | *2021 (Unaudited) SR'000* | ***2022 (Unaudited) SR'000*** | *2021 (Unaudited) SR'000* |
| Revenue from related parties (note 16 (a)) | **316,529** | 335,171 | **921,541** | 937,248 |
| Revenue from other local and foreign customers | **238,562** | 85,521 | **554,054** | 231,221 |
| | **555,091** | 420,692 | **1,475,595** | 1,168,469 |

## 15 LOSS PER SHARE

The Company presents basic and diluted loss per share for its ordinary shares. Basic is calculated by dividing the loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period.

| | ***Three-month period ended 30 September*** | | ***Nine-month period ended 30 September*** | |
|---|---|---|---|---|
| | ***2022 (Unaudited)*** | *2021 (Unaudited)* | ***2022 (Unaudited)*** | *2021 (Unaudited)* |
| Loss for the period attributable to the shareholders of the Company (SR'000) | **(50,851)** | (43,487) | **(136,715)** | (153,342) |
| The weighted average number of ordinary shares for the purposes of basic and diluted losses (number in thousand) | **188,000** | 188,000 | **188,000** | 188,000 |
| Basic and diluted loss per share based on loss for the period attributable to shareholders of the Company (SR) | **(0.27)** | (0.23) | **(0.73)** | (0.82) |

## 16 RELATED PARTY TRANSACTIONS AND BALANCES

Related parties represent the shareholders, directors and key management personnel of the Company, and entities controlled, jointly controlled or significantly influenced by such parties. Pricing policies and terms of these transactions are approved by the Company's Board of Directors.

In addition to related party transactions disclosed in notes to these interim condensed financial statements, significant transactions with related parties in the ordinary course of business included in the interim condensed financial statements for the period ended 30 September and balances arising there from are summarized below.

| ***Related Parties:*** | ***Relationship*** |
|---|---|
| Saudi Arabian Airlines Corporation | Parent Company |
| Saudi Airlines Air Transport Company | Fellow subsidiary |
| Saudia Aerospace Engineering Industries Company | Fellow subsidiary |
| Saudia Royal Fleet | Fellow subsidiary |
| Flyadeal Company | Fellow subsidiary |
| Saudi Logistics Services Company | Fellow subsidiary |
| Saudi Private Aviation | Fellow subsidiary |
| Saudi Airlines Cargo Company | Fellow subsidiary |
| Saudi Airlines Real Estate Development Company | Fellow subsidiary |
| Saudi Airlines Catering Company | Common shareholder |
| TLD Arabia Equipment Services | Joint venture |
| Saudi Amad for Airport Services And Transport Support Company | Joint venture |
| Bupa Arabia for Cooperation Insurance | Common Key Management Personnel |

## 16 RELATED PARTY TRANSACTIONS AND BALANCES (continued)

***a) Due from related parties - significant transactions and balances under trade receivables:***

***i) Following are the details of related parties transactions during the period:***

| Relationship | Nature of transactions | Three-month period ended | | Nine-month period ended | |
|---|---|---|---|---|---|
| | | ***30 September 2022 (Unaudited) SR'000*** | *30 September 2021 (Unaudited) SR'000* | ***30 September 2022 (Unaudited) SR'000*** | *30 September 2021 (Unaudited) SR'000* |
| Fellow subsidiary | Services provided | **314,520** | 330,291 | **916,635** | 930,265 |
| Joint venture | Services provided | **1,150** | 4,305 | **2,763** | 5,433 |
| Common shareholder | Services provided | **859** | 575 | **2,143** | 1,550 |

The Company's revenues derived from services rendered to Saudi Airlines Air Transport Company amounted to approximately 51% (30 September 2021: 60%) of the total revenue.

***ii) Due from related parties trade receivables comprised the following:***

| | ***30 September 2022 (Unaudited) SR'000*** | *31 December 2021 (Audited) SR'000* |
|---|---|---|
| Saudi Airlines Air Transport Company | **521,380** | 428,253 |
| Saudia Aerospace Engineering Industries Company | **138,084** | 176,152 |
| Saudia Royal Fleet | **172,876** | 196,997 |
| Flyadeal Company | **98,744** | 72,028 |
| Saudi Logistics Services Company | **10,353** | 24,032 |
| Saudi Private Aviation | **6,802** | 44,990 |
| Saudi Airlines Cargo Company | **5,605** | 11,087 |
| Saudi Airlines Catering Company | **1,282** | 886 |
| Saudi Arabian Airlines Corporation | **683** | 683 |
| | **955,809** | 955,108 |

**16 RELATED PARTY TRANSACTIONS AND BALANCES (continued)**

***b) Due from related parties - significant transactions and balances under prepayments and other current assets:***

***i) Following are the details of related parties transactions during the period:***

| Relationship | Nature of transactions | Three-month period ended | | Nine-month period ended | |
|---|---|---|---|---|---|
| | | ***30 September 2022 (Unaudited) SR'000*** | *30 September 2021 (Unaudited) SR'000* | ***30 September 2022 (Unaudited) SR'000*** | *30 September 2021 (Unaudited) SR'000* |
| Parent Company | VAT receivable | **18,502** | 19,517 | **46,257** | 32,798 |
| Joint venture | Dividends | **-** | - | **2,000** | 21,589 |
| Joint venture | Expenses incurred on behalf of related party | **-** | - | **-** | 7,615 |

***ii) Due from related parties under prepayments and other current assets comprised the following:***

| | ***30 September 2022 (Unaudited) SR'000*** | *31 December 2021 (Audited) SR'000* |
|---|---|---|
| Saudi Arabian Airlines Corporation | **381,181** | 376,775 |
| Saudi Amad for Airport Services and Transport Support Company | **74,262** | 95,182 |
| Bupa Arabia for Cooperation Insurance | **36,251** | - |
| Saudi Airlines Air Transport Company | **-** | 22,405 |
| | **491,694** | 494,362 |

**16 RELATED PARTY TRANSACTIONS AND BALANCES (continued)**

***c) Due to related parties - significant transactions and balances under trade payables:***

***i) Following are the details of related parties transactions during the period:***

| Relationship | Nature of transactions | Three-month period ended | | Nine-month period ended | |
|---|---|---|---|---|---|
| | | ***30 September 2022 (Unaudited) SR'000*** | *30 September 2021 (Unaudited) SR'000* | ***30 September 2022 (Unaudited) SR'000*** | *30 September 2021 (Unaudited) SR'000* |
| Common Key Management Personnel | Services received | **26,251** | - | **67,761** | - |
| Common shareholder | Services received | **9,630** | 5,466 | **23,135** | 20,000 |
| Fellow subsidiary | Services received | - | - | - | 866 |
| Joint venture | Services received | **2,192** | 1,794 | **6,634** | 4,722 |

***ii) Due to related parties under trade payable comprised the following:***

| | ***30 September 2022 (Unaudited) SR'000*** | *31 December 2021 (Audited) SR'000* |
|---|---|---|
| TLD Arabia Equipment Services | **14,649** | 11,360 |
| Bupa Arabia for Cooperation Insurance | **3,401** | - |
| Saudi Airlines Catering Company | **1,571** | 2,206 |
| Saudi Airlines Air Transport Company | **715** | 715 |
| | **20,336** | 14,281 |

**16 RELATED PARTY TRANSACTIONS AND BALANCES (continued)**

***d) Due to related parties – significant transactions and balances under other current liabilities:***

***i) Following are the details of related parties transactions during the period:***

| Relationship | Nature of transactions | Three-month period ended | | Nine-month period ended | |
|---|---|---|---|---|---|
| | | ***30 September 2022 (Unaudited) SR'000*** | *30 September 2021 (Unaudited) SR'000* | ***30 September 2022 (Unaudited) SR'000*** | *30 September 2021 (Unaudited) SR'000* |
| Joint venture | Maintenance services | **27,043** | 29,438 | **82,025** | 88,313 |
| Joint venture | Payments received on behalf of the Joint Venture | **13,948** | 17,112 | **34,650** | 29,596 |
| Fellow subsidiary | Staff costs and related charges | **-** | - | **448** | - |
| Fellow subsidiary | Services received | **-** | - | **900** | - |

***ii) Due to related parties under other current liabilities comprised the following:***

| | ***30 September 2022 (Unaudited) SR'000*** | *31 December 2021 (Audited) SR'000* |
|---|---|---|
| Saudi Airlines Air Transport Company | **44,880** | 72,089 |
| Saudi Airlines Catering Company | **26,532** | 14,258 |
| TLD Arabia Equipment Services | **15,766** | 24,250 |
| Saudia Aerospace Engineering Industries | **5,900** | 21,436 |
| Saudi Airlines Cargo Company | **861** | 861 |
| Saudi Airlines Real Estate Development Company | **103** | 792 |
| | **94,042** | 133,686 |

**16 RELATED PARTY TRANSACTIONS AND BALANCES (continued)**

**Key management compensation**

Compensation for key management is as follows:

| | ***Nine-month period ended*** | |
|---|---|---|
| | ***30 September 2022 (Unaudited) SR'000*** | *30 September 2021 (Unaudited) SR'000* |
| Short term benefits | **7,727** | 7,452 |
| End of service benefits | **1,179** | 245 |
| Directors' fees | **3,889** | 3,773 |
| | **12,795** | 11,470 |

Key management personnel comprise chief executive officer and heads of departments. Compensation of the Company's key management personnel includes salaries, non-cash benefits and contributions to a post-employment defined benefit plan.

**17 FINANCIAL INSTRUMENTS RISK MANAGEMENT**

The Company is exposed to market 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 continually seeking to minimize potential adverse effects on the Company's financial performance.

The Company management monitors compliance 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. The Board of Directors has overall responsibility for establishment and oversight of the Company's risk management framework. audit committee is assisted in its oversight role by internal audit. Internal audit undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

Risk management systems are regularly reviewed 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 Company's principal financial liabilities comprise loans and borrowings, lease liabilities and trade and other payables. The main purpose of these financial liabilities is to finance the Company's operations. The Company's principal financial assets include trade and other receivables, financial assets at FVTPL and cash and cash equivalents that derive directly from its operations.

***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 comprises three types of risk: interest rate risk, currency risk and price risk.

***Interest rate risk***
Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's exposure to the risk of changes in market interest rates relates primarily to the Company's loans and borrowing with floating interest rates. The Company manages the interest rate risk by regularly monitoring the interest rate profiles of its interest-bearing financial instruments. Management monitors the changes in interest rates and believes that the fair value and cash flow interest rate risks to the Company are not significant.

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

**17 FINANCIAL INSTRUMENTS RISK MANAGEMENT (continued)**

***Interest rate risk (continued)***

**Financial liabilities**

| | ***30 September 2022 (Unaudited) SR'000*** | *31 December 2021 (Audited) SR'000* |
|---|---|---|
| Loans and borrowings | **697,889** | 1,183,759 |

Profit or loss is sensitive to higher/lower interest expense on borrowings as a result of changes in interest rates. The following table demonstrates the sensitivity to a reasonable possible change in interest rate on the Company's profit before tax, through the impact of floating rate borrowings with all other variables held constant:

| | ***30 September 2022 (Unaudited) SR'000*** | *31 December 2021 (Audited) SR'000* |
|---|---|---|
| Interest rate-increases by 100 basis points | **6,979** | 11,837 |
| Interest rate-decrease by 100 basis points | **(6,979)** | (11,837) |

***Currency risk***

Foreign currency risk is the risk that the fair value or future cash flows of an exposure will fluctuate because of changes in foreign exchange rates. The Company's transactions are principally in Saudi Riyals, Euros, British Pound Sterling and United States Dollars. The management believes that there is no currency risk arising from the transactions in currencies to which the Saudi Riyals is pegged. The Company's exposure to currency risk arising from currencies to which the Saudi Riyals is not pegged is not material to these financial statements.

***Price risk***

Price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from special commission rate risk or currency risk) whether those changes are caused by factors specific to the individual financial instruments or it's issuer, or factors affecting all similar financial instruments traded in the market.

The Company's exposure to price risk arises from investments held by the Company and classified in the statement of financial position at fair value through profit or loss. The Company closely monitors price in order to manage price risk arising from financial assets at FVTPL.

The table below summarizes the impact of increases/decreases.

| | ***Impact on profit or loss*** | |
|---|---|---|
| | ***30 September 2022 (Unaudited) SR'000*** | *31 December 2021 (Audited) SR'000* |
| Increases by 5% | **52,178** | 69,553 |
| Decreases by 5% | **(52,178)** | (69,553) |

***Credit risk***

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Company is exposed to risk on its trade and other receivables, financial assets at FVTPL and cash at banks. The Company manages credit risk with respect to receivables from customers by monitoring in accordance with defined policies and procedures. To reduce exposure to credit risk, the Company has developed a formal approval process whereby credit limits are applied to its customers. The management also continuously monitors the credit exposure towards the customers and makes provisions against those balances considered doubtful of recovery. To mitigate the risk, the Company has a system of assigning credit limits to its customers based on an extensive evaluation of the customer profile and payment history.

**17 FINANCIAL INSTRUMENTS RISK MANAGEMENT (continued)**

***Credit risk (continued)***

The receivables are shown net of allowance for impairment of trade receivables. The Company applies the IFRS 9 simplified approach to measuring expected credit losses, which uses a lifetime expected loss allowance for all trade receivables. To measure the expected credit losses, trade receivables have been grouped into low risk, fair risk, doubtful, and loss based on shared credit risk characteristics and the days past due. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors (such as GDP forecast and industry outlook) affecting the ability of the customers to settle the receivables. The calculation reflects the probability-weighted outcome, the time value of money, and reasonable and supportable information that is available at the reporting date about past events, current conditions, and forecasts of future economic conditions.

The Company's exposure to credit risk for gross trade receivables by type of counterparty mainly includes local and foreign airlines and other related parties.

At 30 September 2022, trade receivables are mainly due from related parties (note 16(a)) and other trade receivables and are stated at their estimated realisable values. The ten largest customers account for 59% (31 December 2021: 60%) of outstanding gross other trade receivables. The financial position of the related parties is stable.

With respect to credit risk arising from the other financial assets of the Company, including bank balances and cash, the Company's exposure to credit risk arises from the default of the counterparty, with a maximum exposure equal to the carrying amount as disclosed in the statement of financial position. The credit risk in respect of bank balances is considered by management to be insignificant, as the balances are mainly held with reputable banks in the Kingdom of Saudi Arabia and internationally.

The changes in the carrying amounts of trade receivables contributed mainly by the changes in the impairment loss allowance and allowance written-off during the period ended 30 September 2022. The decrease in trade receivables is mainly due to improved collectability from customers.

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

| | ***30 September 2022 (Unaudited) SR'000*** | *31 December 2021 (Audited) SR'000* |
|---|---|---|
| **Financial assets** | | |
| Trade receivables | **1,468,681** | 1,412,766 |
| Other current assets | **521,431** | 516,142 |
| Financial assets at FVTPL | **1,043,560** | 1,391,055 |
| Cash at banks | **65,850** | 254,232 |
| | **3,099,522** | 3,574,195 |

**Liquidity Risk**

Liquidity risk is the risk that an Company will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from an inability to sell a financial asset quickly at an amount close to its fair value. Liquidity risk is managed by monitoring on a regular basis that sufficient funds are available through committed credit facilities to meet any future commitments.

This includes consideration of future cashflow forecasts, prepared using assumptions about the nature, timing and amount of future transactions, planned course of actions and other committed cash flows that can be considered reasonable and achievable in the circumstances of the Company. The Company's management has developed a plan to enable the Company to meet its obligations as they become due and to continue its operations, without significant curtailment, as a going concern.

The amounts are gross and undiscounted, and include contractual interest payments and exclude the impact of netting arrangements.

## 17 FINANCIAL INSTRUMENTS RISK MANAGEMENT (continued)

**Liquidity Risk (continued)**

Expected maturity of undiscounted cash flows of financial liabilities are as follows:

| | ***Carrying amount*** | ***Less than one year*** | ***More than one year*** | ***Total*** |
|---|---|---|---|---|
| | ***SR'000*** | ***SR'000*** | ***SR'000*** | ***SR'000*** |
| **30 September 2022 (Unaudited)** | | | | |
| Trade payables | **108,813** | **108,813** | **-** | **108,813** |
| Other payables (excluding advances) | **458,054** | **458,054** | **-** | **458,054** |
| Loans and borrowings | **697,889** | **238,342** | **475,673** | **714,015** |
| Lease liabilities | **124,725** | **39,780** | **94,633** | **134,413** |
| | **1,389,481** | **844,989** | **570,306** | **1,415,295** |

| | *Carrying amount* | *Less than one year* | *More than one year* | *Total* |
|---|---|---|---|---|
| | *SR'000* | *SR'000* | *SR'000* | *SR'000* |
| 31 December 2021 (Audited) | | | | |
| Trade payables | 68,716 | 68,716 | - | 68,716 |
| Other payables (excluding advances) | 464,416 | 464,416 | - | 464,416 |
| Loans and borrowings | 1,183,759 | 734,003 | 482,724 | 1,216,727 |
| Lease liabilities | 114,856 | 39,417 | 85,495 | 124,912 |
| | 1,831,747 | 1,306,552 | 568,219 | 1,874,771 |

**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 the return on net assets and makes required adjustments to it in the light of changes in economic conditions.

## 18 FAIR VALUE MEASUREMENT

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

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

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

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

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

**18 FAIR VALUE MEASUREMENT (continued)**

All financial instruments for which fair value is recognised or disclosed are categorised within the fair value hierarchy, based on the lowest level input that is significant to the fair value measurement as a whole, as follows:

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

If the inputs used to measure the fair value of an asset or liability falls into different levels of the fair value hierarchy, then the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest input level that is significant to the entire measurement.

The Company recognizes transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred. The management assessed that the fair value of cash and cash equivalents, trade and other receivables, loans and borrowings, trade payables and other payable approximate their carrying amounts largely due to the short-term maturities of these instruments.

The Company fair values the derivative financial instruments and investment at fair value through profit or loss. The fair value of derivative financial instruments is calculated as the present value of the estimated future cash flows based on observable yield curves. The fair value of investment at fair value through profit or loss is based on the net asset value communicated by the fund manager.

The fair values under Level 1 and Level 2 were as follows:

| | | ***Fair value measurement using*** | | |
|---|---|---|---|---|
| ***30 September 2022 (Unaudited) financial assets at FVTPL*** | ***Total SR SR'000*** | ***Quoted prices in active markets (Level 1) SR SR'000*** | ***Significant observable inputs (Level 2) SR SR'000*** | ***Significant unobservable inputs (Level 3) SR SR'000*** |
| Mutual funds | **1,043,560** | **-** | **1,043,560** | **-** |

| | | *Fair value measurement using* | | |
|---|---|---|---|---|
| *31 December 2021 (Audited) financial assets at FVTPL* | *Total SR SR'000* | *Quoted prices in active markets (Level 1) SR SR'000* | *Significant observable inputs (Level 2) SR SR'000* | *Significant unobservable inputs (Level 3) SR SR'000* |
| Mutual funds | 1,229,106 | - | 1,229,106 | - |
| Equity investments | 161,949 | 161,949 | - | - |
| | 1,391,055 | 161,949 | 1,229,106 | - |

During the nine-month periods ended 30 September 2022 and 31 December 2021, there were no movements between the levels.

## 19 CONTINGENCIES AND COMMITMENTS

(a) In addition to contingencies disclosed in note 13, the Company had letters of guarantee amounting to SR 89.3 million as at 30 September 2022 (31 December 2021: SR 8.5 million), that were issued in the normal course of the business.

(b) The capital expenditure contracted by the Company but not incurred till 30 September 2022 was approximately SR 81.7 million (31 December 2021: SR 14.7 million).

(c) In relation to agreements entered on behalf of SAAS, the Company has not received any claim from the General Authority for Civil Aviation ("GACA") regarding the contractually agreed fees on each domestic and international trip in King Abdul Aziz International Airport from 01 November 2019 onwards. Currently, managements of SGS and SAAS are discussing the matter with GACA and has not reached a conclusion yet. Consequently, it is difficult to estimate the related liability as at the reporting date.

(d) As at 30 September 2022, there are cases filed by labors and subcontractors where the Company is a defendant. Currently, as the legal proceedings are ongoing, it is difficult to estimate the related liability as at the reporting date.

## 20 COMPARATIVE INFORMATION

The corresponding figures have been rearranged and reclassified, wherever considered necessary for the purposes of comparison and better presentation

## 21 AUTHORISATION OF FINANCIAL STATEMENTS

These interim condensed financial statements were authorised for issue by the Company's Board of Directors on 4 November 2022 corresponding to 10 Rabi Al-Thani 1444H.

| Chief Financial Officer | Chief Executive Officer | Chairman of the Board |
|---|---|---|