

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

**UNAUDITED INTERIM CONDENSED  
FINANCIAL STATEMENTS**

For the three-month and nine-month periods ended September 30, 2015  
with

**INDEPENDENT AUDITORS' REVIEW REPORT**



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

## **REVIEW REPORT ON THE INTERIM CONDENSED 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 September 30, 2015, the related interim statements of income for the three-month and nine-month periods then ended, the interim statement of cash flows and changes in equity for the nine-month period then ended and the attached condensed notes from 1 to 12 which form an integral part of these interim condensed financial statements. These interim condensed 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 express a conclusion on these interim condensed financial statements based on our review.

We conducted our review in accordance with the Auditing Standard on Review of Interim Financial Reporting issued by the Saudi Organization for Certified Public Accountants (SOCPA). A review consists principally of applying analytical procedures to financial data and information and making inquiries of persons 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 regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

### **Conclusion**

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

**For KPMG Al Fozan & Al Sadhan:**

Ebrahim Oboud Baeshen  
License No. 382



Muharram 8, 1437H  
Corresponding to October 21, 2015

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

**INTERIM BALANCE SHEET (UNAUDITED)**

As at September 30, 2015

Expressed in Saudi Arabian Riyals

|  | <u>Notes</u> | <u>2015</u>          | <u>2014</u>          |
|--|--------------|----------------------|----------------------|
| <b><u>ASSETS</u></b>                               |              |                      |                      |
| <b>Current assets:</b>                             |              |                      |                      |
| Cash and cash equivalents                          |              | 609,796,850          | 517,180,225          |
| Accounts receivable                                | 4            | 978,316,792          | 815,982,220          |
| Inventories  |              | 403,822              | 829,203              |
| Prepayments and other current assets               |              | 288,502,533          | 159,017,922          |
| <b>Total current assets</b>                        |              | <b>1,877,019,997</b> | <b>1,493,009,570</b> |
| <b>Non-current assets:</b>                         |              |                      |                      |
| Investment in an equity accounted investee         | 5            | 67,688,910           | --                   |
| Property and equipment                             |              | 488,496,905          | 604,010,142          |
| Intangible assets                                  | 6            | 947,107,546          | 998,850,098          |
| <b>Total non-current assets</b>                    |              | <b>1,503,293,361</b> | <b>1,602,860,240</b> |
| <b>Total assets</b>                                |              | <b>3,380,313,358</b> | <b>3,095,869,810</b> |
| <b><u>LIABILITIES AND SHAREHOLDERS' EQUITY</u></b> |              |                      |                      |
| <b>Current liabilities:</b>                        |              |                      |                      |
| Accounts payable                                   |              | 31,831,577           | 92,912,340           |
| Accrued expenses and other current liabilities     |              | 251,214,331          | 329,253,639          |
| Accrued Zakat                                      |              | 19,421,063           | 23,926,695           |
| <b>Total current liabilities</b>                   |              | <b>302,466,971</b>   | <b>446,092,674</b>   |
| <b>Non-current liabilities:</b>                    |              |                      |                      |
| Employees' end of service benefits                 |              | 254,547,377          | 213,939,933          |
| <b>Total liabilities</b>                           |              | <b>557,014,348</b>   | <b>660,032,607</b>   |
| <b><u>SHAREHOLDERS' EQUITY</u></b>                 |              |                      |                      |
| Share capital                                      | 7            | 1,880,000,000        | 1,880,000,000        |
| Statutory reserve                                  |              | 284,226,276          | 222,197,212          |
| Retained earnings                                  |              | 659,072,734          | 333,639,991          |
| <b>Total shareholders' equity</b>                  |              | <b>2,823,299,010</b> | <b>2,435,837,203</b> |
| <b>Total liabilities and shareholders' equity</b>  |              | <b>3,380,313,358</b> | <b>3,095,869,810</b> |

The attached notes 1 to 12 form an integral part of these interim condensed financial statements.

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

**INTERIM STATEMENT OF INCOME (UNAUDITED)**

For the three-month and nine-month periods ended September 30, 2015

Expressed in Saudi Arabian Riyals

|  |              | For the three-month period<br>ended September 30, |               | For the nine-month<br>period ended<br>September 30, | For the period from<br>April 17, 2014 to<br>September 30, |
|--|--------------|---|---------------|---|---|
|  | <u>Notes</u> | <u>2015</u>                                       | <u>2014</u>   | <u>2015</u>   | <u>2014</u>   |
| Revenue  |              | <b>661,141,468</b>                                | 625,521,072   | <b>1,894,473,466</b>                                | 1,125,621,097   |
| Operating costs                                      |              | <b>(440,370,052)</b>                              | (378,677,093) | <b>(1,293,319,646)</b>                              | (680,332,029)   |
| <b>Gross profit</b>                                  |              | <b>220,771,416</b>                                | 246,843,979   | <b>601,153,820</b>                                  | 445,289,068   |
| General and administrative<br>expenses               |              | <b>(54,970,426)</b>                               | (66,121,797)  | <b>(169,722,338)</b>                                | (107,747,301)   |
| Share of profit from an<br>equity accounted investee | 5            | <b>5,495,949</b>                                  | --            | <b>25,607,165</b>                                   | --  |
| <b>Operating income</b>                              |              | <b>171,296,939</b>                                | 180,722,182   | <b>457,038,647</b>                                  | 337,541,767   |
| Other income – net                                   |              | <b>1,453,628</b>                                  | 1,761,348     | <b>12,260,555</b>                                   | 1,375,767   |
| Finance charges                                      |              | <b>(44,056)</b>                                   | (27,170)      | <b>(233,808)</b>                                    | (288,010)   |
| <b>Income before Zakat</b>                           |              | <b>172,706,511</b>                                | 182,456,360   | <b>469,065,394</b>                                  | 338,629,524   |
| Zakat  |              | <b>(5,625,000)</b>                                | (5,625,000)   | <b>(16,875,000)</b>                                 | (10,250,000)  |
| <b>Net income for the period</b>                     |              | <b>167,081,511</b>                                | 176,831,360   | <b>452,190,394</b>                                  | 328,379,524   |
| <b>Earnings per share (Saudi Riyals):</b>            |              |   |               |   |   |
| - Operating income                                   | 10           | <b>0.91</b>                                       | 0.96          | <b>2.43</b>   | 1.80  |
| - Net income   | 10           | <b>0.89</b>                                       | 0.94          | <b>2.41</b>   | 1.75  |

The attached notes 1 to 12 form an integral part of these  
Interim condensed financial statements.

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

**INTERIM STATEMENT OF CASH FLOWS (UNAUDITED)**

For the nine-month period ended September 30, 2015

Expressed in Saudi Arabian Riyals

|  | <u>Notes</u> | <u>2015</u>          | For the period<br>from April 17,<br>2014 to<br>September 30,<br><u>2014</u> |
|--|--------------|----------------------|---|
| <b>Cash flows from operating activities</b>                |              |                      |   |
| Income before Zakat  |              | 469,065,394          | 338,629,524   |
| Adjustments for:   |              |                      |   |
| Share of profit from an equity accounted investee          | 5            | (25,607,165)         | --  |
| Depreciation   |              | 73,262,447           | 37,069,574  |
| Amortization of intangible assets                          |              | 38,806,913           | 23,571,605  |
| Provision for employees' end of service benefits           |              | 36,955,451           | 25,704,157  |
| Provision for doubtful debts                               |              | 5,369,890            | 20,095,404  |
| Loss / (gain) on disposal of property and equipment        |              | 103,001              | (24,540)  |
|  |              | <u>597,955,931</u>   | <u>445,045,724</u>  |
| Changes in operating assets and liabilities:               |              |                      |   |
| Increase in accounts receivable                            |              | (265,471,288)        | (136,907,123)   |
| Decrease in inventories                                    |              | 542,107              | 1,202,034   |
| Increase in prepayments and other current assets           |              | (177,193,808)        | (31,089,236)  |
| Increase in accounts payable                               |              | 1,125,766            | 6,291,536   |
| Increase in accrued expenses and other current liabilities |              | <u>67,154,911</u>    | <u>8,136,419</u>  |
| Cash generated from operations                             |              | 224,113,619          | 292,679,354   |
| Employees' end of service benefits paid                    |              | (4,664,374)          | (5,097,387)   |
| Zakat paid   |              | <u>(21,435,869)</u>  | <u>(13,106,295)</u>   |
| Net cash generated from operating activities               |              | <u>198,013,376</u>   | <u>274,475,672</u>  |
| <b>Cash flows from investing activities</b>                |              |                      |   |
| Purchase of property and equipment                         |              | (20,754,777)         | (80,073,435)  |
| Proceeds from disposal of property and equipment           |              | 2,088,529            | 163,384   |
| Dividend received from an equity accounted investee        | 5            | 24,497,579           | --  |
| Net cash generated from / (used in) investing activities   |              | <u>5,831,331</u>     | <u>(79,910,051)</u>   |
| <b>Cash flows from financing activities</b>                |              |                      |   |
| Repayment of loan  |              | --                   | (10,825,326)  |
| Dividend paid  |              | (113,467,667)        | (124,648,462)   |
| Net cash used in financing activities                      |              | <u>(113,467,667)</u> | <u>(135,473,788)</u>  |
| Net increase in cash and cash equivalents                  |              | 90,377,040           | 59,091,833  |
| Cash and cash equivalents at the beginning of the period   |              | <u>519,419,810</u>   | <u>458,088,392</u>  |
| Cash and cash equivalents at the end of the period         |              | <u>609,796,850</u>   | <u>517,180,225</u>  |

The attached notes 1 to 12 form an integral part of these  
Interim condensed financial statements.

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

**INTERIM STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY (UNAUDITED)**  
For the nine-month period ended September 30, 2015  
Expressed in Saudi Arabian Riyals

|                                      | <u>Share capital</u>        | <u>Statutory<br/>reserve</u> | <u>Retained<br/>Earnings</u> | <u>Total</u>                |
|--------------------------------------|-----------------------------|------------------------------|------------------------------|-----------------------------|
| Balance at January 1, 2015           | 1,880,000,000               | 239,007,237                  | 365,569,046                  | 2,484,576,283               |
| Net income                           | --                          | --                           | 452,190,394                  | 452,190,394                 |
| Dividend                             | --                          | --                           | (113,467,667)                | (113,467,667)               |
| Transfer to statutory reserve        | --                          | 45,219,039                   | (45,219,039)                 | --                          |
| <b>Balance at September 30, 2015</b> | <b><u>1,880,000,000</u></b> | <b><u>284,226,276</u></b>    | <b><u>659,072,734</u></b>    | <b><u>2,823,299,010</u></b> |
| Balance at April 17, 2014            | 1,880,000,000               | 189,359,260                  | 152,745,066                  | 2,222,104,326               |
| Net income                           | --                          | --                           | 328,379,524                  | 328,379,524                 |
| Dividend                             | --                          | --                           | (114,646,647)                | (114,646,647)               |
| Transfer to statutory reserve        | --                          | 32,837,952                   | (32,837,952)                 | --                          |
| <b>Balance at September 30, 2014</b> | <b><u>1,880,000,000</u></b> | <b><u>222,197,212</u></b>    | <b><u>333,639,991</u></b>    | <b><u>2,435,837,203</u></b> |

The attached notes 1 to 12 form an integral part of these  
Interim condensed financial statements.

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

**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED)**

For the nine-month period ended September 30, 2015

Expressed in Saudi Arabian Riyals

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**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 Accordingly, after successful completion of IPO (Initial Public Offering) process, the Company was declared a Saudi Joint Stock Company with a share capital of SR 1,880 million (divided into 188 million shares of SR 10 each). The legal formalities for the revision of the Bylaws of the Company have been completed during the six-month period ended June 30, 2015.
- 1.6 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.
- 1.7 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 CONDENSED FINANCIAL STATEMENTS (UNAUDITED)**

For the nine-month period ended September 30, 2015

Expressed in Saudi Arabian Riyals

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**2. BASIS OF PREPARATION**

**(a) Statement of compliance**

The accompanying interim condensed 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 condensed 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 period from April 17, 2014 to December 31, 2014.

The interim statement of income in these interim condensed financial statements include comparative information which cover period from April 17, 2014 (date of ministerial approval of the Company's conversion from limited liability company to a closed joint stock company) to September 30, 2014.

**(b) Basis of measurement**

These interim condensed financial statements have been prepared on historical cost basis, using the accrual basis of accounting and the going concern concept.

**(c) Functional and presentation currency**

These interim condensed 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 condensed financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of assets and liabilities. 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 CONDENSED FINANCIAL STATEMENTS (UNAUDITED)**

For the nine-month period ended September 30, 2015

Expressed in Saudi Arabian Riyals

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

**(d) Use of estimates and judgements (continued)**

*i) 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.

*ii) 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.

*iii) Provision for slow moving inventory items*

The Company makes a provision for slow moving inventory items. Estimates of net realizable value of inventories are based on the most reliable evidence at the time the estimates are made. These estimates take into consideration fluctuations of price or cost directly related to events occurring subsequent to the balance sheet date to the extent that such events confirm conditions existing at the end of period.

*iv) 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.

**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED)**

For the nine-month period ended September 30, 2015

Expressed in Saudi Arabian Riyals

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**3. SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies set out below have been applied consistently to all periods presented in the interim condensed 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.

**(b) Account receivables**

Account receivables are carried at original invoice amount less allowance for any uncollected amounts. A provision for doubtful debts is established when there is a significant doubt that the Company will be able to collect all amounts due according to the original terms of agreement. Bad debts are written-off as incurred.

**(c) Inventories**

Inventories are valued at lower of cost (determined principally by the weighted average method) and net realisable value. Stores and spares are valued at cost, less any provision for slow-moving items.

**(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.

**(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.

**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED)**

For the nine-month period ended September 30, 2015

Expressed in Saudi Arabian Riyals

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

**(e) Property and equipment (continued)**

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 softwares  | 4            |

**(f) Business combination**

Business combinations (except for entities under common control) are accounted for using the purchase method. The cost of an acquisition is measured as the fair value of the assets given, equity instrument issued and liabilities incurred or assumed at the date of exchange, and includes costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at fair values at the date of acquisition.

The excess of the cost of the business combination over the Company's share in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities is classified as goodwill.

If the cost of the acquired investment is less than its fair value as of the acquisition date, such difference is adjusted by reducing the fair values of the non-current assets of the acquired investee in proportion to their book values.

**(g) Business combination under common control**

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

**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED)**

For the nine-month period ended September 30, 2015

Expressed in Saudi Arabian Riyals

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

**(h) 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.

**(i) 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.

**(j) Zakat**

Zakat is provided in accordance with the regulations of Saudi Arabian Department of Zakat and Income Tax (DZIT). The provision is charged to the statement of income.

**NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED)**

For the nine-month period ended September 30, 2015

Expressed in Saudi Arabian Riyals

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

**(k) 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.

**(l) 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.

**(m) 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.

**(n) 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; and
- 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.

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

**(o) Income from bank deposits**

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

**(p) 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.

**(q) 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.

**(r) Cost of revenue**

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

**(s) 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.

**(t) 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.

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**4. ACCOUNTS RECEIVABLE**

Accounts receivable comprise the following:

|                                    | <u>2015</u>        | <u>2014</u>        |
|------------------------------------|--------------------|--------------------|
| Related parties (Note 8 (a))       | 784,368,414        | 640,162,319        |
| Other customers                    | 264,881,928        | 225,924,910        |
| Total                              | 1,049,250,342      | 866,087,229        |
| Less: provision for doubtful debts | (70,933,550)       | (50,105,009)       |
|                                    | <u>978,316,792</u> | <u>815,982,220</u> |

**5. INVESTMENT IN AN EQUITY ACCOUNTED INVESTEE**

a) Investment in an equity accounted investee at September 30 comprise the following:

| <u>Name</u>                         | <u>Country of incorporation</u> | <u>Effective ownership interest (%)</u> |             | <u>Carrying value</u> |             |
|-------------------------------------|---------------------------------|---|-------------|-----------------------|-------------|
|                                     |                                 | <u>2015</u>                             | <u>2014</u> | <u>2015</u>           | <u>2014</u> |
| Saudi Amad Airport Services Company | Kingdom of Saudi Arabia         | 50%                                     | --          | 67,688,910            | --          |

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

|   | <u>2015</u>       | <u>2014</u> |
|---|-------------------|-------------|
| Balance as at January 1, 2015                       | 66,579,324        | --          |
| Share of profit from an equity accounted investee   | 25,607,165        | --          |
| Dividend received from an equity accounted investee | (24,497,579)      | --          |
| Balance as at September 30, 2015                    | <u>67,688,910</u> | <u>--</u>   |

**6. INTANGIBLE ASSETS**

Intangible assets comprise the following:

|                              | <u>2015</u>        | <u>2014</u>        |
|------------------------------|--------------------|--------------------|
| Goodwill                     | 582,815,659        | 582,815,659        |
| Customer contracts           | 153,179,000        | 153,179,000        |
| Customer relationships       | 468,475,000        | 468,475,000        |
| Other intangible assets      | 621,654,000        | 621,654,000        |
| Accumulated amortization     | (257,362,113)      | (205,619,561)      |
| Other intangible assets, net | 364,291,887        | 416,034,439        |
| Total intangible assets      | <u>947,107,546</u> | <u>998,850,098</u> |

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**6. INTANGIBLE ASSETS (continued)**

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 conducted by an independent firm on November 30, 2014.

**7. SHARE CAPITAL**

The authorized, issued and paid up share capital of the Company as at September 30, 2015, comprise share capital of SR 1,880,000,000 consist of 188,000,000 shares of SR 10 each (September 30, 2014: SR 1,880,000,000 consist of 188,000,000 shares of SR 10 each).

**8. RELATED PARTIES TRANSACTIONS AND BALANCES**

Related party transactions are undertaken at mutually agreed terms and are approved by the management. Significant related party transactions for the nine month period ended September 30 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>For the nine month period ended September 30, 2015</u> | <u>For the period from April 17, 2014 to September 30, 2014</u> | <u>2015</u>            | <u>2014</u>        |
| Saudi Arabian Airlines Corporation            | Parent Company      | Services provided             | 933,085,007   | 576,850,329   | 615,029,796            | 513,958,045        |
| National Air Services                         | Affiliate           | Services provided             | 153,721,559   | 78,323,980  | 87,600,257             | 61,574,957         |
| Saudi Airlines – Cargo Company Limited (SACC) | Affiliate           | Services provided             | 18,503,815  | 11,876,760  | 18,049,625             | 14,572,636         |
| Saudi Aerospace Engineering Industries        | Affiliate           | Services provided             | 137,080   | 31,980  | 36,030                 | --                 |
| Saudi Airlines Catering                       | Affiliate           | Services provided             | 88,524  | 54,189  | 328,498                | 154,196            |
| Saudi Private Aviation                        | Affiliate           | Services provided             | 20,730,567  | 10,655,700  | 36,267,360             | 44,295,317         |
| Royal Fleet Services                          | Affiliate           | Services provided             | 6,890,196   | 3,594,537   | 27,056,848             | 5,607,168          |
|   |                     |                               |   |   | <u>784,368,414</u>     | <u>640,162,319</u> |



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**8. 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>For the nine month period ended September 30, 2015</u> | <u>For the period from April 17, 2014 to September 30, 2014</u> | <u>2015</u>            | <u>2014</u>       |
| Saudi Arabian Airlines Corporation      | Parent Company      | Expenses incurred on behalf of the Company | 1,796,720   | 4,604,335   | 5,803,240              | 2,982,469         |
| Saudi Airlines Catering                 | Affiliate           | Expenses incurred on behalf of the Company | 23,669,369  | 16,465,308  | 5,717,712              | 6,119,404         |
| Saudia Aerospace Engineering Industries | Affiliate           | Expenses incurred on behalf of the Company | 63,436,273  | 41,440,614  | 9,752,110              | 25,194,529        |
| Saudia Airlines Cargo Limited (SACC)    | Affiliate           | Expenses incurred on behalf of the Company | 216,841   | 9,822   | 1,614,344              | 1,359,324         |
| Saudi Airlines Real Estate Developers   | Affiliate           | Expenses incurred on behalf of the Company | --  | 8,417,248   | --                     | 7,118,585         |
|   |                     |  |   |   | <u>22,887,406</u>      | <u>42,774,311</u> |

**9. RESULT INDICATOR**

The Company makes all significant adjustments required to present fairly in all material respects the interim financial position and results of operations at each reporting date. However, the results of operations for the nine-month period may still not represent an accurate indicator of the actual results for the full year due to seasonal volatility in business.

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**10. EARNINGS PER SHARE**

Earnings per share on profit from operations are calculated by dividing the profit from operations 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.

**11. CONTINGENT LIABILITY**

The Company's bank has provided, in the normal course of business, bank guarantees amounting to SR 15.02 million (September 30, 2014: SR 10.44 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.

**12. BOARD OF DIRECTORS' APPROVAL**

The interim condensed financial statements were approved and authorized for issue by the Board of Directors on Muharram 8, 1437H, corresponding to October 21, 2015.