

SAUDI GROUND SERVICES COMPANY
(A Saudi Joint Stock Company)

**UNAUDITED INTERIM
FINANCIAL STATEMENTS**

For the three-months and six-months periods ended June 30, 2016
with
INDEPENDENT AUDITORS' REVIEW REPORT

SAUDI GROUND SERVICES COMPANY
(A Saudi Joint Stock Company)
For the period ended June 30, 2016

Contents	Pages
Independent Auditors' Review Report	--
Balance Sheet	1
Statement of Income	2
Statement of Cash flows	3
Statement of Changes in Shareholders' Equity	4
Notes to the Financial Statements	5-17



KPMG Al Fozan & Partners
Certified Public Accountants
Zahran Business Centre, Tower A, 9th Floor
Prince Sultan Street
PO Box 55078
Jeddah 21534
Kingdom of Saudi Arabia

Telephone +966 12 698 9595
Fax +966 12 698 9494
Internet www.kpmg.com.sa

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

REVIEW REPORT ON INTERIM FINANCIAL STATEMENTS

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

Scope of review

We have reviewed the accompanying interim balance sheet of Saudi Ground Services Company ("the Company") as at June 30, 2016, the related interim statements of income for three-months and six months periods then ended, the interim statements of cash flows and changes in shareholders' equity for the six months periods then ended and the attached notes from 1 through 14 which form an integral part of the interim financial statements. These interim financial statements are the responsibility of the Company's management and have been prepared by them and submitted to us together with all the information and explanations which we required. Our responsibility is to provide a conclusion on the review of these interim financial statements based on our review.

We conducted our review in accordance with Auditing Standard on Review of Interim Financial Reporting issued by the Saudi Organization for Certified Public Accountants (SOCPA). A review consists principally of analytical procedures applied to financial data and information and making inquiries of Company's personnel responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion on the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Review conclusion

Based on our review, we are not aware of any material modifications that should be made to the accompanying interim financial statements for them to be in conformity with the accounting standards generally accepted in the Kingdom of Saudi Arabia.

For KPMG Al Fozan & Partners:
Certified Public Accountants

Ebrahim Oboud Baeshen
License No. 382

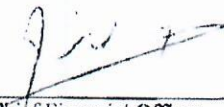
Jeddah, Shawwal 21, 1437H
Corresponding to July 26, 2016

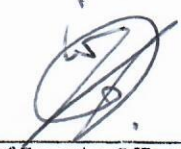


SAUDI GROUND SERVICES COMPANY
(A Saudi Joint Stock Company)

INTERIM BALANCE SHEET (UNAUDITED)
As at June 30, 2016
(Expressed in Saudi Arabian Riyals)

	Notes	2016	2015
<u>ASSETS</u>			
Current assets:			
Cash and cash equivalents	4	481,768,291	497,704,983
Investment held for trading	5	351,138,351	--
Accounts receivable	6	973,121,755	904,187,367
Prepayments and other current assets		264,452,368	263,713,066
Total current assets		2,070,480,765	1,665,605,416
Non-current assets:			
Investment in an equity accounted investee	7	88,201,063	76,690,540
Property and equipment		479,729,506	507,258,360
Intangible assets	8	922,460,034	960,043,184
Total non-current assets		1,490,390,603	1,543,992,084
Total assets		3,560,871,368	3,209,597,500
<u>LIABILITIES AND SHAREHOLDERS' EQUITY</u>			
Current liabilities:			
Accounts payable		85,478,905	49,635,224
Accrued expenses and other current liabilities		278,549,929	243,392,736
Accrued Zakat		33,222,137	13,796,063
Total current liabilities		397,250,971	306,824,023
Non-current liabilities:			
Employees' end of service benefits		285,940,351	246,555,975
Total liabilities		683,191,322	553,379,998
<u>SHAREHOLDERS' EQUITY</u>			
Share capital	9	1,880,000,000	1,880,000,000
Statutory reserve		340,305,230	267,518,125
Retained earnings		657,374,816	508,699,377
Total shareholders' equity		2,877,680,046	2,656,217,502
Total liabilities and shareholders' equity		3,560,871,368	3,209,597,500


Chief Financial Officer


Chief Executive Officer


Chairman


The attached notes 1 to 14 form an integral part of these interim financial statements.

SAUDI GROUND SERVICES COMPANY
(A Saudi Joint Stock Company)

INTERIM STATEMENT OF INCOME (UNAUDITED)
For the three months and six months period ended June 30, 2016
(Expressed in Saudi Arabian Riyals)

	<u>Notes</u>	For the three-months period ended June 30,		For the six-months period ended June 30,	
		<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Revenue		692,450,849	610,800,960	1,378,214,993	1,233,331,998
Operating costs		(439,191,919)	(386,560,306)	(865,393,903)	(852,949,594)
Gross profit		253,258,930	224,240,654	512,821,090	380,382,404
General and administrative expenses		(59,458,358)	(51,394,206)	(120,379,432)	(114,751,912)
Unrealized gain from valuation of investment held for trading		1,138,351	--	1,138,351	--
Share of profit from an equity accounted investee	7	6,000,000	5,495,949	12,000,000	20,111,216
Operating income		200,938,923	178,342,397	405,580,009	285,741,708
Other income / (expenses):					
Finance income		2,303,874	--	2,303,874	--
Other income, net		3,200,240	1,715,774	4,179,624	10,806,927
Financial charges		(76,639)	(148,651)	(117,600)	(189,752)
Income before Zakat		206,366,398	179,909,520	411,945,907	296,358,883
Zakat		(9,415,850)	(5,625,000)	(20,037,492)	(11,250,000)
Net income for the period		196,950,548	174,284,520	391,908,415	285,108,883
Earnings per share (Saudi Riyals):					
- Operating income	11	1.07	0.95	2.16	1.52
- Net income for the period	11	1.05	0.93	2.08	1.52


Chief Financial Officer


Chief Executive Officer


Chairman

The attached notes 1 to 14 form an integral part of these
interim financial statements.

SAUDI GROUND SERVICES COMPANY
(A Saudi Joint Stock Company)

INTERIM STATEMENT OF CASH FLOWS (UNAUDITED)
For the six months period ended June 30, 2016
(Expressed in Saudi Arabian Riyals)

	<u>Notes</u>	<u>2016</u>	<u>2015</u>
Cash flows from operating activities			
Income before Zakat		411,945,907	296,358,883
Adjustments for:			
Share of profit from an equity accounted investee	7	(12,000,000)	(20,111,216)
Depreciation		48,073,104	48,891,759
Amortization of intangible assets		11,711,875	25,871,275
Provision for employees' end of service benefits		27,840,178	26,099,474
Provision for doubtful debts		13,280,000	5,369,890
Unrealized gain from investment held for trading	5	(1,138,351)	--
(Gain) / loss on disposal of property and equipment		(11,670)	18,044
		<u>499,701,043</u>	<u>382,498,109</u>
Changes in operating assets and liabilities:			
Increase in accounts receivable		(176,964,045)	(191,341,863)
Increase in prepayments and other current assets		(87,556,063)	(151,458,411)
Increase in accounts payable		33,687,319	18,929,413
Increase in accrued expenses and other current liabilities		<u>76,035,329</u>	<u>41,852,452</u>
		<u>344,903,583</u>	<u>100,479,700</u>
Employees' end of service benefits paid		(7,167,503)	(1,799,799)
Zakat paid		(12,674,299)	(21,435,869)
Net cash provided by operating activities		<u>325,061,781</u>	<u>77,244,032</u>
Cash flows from investing activities			
Purchase of property and equipment		(54,662,879)	(14,297,617)
Proceeds from disposal of property and equipment		11,670	1,325,558
Purchase of investment held for trading		(350,000,000)	--
Dividend received from an equity accounted investee	7	--	10,000,000
Net cash used in investing activities		<u>(404,651,209)</u>	<u>(2,972,059)</u>
Cash flows from financing activity			
Dividend paid		(218,080,000)	(95,986,800)
Net decrease in cash and cash equivalents		(297,669,428)	(21,714,827)
Cash and cash equivalents at the beginning of the period		<u>779,437,719</u>	<u>519,419,810</u>
Cash and cash equivalents at the end of the period	4	<u>481,768,291</u>	<u>497,704,983</u>


Chief Financial Officer


Chief Executive Officer


Chairman

The attached notes 1 to 14 form an integral part of these interim financial statements.

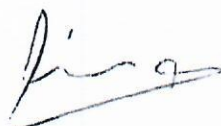
SAUDI GROUND SERVICES COMPANY
(A Saudi Joint Stock Company)

INTERIM STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY (UNAUDITED)

For the six months period ended June 30, 2016

(Expressed in Saudi Arabian Riyals)

	<u>Share capital</u>	<u>Statutory reserve</u>	<u>Retained earnings</u>	<u>Total</u>
Balance at January 1, 2015 (Audited)	1,880,000,000	239,007,237	365,569,049	2,484,576,286
Net income	--	--	285,108,883	285,108,883
Dividend (Note 12)	--	--	(113,467,667)	(113,467,667)
Transfer to statutory reserve	--	28,510,888	(28,510,888)	--
Balance at June 30, 2015 (Unaudited)	<u>1,880,000,000</u>	<u>267,518,125</u>	<u>508,699,377</u>	<u>2,656,217,502</u>
Balance at January 1, 2016 (Audited)	1,880,000,000	301,114,388	522,737,243	2,703,851,631
Net income	--	--	391,908,415	391,908,415
Dividend (Note 12)	--	--	(218,080,000)	(218,080,000)
Transfer to statutory reserve	--	39,190,842	(39,190,842)	--
Balance at June 30, 2016 (Unaudited)	<u>1,880,000,000</u>	<u>340,305,230</u>	<u>657,374,816</u>	<u>2,877,680,046</u>


Chief Financial Officer


Chief Executive Officer


Chairman

The attached notes 1 to 14 form an integral part of these interim financial statements.

SAUDI GROUND SERVICES COMPANY
(A Saudi Joint Stock Company)

NOTES TO THE INTERIM FINANCIAL STATEMENTS (UNAUDITED)

For the six months period ended June 30, 2016

(Expressed in Saudi Arabian Riyals)

1. ORGANIZATION AND PRINCIPLE ACTIVITIES

- 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.
- 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
Khalidiyah District, Saudia City
P. O. Box 48154
Jeddah 21572
Kingdom of Saudi Arabia.

NOTES TO THE INTERIM FINANCIAL STATEMENTS (UNAUDITED)

For the six months period ended June 30, 2016

(Expressed in Saudi Arabian Riyals)

2. BASIS OF PREPARATION

(a) Statement of compliance

The accompanying interim financial statements have been prepared in accordance with the Saudi Accounting Standard for Interim Financial Information issued by the Saudi Organization for Certified Public Accountants (SOCPA). These interim financial statements do not contain all information and disclosures required for full financial statements prepared in accordance with accounting standards generally accepted in the Kingdom of Saudi Arabia and should be read in conjunction with the Company's audited financial statements for the year ended December 31, 2015.

(b) Basis of measurement

The accompanying interim financial statements have been prepared on historical cost basis, except for investments held for trading which are stated at fair value; using the accrual basis of accounting and the going concern concept.

(c) Functional and presentation currency

These interim financial statements are presented in Saudi Arabian Riyals (SR) which is the functional currency of the Company.

(d) Use of estimates and judgements

The preparation of interim financial statements requires management to make judgements, estimates and assumptions that affect the application of policies and 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 accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Significant areas requiring management judgement and estimates are as follows:

NOTES TO THE INTERIM FINANCIAL STATEMENTS (UNAUDITED)

For the six months period ended June 30, 2016

(Expressed in Saudi Arabian Riyals)

2. BASIS OF PREPARATION (continued)

(d) Use of estimates and judgements (continued)

i) Provision for doubtful debts

A provision for impairment of accounts receivable is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments are considered indicators that the account receivable is impaired. For significant individual amounts, assessment is made on an individual basis. Amounts which are not individually significant, but are overdue, are assessed collectively and a provision is recognized considering the length of time considering past recovery rates.

ii) Useful lives of property and equipment

The management determines the estimated useful lives of property and equipment for calculating depreciation. These estimates are determined after considering expected usage of the assets and physical wear and tear. Management reviews the residual value and useful lives annually and future depreciation charges are adjusted where management believes the useful lives differ from previous estimates.

iii) Impairment of non-financial assets

The Company assesses, at each reporting date or more frequently if events or changes in circumstances indicate, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an assets or cash-generating units (CGU) fair value less cost to sell, and its value in use, and is determined for the individual asset, unless the asset does not generate cash inflows which are largely independent to those from other assets or groups. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining the fair value less costs to sell, an appropriate source is used, such as observable market prices or, if no observable market prices exist, estimated prices for similar assets or if no estimated prices for similar assets prevail, or it is based on discounted future cash flow calculations.

Impairment for goodwill is determined by assessing the recoverable amount of each cash-generating unit (or group of cash generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than their carrying amount an impairment loss is recognized. Impairment losses relating to goodwill cannot be reversed in future periods for subsequent increases in its recoverable amount in future periods.

iv) Accruals for services provided by Saudia and its affiliates

Accruals made by the Company for services rendered by Saudia and its affiliates based on the contractual terms and in certain cases on a valid expectation. Those amounts are provided for to the extent that the Company has a present obligation (legal or constructive) arising as a result of a past event and it is probable that and outflow of resources will be required to settle the obligation which can be reliably estimated. This require the exercise of judgment by management based on prior experience, application of contract terms and relationship with Saudia and its affiliates.

NOTES TO THE INTERIM FINANCIAL STATEMENTS (UNAUDITED)

For the six months period ended June 30, 2016
(Expressed in Saudi Arabian Riyals)

2. BASIS OF PREPARATION (continued)

(d) Use of estimates and judgements (continued)

v) Going concern

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

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in the interim financial statements and are consistent with those used in the preparation of the annual financial statements.

(a) 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.

(b) Account receivables

Trade receivables are carried at original invoice amount less provisions made for any uncollected amounts. A provision against doubtful debts is established when there is significant doubt that the Company will not be able to collect the amounts due according to the original terms of agreement. Bad debts are written off against its related provisions. The provisions are charged to statement of income and any subsequent recovery of receivable amounts previously written off are credited to income.

(c) Investment held for trading

Investment held for trading are initially recorded at cost and then re-measured and stated in the balance sheet at market value and included under current assets. Realized gain or loss on sale of investment held for trading and changes in market value at balance sheet date are credited or charged to statement of income.

(d) Investments in an equity accounted investee

The Company's investment in equity accounted investee represents investment in an entity over whose activities the Company has joint control, established by contractual arrangements and requiring unanimous consent for strategic financial and operating decisions. Investment in equity accounted investee is accounted for using the equity method of accounting together with any long-term interests that, in substance, form part of the investor's net investment in the equity accounted investee. Under the equity method, the investment in the equity accounted investee is carried in the balance sheet at cost plus post-acquisition changes in the Company's share of net assets of the equity accounted investee less impairment loss, if any. When the Company's share of losses exceeds its interest in an equity accounted investee, the carrying amount of Company's investment is reduced to nil and recognition of further losses is discontinued except to the extent that the Company has incurred legal or constructive obligations or made payments on behalf of an equity accounted investee.

NOTES TO THE INTERIM FINANCIAL STATEMENTS (UNAUDITED)

For the six months period ended June 30, 2016

(Expressed in Saudi Arabian Riyals)

3. SIGNIFICANT ACCOUNT POLICIES (continued)

(e) Property and equipment

Property and equipment are stated at cost less accumulated depreciation and accumulated impairment losses, if any. Land is not depreciated. Cost includes expenditure that is directly attributable to the acquisition of asset. Finance cost on borrowings to finance the construction of the asset is capitalized during the period of time that is required to complete and prepare the asset for its intended use.

Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the item of property and equipment. Expenditures for maintenance and repairs that do not materially extend the asset's life are included in expenses for the period. Depreciation is charged to the statement of income on a straight-line basis over the estimated useful lives of assets as follows:

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

(f) Intangible assets

i) Goodwill

Goodwill represents the excess cost of investments over the fair value of the net assets acquired in a business combination. Goodwill is tested annually for impairment and is carried at cost net of accumulated impairment losses. Gains or losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Company's cash generating units that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to these units.

ii) Other intangible assets

Other intangible assets represents the customer contracts and customer relationships.

Customer contracts refer to existing contracts that the Company has with its customers that are ongoing in nature and have expiration dates after the balance sheet date. Customer contract are amortized using the straight-line method over the related estimated economic lives not exceeding five years.

Customer relationships represents intangible asset arising from the fact that the Company has established relationship with various customers over the years and that this relationship is the factor in the renewal of contracts and customer retentions. Customer relationships are amortized using the straight-line method over the related estimated economic lives not exceeding twenty years.

NOTES TO THE INTERIM FINANCIAL STATEMENTS (UNAUDITED)

For the six months period ended June 30, 2016

(Expressed in Saudi Arabian Riyals)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) Impairment of assets

Financial assets, property and equipment and other non-current assets are reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss, if any, is recognized for the amount by which the carrying amount of the asset exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

(h) Zakat

Zakat is provided in accordance with the regulations of General Authority of Zakat and Income Tax (GAZT). The provision is charged to the statement of income.

(i) Accounts payable and accruals

Liabilities are recognized for amounts to be paid in the future for goods or services received, whether billed by the supplier or not.

(j) Provisions

Provisions are recognised when the Company has an obligation (legal or constructive) arising from a past event, and the costs to settle the obligation are both probable and can be measured reliably.

(k) Leases

Lease arrangements that transfer to the Company substantially all the risks and benefits incidental to the ownership of the leased item are recognised as finance lease. Leases where the lessor retains substantially all the risks and benefits of ownership are classified as operating leases.

Assets purchased under finance lease are recorded at the lower of their fair value and the present value of the minimum lease payments at the inception of the lease and are depreciated over their expected useful lives on the same basis as owned assets. Finance costs are charged to the statement of income using the effective interest method. The liability at the balance sheet date is stated net of future finance charges.

Operating lease payments are recognised as an expense in the statement of income on a straight line basis over the lease term.

(l) Employees' end of service benefits

Employees' end of service benefits, calculated in accordance with labour regulations of the Kingdom of Saudi Arabia, are accrued and charged to statement of income.

NOTES TO THE INTERIM FINANCIAL STATEMENTS (UNAUDITED)

For the six months period ended June 30, 2016
(Expressed in Saudi Arabian Riyals)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) Revenue recognition

Revenue is recognized to the extent of the following recognition requirements:

- it is probable that the economic benefits will flow to the Company.
- it can be reliably measured, regardless of when the payment is being made.
- the cost incurred to date and expected future costs are identifiable and can be measured reliably.

Revenue is measured at the fair value of the consideration received or the contractually defined terms of payment. The specific recognition criteria described below must also be met before the revenue is recognized.

Revenue from airport operations is recognised in the period in which services have been rendered.

(n) Income from bank deposits

Income from short-term deposits with banks is recognised on an accrual basis.

(o) Offsetting

Financial assets and liabilities are offset and the net amount reported in the balance sheet only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liability simultaneously. Income and expense is not offset in the statement of income unless required or permitted by generally accepted accounting principles in Kingdom of Saudi Arabia.

(p) Foreign currencies

Transactions denominated in foreign currencies are translated to the functional currencies of the Company at the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to the functional currencies of the Company at the foreign exchange rate ruling at that date. Exchange differences arising on translation are recognized in the statement of income. Non-monetary items measured at historical cost denominated in a foreign currency are translated at the exchange rate at the date of initial recognition.

(q) Operating costs

Operating costs incurred during the period in relation to the activities performed to generate revenue for the year are charged to the statement of income.

(r) Expenses

Due to the nature of the company's business all indirect expenses incurred are considered to be general and administration expenses and are classified as such.

SAUDI GROUND SERVICES COMPANY
(A Saudi Joint Stock Company)

NOTES TO THE INTERIM FINANCIAL STATEMENTS (UNAUDITED)

For the six months period ended June 30, 2016
(Expressed in Saudi Arabian Riyals)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(s) Segment reporting

A business segment is a distinguishable component of the Company of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in producing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments. 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.

4. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise the following:

	<u>2016</u>	<u>2015</u>
Cash in hand	448,477	431,896
Cash at bank in current accounts	78,212,796	494,170,388
Short-term bank deposits, with original maturity of less than 90 days [note 4 (a)]	403,107,018	3,102,699
	<u>481,768,291</u>	<u>497,704,983</u>

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

5. INVESTMENT HELD FOR TRADING

Investment held for trading mainly comprises of investment in money market - mutual fund.
Balance as at June 30 is as following:

	<u>2016</u>	<u>2015</u>
Cost of investment	350,000,000	--
Unrealized gain	1,138,351	--
Fair value	<u>351,138,351</u>	<u>--</u>

SAUDI GROUND SERVICES COMPANY
(A Saudi Joint Stock Company)

NOTES TO THE INTERIM FINANCIAL STATEMENTS (UNAUDITED)

For the six months period ended June 30, 2016
(Expressed in Saudi Arabian Riyals)

6. ACCOUNTS RECEIVABLE

Accounts receivable comprise the following:

	<u>2016</u>	<u>2015</u>
Related parties (Note 10 (a))	779,116,611	737,500,249
Other customers	296,560,720	237,620,668
Total	1,075,677,331	975,120,917
Less: provision for doubtful debts	(102,555,576)	(70,933,550)
	<u>973,121,755</u>	<u>904,187,367</u>

7. INVESTMENT IN AN EQUITY ACCOUNTED INVESTEE

a) Investment in an equity accounted investee comprise the following:

<u>Name</u>	<u>Country of incorporation</u>	<u>Effective ownership interest (%)</u>		<u>Carrying value</u>	
		<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Saudi Amad Airport Services Company	Kingdom of Saudi Arabia	50%	50%	<u>88,201,063</u>	<u>76,690,540</u>

b) Movement summary on equity accounted investee is as follows:

	<u>2016</u>	<u>2015</u>
Balance as at the January 1	76,201,063	66,579,324
Dividend received from an equity accounted investee	--	(10,000,000)
Share of profit from an equity accounted investee	12,000,000	20,111,216
Balance as at June 30	<u>88,201,063</u>	<u>76,690,540</u>

SAUDI GROUND SERVICES COMPANY
(A Saudi Joint Stock Company)

NOTES TO THE INTERIM FINANCIAL STATEMENTS (UNAUDITED)

For the six months period ended June 30, 2016
(Expressed in Saudi Arabian Riyals)

8. INTANGIBLE ASSETS

Intangible assets comprise the following:

	<u>2016</u>	<u>2015</u>
<i>Goodwill</i>	<u>582,815,659</u>	<u>582,815,659</u>
<i>Other intangible assets, net</i>		
Customer contracts	<u>153,179,000</u>	153,179,000
Customer relationships	<u>468,475,000</u>	468,475,000
Total other intangible assets	<u>621,654,000</u>	621,654,000
Less: accumulated amortization	<u>(282,009,625)</u>	(244,426,475)
Other intangible assets, net	<u>339,644,375</u>	<u>377,227,525</u>
Total intangible assets	<u>922,460,034</u>	<u>960,043,184</u>

The management reviews goodwill for impairment annually for the purpose of impairment testing. Goodwill has been allocated to the Company (i.e. Company as a single cash generating unit). The recoverable amount of the cash generating unit has been determined based on a value in use calculated using cash flow projection based on financial budgets approved by the Board of Directors. The last impairment study was finalized by an independent firm on December 16, 2015.

9. SHARE CAPITAL

The authorized, issued and paid up share capital of the Company as at June 30, 2016, comprise share capital of SR 1,880,000,000 consist of 188,000,000 shares of SR 10 each (June 30, 2015: SR 1,880,000,000 consist of 188,000,000 shares of SR 10 each).

SAUDI GROUND SERVICES COMPANY
(A Saudi Joint Stock Company)

NOTES TO THE INTERIM FINANCIAL STATEMENTS (UNAUDITED)

For the six months period ended June 30, 2016

(Expressed in Saudi Arabian Riyals)

10. RELATED PARTIES TRANSACTIONS AND BALANCES

Related parties include the Company's shareholders and their relatives up to the fourth generation, associated and affiliated companies and directors and key management personnel of the Company. Terms and conditions of these transactions are approved by the Board. Significant related party transactions for the quarter ended June and balance arising therefrom are described as under:

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

<u>Name</u>	<u>Relationship</u>	<u>Nature of transactions</u>	<u>Amount of transactions</u>		<u>Closing balance</u>	
			<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Saudi Arabian Airlines Corporation	Parent Company	Services provided	663,642,689	617,043,874	639,258,261	538,754,407
National Air Services	Affiliate	Services provided	113,676,821	96,914,874	65,203,487	82,138,760
Saudi Airlines – Cargo Company Limited (SACC)	Affiliate	Services provided	11,311,179	12,425,507	21,522,513	18,323,443
Saudi Aerospace Engineering Industries	Affiliate	Services provided	61,150	61,260	--	41,483,395
Saudi Airlines Catering	Affiliate	Services provided	46,035	54,519	100,670	282,867
Saudi Private Aviation	Affiliate	Services provided	14,521,615	14,353,689	41,327,175	32,435,643
Royal Fleet Services	Affiliate	Services provided	7,819,713	3,909,082	11,703,305	24,075,734
National Aviation Ground Support	Affiliate	Services provided	--	7,200	1,200	6,000
					<u>779,116,611</u>	<u>737,500,249</u>

SAUDI GROUND SERVICES COMPANY
(A Saudi Joint Stock Company)

NOTES TO THE INTERIM FINANCIAL STATEMENTS (UNAUDITED)

For the six months period ended June 30, 2016
(Expressed in Saudi Arabian Riyals)

10. RELATED PARTY TRANSACTIONS AND BALANCES (continued)

(b) Due to related parties - under accounts payables:

<u>Name</u>	<u>Relationship</u>	<u>Nature of transactions</u>	<u>Amount of transactions</u>		<u>Closing balance</u>	
			<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Saudi Arabian Airlines Corporation	Parent Company	Services received by the Company	9,626,963	8,271,770	13,101,495	5,803,240
Saudi Airlines Catering	Affiliate	Services received by the Company	35,091,323	16,854,780	7,390,410	707,621
Saudia Aerospace Engineering Industries	Affiliate	Services received by the Company	41,156,058	40,048,786	63,109,493	34,012,524
Saudi Amad for Airport Services	Affiliate	Expenses incurred on behalf of company	3,517,619	52,513	445,161	50,363
Saudia Airlines Cargo Limited (SACC)	Affiliate	Services received by the Company	63,333	25,762	63,333	1,423,265
					84,109,892	41,997,013

11. EARNINGS PER SHARE

Earnings per share on profit from operations are calculated by dividing the operating income by the weighted average number of outstanding ordinary shares of the Company during the period.

Earnings per share on profit from net income attributable to shareholders of the Company are calculated by dividing the net income by the weighted average number of outstanding ordinary shares of the Company during the period.

The calculation of diluted earnings per share is not applicable to the Company.

12. DIVIDEND DISTRIBUTION

During the period, the Company declared a dividend of SR 218,080,000 (2015: SR 113,467,667) out of the retained earnings as approved by the Board of Directors.

SAUDI GROUND SERVICES COMPANY
(A Saudi Joint Stock Company)

NOTES TO THE INTERIM FINANCIAL STATEMENTS (UNAUDITED)

For the six months period ended June 30, 2016

(Expressed in Saudi Arabian Riyals)

13. CONTINGENT LIABILITY

The Company's bank has provided, in the normal course of business, bank guarantees amounting to SR 18.68 million (June 30, 2015: SR 14.75 million) to the Ministry of Finance and National Economy, Saudi Airlines, IATA and General Authority of Civil Aviation ("GACA"), in respect of Haj visa, tickets, airline ticket sales and rentals, respectively. The Company's bank has marked bank balances in the same amount as lien against these guarantees. Commitments amounting to SR 13.75 million (June 30, 2015: SR 4.90) is in respect of capital expenditure committed but not paid.

14. BOARD OF DIRECTORS' APPROVAL

The interim financial statements were approved and authorized for issue by the Board of Directors on _____.



Chief Financial Officer



Chief Executive Officer



Chairman