

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

**FINANCIAL STATEMENTS**  
December 31, 2016  
with  
**INDEPENDENT AUDITORS' REPORT**

**SAUDI GROUND SERVICES COMPANY**  
(A Saudi Joint Stock Company)  
Expressed in Saudi Arabian Riyals

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## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of Saudi Ground Services Company ("the Company") which comprise the balance sheet as at December 31, 2016 and the related statements of income, cash flows and changes in equity for the year then ended and the attached notes 1 through 28 which form an integral part of the financial statements.

### *Management's responsibility for the financial statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with generally accepted accounting standards in the Kingdom of Saudi Arabia and in compliance with the Regulations for Companies and the Company's bye-laws and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. Management has provided us with all the information and explanations that we require relating to our audit of these financial statements.

### *Auditors' responsibility*

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with generally accepted auditing standards in the Kingdom of Saudi Arabia. Those standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal controls relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.



**Opinion**

In our opinion, the financial statements taken as a whole:

1. present fairly, in all material respects, the financial position of Saudi Ground Services Company as at December 31, 2016, and the results of its operations and its cash flows for the year then ended in accordance with generally accepted accounting standards in the Kingdom of Saudi Arabia appropriate to the circumstances of the Company; and
2. comply with the requirements of the Regulations for Companies and the Company's bye-laws with respect to the preparation and presentation of financial statements.

**For KPMG Al Fozan & Partners  
Certified Public Accountants**

**Ebrahim Oboud Baeshen  
License No. 382**



Jeddah, Jumada Al Thani 16, 1438H  
Corresponding to March 15, 2017

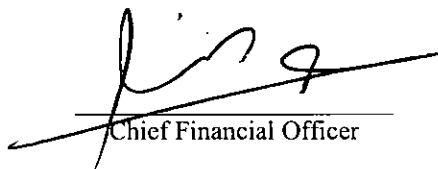
**SAUDI GROUND SERVICES COMPANY**  
(A Saudi Joint Stock Company)

**BALANCE SHEET**

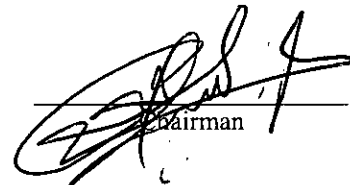
As at December 31, 2016

Expressed in Saudi Arabian Riyals

	<u>Notes</u>	<u>2016</u>	<u>2015</u>
<b><u>ASSETS</u></b>			
<b>Current assets:</b>			
Cash and cash equivalents	6	97,803,875	779,437,719
Short term bank deposits	7	404,820,922	--
Investment held for trading	8	454,805,928	--
Accounts receivable	9	1,071,720,075	809,437,710
Prepayments and other current assets	10	313,444,298	176,896,305
<b>Total current assets</b>		<b><u>2,342,595,098</u></b>	<b><u>1,765,771,734</u></b>
<b>Non-current assets:</b>			
Investment in an equity accounted investee	11	98,337,115	76,201,063
Property and equipment	12	479,572,500	473,139,731
Intangible assets	13	910,748,159	934,171,909
<b>Total non-current assets</b>		<b><u>1,488,657,774</u></b>	<b><u>1,483,512,703</u></b>
<b>Total assets</b>		<b><u>3,831,252,872</u></b>	<b><u>3,249,284,437</u></b>
<b><u>LIABILITIES AND EQUITY</u></b>			
<b>Current liabilities:</b>			
Accounts payable	14	28,233,252	51,791,586
Accrued expenses and other current liabilities	15	389,927,419	202,514,600
Accrued Zakat	24	47,316,174	25,858,944
<b>Total current liabilities</b>		<b><u>465,476,845</u></b>	<b><u>280,165,130</u></b>
<b>Non-current liabilities:</b>			
Employees' end of service benefits	16	316,375,565	265,267,676
<b>Total liabilities</b>		<b><u>781,852,410</u></b>	<b><u>545,432,806</u></b>
<b><u>EQUITY</u></b>			
Share capital	17	1,880,000,000	1,880,000,000
Statutory reserve	18	369,697,271	301,114,388
Retained earnings		799,703,191	522,737,243
<b>Total equity</b>		<b><u>3,049,400,462</u></b>	<b><u>2,703,851,631</u></b>
<b>Total liabilities and equity</b>		<b><u>3,831,252,872</u></b>	<b><u>3,249,284,437</u></b>

  
\_\_\_\_\_  
Chief Financial Officer

  
\_\_\_\_\_  
Chief Executive Officer

  
\_\_\_\_\_  
Chairman

The attached notes 1 to 28 form an integral part of these financial statements.

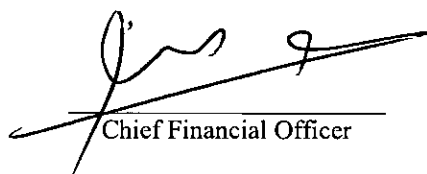
**SAUDI GROUND SERVICES COMPANY**  
(A Saudi Joint Stock Company)

**STATEMENT OF INCOME**

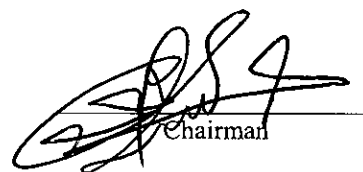
For the year ended December 31, 2016

Expressed in Saudi Arabian Riyals

	<u>Notes</u>	<u>2016</u>	<u>2015</u>
Revenue		2,726,672,980	2,540,512,211
Operating costs		<u>(1,802,115,633)</u>	<u>(1,703,329,764)</u>
<b>Gross profit</b>		<b>924,557,347</b>	<b>837,182,447</b>
General and administrative expenses	20	(248,821,303)	(241,551,414)
Realized gain from investment held for trading		2,573,864	--
Unrealized gain from fair valuation of investment held for trading		2,232,064	--
Share in net income of equity accounted investee	11	<u>22,136,052</u>	<u>34,119,318</u>
<b>Operating income</b>		<b>702,678,024</b>	<b>629,750,351</b>
Other income – net	21	7,582,335	15,702,726
Finance income / (charges) - net	22	<u>9,700,001</u>	<u>(1,068,685)</u>
<b>Income before Zakat</b>		<b>719,960,360</b>	<b>644,384,392</b>
Zakat	24	<u>(34,131,529)</u>	<u>(23,312,881)</u>
<b>Net income</b>		<b><u>685,828,831</u></b>	<b><u>621,071,511</u></b>
<b>Earnings per share:</b>			
- Operating income	19	3.74	3.35
- Net income	19	3.65	3.30

  
Chief Financial Officer

  
Chief Executive Officer

  
Chairman

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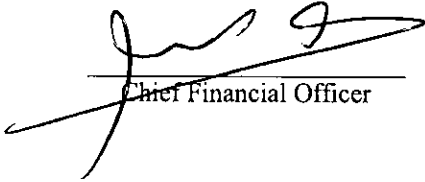
**SAUDI GROUND SERVICES COMPANY**  
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**STATEMENT OF CASH FLOWS**

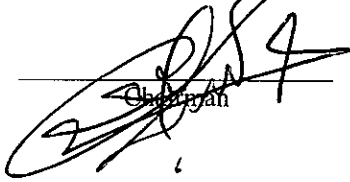
For the year ended December 31, 2016

Expressed in Saudi Arabian Riyals

	<u>Notes</u>	<u>2016</u>	<u>2015</u>
<b>Cash flows from operating activities:</b>			
Income before Zakat		719,960,360	644,384,392
<i>Adjustments for:</i>			
Share of net income in an equity accounted investee	11	(22,136,052)	(34,119,318)
Depreciation	12	96,222,176	97,733,406
Amortization of intangible assets	13	23,423,750	51,742,550
Provision for employees' end of service benefits	16	63,740,052	49,239,116
Provision for doubtful debts	9	29,055,806	23,711,916
Unrealised gain from valuation of trade securities	8	(2,232,064)	--
Realised gain on sale of investment held for trading		(2,573,864)	--
(Gain) / loss on disposal of property and equipment	21	(71,295)	75,752
		<u>905,388,869</u>	<u>832,767,814</u>
<b>Changes in operating assets and liabilities:</b>			
Increase in accounts receivable		(291,338,171)	(118,383,001)
Increase in prepayments and other current assets		(136,547,993)	(61,192,882)
(Decrease) / increase in accounts payable		(23,558,334)	21,085,775
Increase in accrued expenses and other current liabilities		187,412,819	18,455,180
		<u>641,357,190</u>	<u>692,732,886</u>
<b>Cash flows from operations</b>			
		641,357,190	692,732,886
Employees' end of service benefits paid	16	(12,632,163)	(6,227,740)
Zakat paid	24	(12,674,299)	(21,435,869)
Net cash generated from operating activities		<u>616,050,728</u>	<u>665,069,277</u>
<b>Cash flows from investing activities:</b>			
Purchase of property and equipment	12	(102,689,137)	(29,992,546)
Proceeds from disposal of property and equipment		105,487	2,239,762
Investment held for trading	8	(950,000,000)	--
Proceeds from disposal of investment held for trading		500,000,000	--
Short term deposit		(404,820,922)	--
Dividends received from an equity accounted investee		--	24,497,579
Net cash used in investing activities		<u>(957,404,572)</u>	<u>(3,255,205)</u>
<b>Cash flows from financing activities:</b>			
Dividend paid	23	(340,280,000)	(401,796,163)
Net (decrease) / increase in cash and cash equivalents		(681,633,844)	260,017,909
Cash and cash equivalents at beginning of the year		<u>779,437,719</u>	<u>519,419,810</u>
Cash and cash equivalents at end of the year	6	<u>97,803,875</u>	<u>779,437,719</u>

  
Chief Financial Officer

  
Chief Executive Officer

  
Chairman

The attached notes 1 to 28 form an integral part of these financial statements.

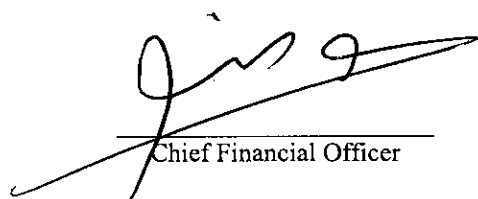
**SAUDI GROUND SERVICES COMPANY**  
(A Saudi Joint Stock Company)

**STATEMENT OF CHANGES IN EQUITY**

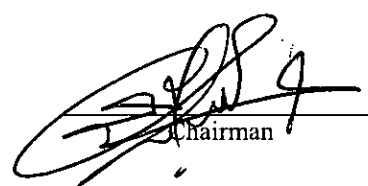
For the year ended December 31, 2016

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	1,880,000,000	239,007,237	365,569,046	2,484,576,283
Net income	--	--	621,071,511	621,071,511
Dividend (Note 23)	--	--	(401,796,163)	(401,796,163)
Transfer to statutory reserve	--	62,107,151	(62,107,151)	--
Balance at December 31, 2015	1,880,000,000	301,114,388	522,737,243	2,703,851,631
Net income	--	--	685,828,831	685,828,831
Dividend (Note 23)	--	--	(340,280,000)	(340,280,000)
Transfer to statutory reserve	--	68,582,883	(68,582,883)	--
<b>Balance at December 31, 2016</b>	<b>1,880,000,000</b>	<b>369,697,271</b>	<b>799,703,191</b>	<b>3,049,400,462</b>

  
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Chief Financial Officer

  
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Chief Executive Officer

  
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Chairman

The attached notes 1 to 28 form an integral part of these financial statements.



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

**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended December 31, 2016

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. Accordingly, after successful completion of Initial Public offering (IPO), the Company was declared as a Saudi Joint Stock Company.
- 1.5 The Company is engaged in providing aircraft cleaning, passenger handling, baggage and ground handling services to Saudi Arabian Airlines, other local and foreign airlines at all airports in the Kingdom of Saudi Arabia.
- 1.6 The Company's registered office is located at the following address:

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

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

**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended December 31, 2016

Expressed in Saudi Arabian Riyals

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**2. BASIS OF PREPARATION**

**(a) Statement of compliance**

The accompanying consolidated financial statements have been prepared in accordance with the generally accepted accounting standards in Saudi Arabia issued by the Saudi Organization for Certified Public Accountants (SOCPA).

The new Regulation for Companies issued through Royal Decree M/3 on November 11, 2015 (hereinafter referred as "The Law") came into force on 25 Rajab 1437H (corresponding to May 2, 2016).

Subsequent to year end, Company has amended its bye-laws to align its requirements to the Law and presented to the stockholders in their Extraordinary General Assembly meeting held on February 13, 2017 for their ratification, all changes have been duly approved.

**(b) New accounting framework**

As required by SOCPA, all listed companies are required to transition to International Financial Reporting Standards ("IFRS") as endorsed by SOCPA effective January 1, 2017 for preparation of their financial statements. In preparing the first set of IFRS financial statements, the Company will analyze the impact of the first time adoption of IFRS on current and prior year financial statements and will accordingly incorporate the necessary adjustments in its first set of IFRS financial statements.

**(c) Basis of measurement**

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

**(d) Functional and presentation currency**

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

**(e) Use of estimates and judgements**

The preparation of the 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.

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

**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended December 31, 2016

Expressed in Saudi Arabian Riyals

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

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

Significant areas requiring management judgement and estimates are as follows:

*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 asset's 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.

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

**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended December 31, 2016

Expressed in Saudi Arabian Riyals

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

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

*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 an 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.

*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 financial statements for preparation and presentation of these financial statements. Certain comparative amounts have been reclassified/regrouped to conform with current year presentation.

**(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) Short term bank deposits**

Short term bank deposits include placements with banks and other short-term highly liquid investments with original maturities of more than three months and less than one year from the placement date.

**(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.

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

**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended December 31, 2016

Expressed in Saudi Arabian Riyals

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

**(d) Accounts receivable**

Accounts receivable are stated at original invoice amount less provisions made for doubtful debts. A provision against doubtful debts is established when there is significant doubt that the Company will be able to collect the amounts due according to the original terms of receivables. Bad debts are written off when identified, 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 statement of income.

**(e) Investment 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.

**(f) 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 consolidated statement of income on a straight-line basis over the estimated useful lives of individual items of property, plant and equipment. The estimated useful lives of assets is as follow:

	<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

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

**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended December 31, 2016

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

**(g) 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 investee 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.

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

**(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.

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

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

**(i) Zakat**

Zakat is provided for in accordance with the regulations of General Authority of Zakat and Income Tax (GAZT). The provision is charged to the statement of income. Additional amount, if any, that may become due on finalization of an assessment are accounted for in the year in which assessment is finalised.

**(j) Impairment of assets**

*(a) Non-financial assets*

Long term non-financial assets are reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the carrying amount of the asset exceeds its recoverable amount. The recoverable amount is estimated as 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.

Non-financial assets that suffered impairment, other than intangible assets, are reviewed for possible reversal of impairment at each reporting date. Where an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but the increased carrying amount should not exceed the carrying amount that would have been determined, had no impairment loss been recognized for the assets or cash-generating unit in prior years. A reversal of an impairment loss is recognized as income immediately in the statement of income. Impairment losses recognized on goodwill are not reversible.

*(b) Financial assets*

An assessment is made at each balance sheet date to determine whether there is objective evidence that a specific financial asset may be impaired. If such evidence exists, any impairment loss is recognized in the statement of income.

Where an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but the increased carrying amount should not exceed the carrying amount that would have been determined, had no impairment loss been recognized for the assets or cash-generating unit in prior years. A reversal of an impairment loss is recognized as income immediately in the statement of income. Impairment losses recognized on equity investments classified as available for sale are not reversible.

**(k) 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.

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

**(l) Provisions**

A provision is recognized if, as a result of past events, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefit, will be required to settle the obligation.

**(m) Employees' end of service benefits**

Employees' end of service benefits, calculated in accordance with Saudi Arabian labour regulations, are accrued and charged to the statement of income. The liability is calculated at the current value of the vested benefits to which the employee is entitled, should his services be terminated at the balance sheet date

**(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 Group,
- 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 receivable under contractually defined terms of payment. The specific recognition criteria described below must also be met before the revenue is recognized.

*i) Aircraft ground handling services*

The Company is engaged in providing aircraft cleaning, passenger handling, baggage and ground handling services to the local and international airlines. Revenues from these services are recognized in the period in which services are provided.

*ii) Income from other services*

Income from other services that are incidental to ground handling services are recognized when these related services are provided and classified as part of revenue from these core operating activities.

**(o) Income from bank deposits**

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

**(p) Operating leases**

Payment under operating lease is recognized in the statement of income on a straight-line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense over the term of the lease.



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

**(q) Offsetting**

Financial assets and liabilities are offset and reported net in the balance sheet when there is a legally enforceable right to set off the recognized amounts and when the Company intends to settle on a net basis, or to realize the asset and settle the liability simultaneously.

**(r) Foreign currencies**

Transactions denominated in foreign currencies are translated to the functional currency 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 currency of the Company at the exchange rate ruling at that date. Exchange difference arising on translation are recognized in the statement of income currently.

**(s) Operating costs**

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

**(t) 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.

**(u) Segment reporting**

A business segment is a group 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.

**(v) Dividends**

Interim dividends are recorded as liability in the period in which they are approved by the Board of Directors. Final Dividends are recorded in the period in which they are approved by the shareholders.

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**4. BUSINESS COMBINATIONS**

a) As stated in Note 1, the Company had following acquisitions during 2011:

**i) Ground Support Services Division of Saudia**

On February 7, 2010, Saudia and the Company had entered into a Sale and Purchase Agreement (SPA) for the GSS business unit (SBU) of Saudia.

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

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

As the GSS division was previously 100% owned by Saudia and the Company was also 75% owned by Saudia on SPA date, therefore Saudia owned and controlled the GSS division before this transaction and will continue to control the Company after this transaction.

The accounting for business combinations involving common control and where the control is not transitory, are excluded from the scope of "Accounting Standard on Business Combinations" issued by SOCPA. In the absence of any available guidance under SOCPA for such transactions, the management has followed the requirements of International Financial Reporting Standards (IFRS). The management has classified this transaction as business combination under common control in accordance with the requirements of IFRS 3: Business Combinations.

Under IFRS 3, if a new entity (such as the Company) is formed to issue equity interests to effect a business combination, one of the combining entities that existed before the business combination shall be identified as the acquirer. Since Saudia is the largest shareholder in terms of size and business value and the transaction involved economic substance from the perspective of the reporting entity, the management had identified Saudia as the acquirer in this transaction and adopted "book value accounting". Accordingly, the net assets transferred from Saudia were recorded by the Company at their book values and no separate goodwill and intangibles were recognized by the Company as part of this transaction. Consequently, excess consideration transferred is presented within equity.

**ii) National Handling Services Company Limited**

On February 7, 2010, the Company entered into a Sale and Purchase Agreement (SPA) with the shareholders of NHS for the acquisition of the entire capital of NHS in consideration of the Company's shares. As the principal shareholder of the NHS and pursuant to the Transfer of Operations Agreement ("the Agreement"), the Company resolved to transfer the commercial activities of NHS to the Company.

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**4. BUSINESS COMBINATIONS (continued)**

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

Consequently the assets and liabilities of the NHS were transferred to the Company as of January 1, 2011 along with the business operations.

	(SR '000)
Net identifiable assets at fair value	110,396
Goodwill	519,164
Intangible assets	<u>545,441</u>
Total assets	<u>1,175,001</u>
Equity:	
Share capital	186,243
Imputed equity	<u>988,758</u>
Total equity	<u>1,175,001</u>

**iii) Attar Ground Handling / Attar Travel**

On February 7, 2010, the Company entered into Sale and Purchase Agreement (SPA) for the acquisition of ground handling business of Attar in consideration of the Company's shares. The assets, liabilities, intangible assets and goodwill recorded in the books of account of the Company including purchase consideration was as follows:

	(SR '000)
Net identifiable assets	29,135
Goodwill	63,652
Intangible assets	<u>76,213</u>
Total assets	<u>169,000</u>
Equity:	
Share capital	35,475
Imputed equity	<u>133,525</u>
Total equity	<u>169,000</u>

An independent Purchase Price Allocation Study was conducted in 2011 by an independent professional firm and the fair value of equity issued by the Company to NHS and Attar was considered equivalent to the fair value of ground handling business acquired from NHS and Attar. As a result of the study, the differences between the par value of share capital issued by the Company as consideration transferred and the fair value of net assets acquired on acquisition of 100% capital of NHS and acquisition of ground handling business of Attar, was recognized as "Imputed additional equity" amounting to SR 1,122 million under equity caption in the balance sheet.

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**5. SECONDMENT AGREEMENTS**

According to the Sale Purchase Agreement signed between Saudia and the Company, Saudia employees (SV Employees) have been seconded by Saudia to the Company with effect from January 1, 2011 until the issuance of the Transfer Resolution (the Secondment Period). During the Secondment Period the Company is responsible for all liabilities and obligations of Saudia in respect of the SV Employees pursuant to their terms of employment with Saudia (including, without limitation, salary, benefits, and any bonus payment or payments due as a result of a change of the terms of employment of such an employee during the Secondment Period).

The Company agreed that it will enter into an employment contract with each of the SV Employee who elects to transfer to the Company at the end of the Secondment Period. SV Employees may at any time including the Effective Time elect not to be transferred to the Company pursuant to this Agreement. Saudia will indemnify the Company in respect of each loss, liability and cost which it may sustain arising under or in connection with the contract of employment or appointment resolution of a SV Employee who elects not to transfer to the Company and/or, following such election, the termination of his or her employment, whether relating to an act or omission that occurred before or after January 1, 2011 including without limitation in respect of any arrears of salary, any accrued benefits, any payments in lieu of notice, holiday pay, redundancy payments, compensation for wrongful or unfair dismissal or discrimination or any other order for damages or compensation for any failure by Saudia to perform any duty imposed under any such SV Employee's contract of employment (including, without limitation, each loss, liability and cost incurred as a result of defending or settling a claim alleging such liability) or under applicable law. Saudia shall reimburse to the Company all costs associated with each SV Employee who is forty-five years of age or older as at the Effective Time exceeding SR 10,000 per employee per Gregorian calendar month.

**6. CASH AND CASH EQUIVALENTS**

Cash and cash equivalents at December 31 comprise the following:

	<u>2016</u>	<u>2015</u>
Cash in hand	379,564	363,989
Cash at bank in current accounts	94,317,293	775,966,712
Short-term bank deposits, with original maturity of less than 90 days (Note 7)	<u>3,107,018</u>	<u>3,107,018</u>
	<u>97,803,875</u>	<u>779,437,719</u>

**7. SHORT TERM BANK DEPOSITS**

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

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**8. INVESTMENT HELD FOR TRADING**

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

Balance as at December 31 is as following:

	<u>2016</u>	<u>2015</u>
Investment made	950,000,000	--
Disposal of investment	(497,426,136)	--
Unrealized fair value gain	2,232,064	--
	<u>454,805,928</u>	<u>--</u>
Fair value	<u>454,805,928</u>	<u>--</u>

**9. ACCOUNTS RECEIVABLE**

Accounts receivable at December 31 comprise the following:

	<u>2016</u>	<u>2015</u>
Related parties (Note 25(a))	888,292,370	641,101,136
Other customers	301,759,087	257,612,150
Total	<u>1,190,051,457</u>	<u>898,713,286</u>
Less: provision for doubtful debts	<u>(118,331,382)</u>	<u>(89,275,576)</u>
	<u>1,071,720,075</u>	<u>809,437,710</u>

The movement in provision for doubtful debts is as follows:

	<u>2016</u>	<u>2015</u>
Balance at beginning of the year	89,275,576	65,563,660
Charge for the year (Note 20)	<u>29,055,806</u>	<u>23,711,916</u>
Balance at the end of the year	<u>118,331,382</u>	<u>89,275,576</u>

**10. PREPAYMENTS AND OTHER CURRENT ASSETS**

Prepayment and other current assets at December 31 comprise the following:

	<u>2016</u>	<u>2015</u>
Related parties receivables and advances (Note 25 (b))	223,561,553	64,188,460
Prepayments	15,602,123	43,696,360
Staff related advances	36,006,766	34,190,511
Deposits	20,500,971	15,078,141
Advance to suppliers	8,764,041	11,860,324
Others	<u>9,008,844</u>	<u>7,882,509</u>
	<u>313,444,298</u>	<u>176,896,305</u>

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

a) The investment in an equity accounted investee at December 31 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 for Airport Services and Transport Support Company	Kingdom of Saudi Arabia	50%	50%	<u>98,337,115</u>	<u>76,201,063</u>

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

	<u>2016</u>	<u>2015</u>
Balance at beginning of the year	76,201,063	66,579,324
Share in net income	22,136,052	34,119,318
Dividend received	—	(24,497,579)
Balance at end of the year	<u>98,337,115</u>	<u>76,201,063</u>

c) Summarized financial information of equity accounted investee is as follows:

	<u>Assets</u>	<u>Liabilities</u>	<u>Revenue</u>	<u>Net income</u>
<u>2016</u>	<u>245,344,652</u>	<u>48,443,886</u>	<u>136,500,491</u>	<u>47,976,534</u>
<u>2015</u>	<u>167,097,143</u>	<u>18,172,911</u>	<u>109,146,964</u>	<u>46,522,107</u>

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**12. PROPERTY AND EQUIPMENT**

a) The movement in property and equipment during the year ended December 31, 2016 is analyzed as under:

	<u>Land</u>	<u>Leasehold improvements</u>	<u>Airport equipment</u>	<u>Motor vehicles</u>	<u>Furniture, fixtures and equipment</u>	<u>Computer equipment</u>	<u>Capital work in progress</u>	<u>Total</u>
<b><u>Cost:</u></b>								
Balance at January 1, 2016	27,464,040	36,422,862	934,031,080	32,688,624	36,896,454	32,419,190	11,631,755	1,111,554,005
Additions	--	--	50,809,354	270,000	2,266,484	1,954,367	47,388,932	102,689,137
Transfers	--	--	22,383,352	--	--	--	(22,383,352)	--
Disposals	--	--	--	(365,700)	--	(5,350)	--	(371,050)
Balance at December 31, 2016	<u>27,464,040</u>	<u>36,422,862</u>	<u>1,007,223,786</u>	<u>32,592,924</u>	<u>39,162,938</u>	<u>34,368,207</u>	<u>36,637,335</u>	<u>1,213,872,092</u>
<b><u>Accumulated depreciation:</u></b>								
Balance at January 1, 2016	--	25,598,748	536,945,437	21,793,259	25,533,108	28,543,722	--	638,414,274
Charge for the year	--	3,715,258	81,625,277	4,285,869	4,318,047	2,277,725	--	96,222,176
Disposals	--	--	--	(331,508)	--	(5,350)	--	(336,858)
Balance at December 31, 2016	--	<u>29,314,006</u>	<u>618,570,714</u>	<u>25,747,620</u>	<u>29,851,155</u>	<u>30,816,097</u>	--	<u>734,299,592</u>
<b><u>Net book value:</u></b>								
At December 31, 2016	<u>27,464,040</u>	<u>7,108,856</u>	<u>388,653,072</u>	<u>6,845,304</u>	<u>9,311,783</u>	<u>3,552,110</u>	<u>36,637,335</u>	<u>479,572,500</u>
At December 31, 2015	<u>27,464,040</u>	<u>10,824,114</u>	<u>397,085,643</u>	<u>10,895,365</u>	<u>11,363,346</u>	<u>3,875,468</u>	<u>11,631,755</u>	<u>473,139,731</u>

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**12. PROPERTY AND EQUIPMENT (continued)**

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

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

	<u>2016</u>	<u>2015</u>
Operating costs	87,589,079	91,539,100
General and administrative expenses (Note 20)	8,633,097	6,194,306
	<u>96,222,176</u>	<u>97,733,406</u>

**13. 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	153,179,000	153,179,000
Customer relationships	468,475,000	468,475,000
Total other intangible assets	621,654,000	621,654,000
Less: accumulated amortization (Note 13.1)	(293,721,500)	(270,297,750)
Other intangible assets, net	<u>327,932,500</u>	<u>351,356,250</u>
Total intangible assets	<u>910,748,159</u>	<u>934,171,909</u>

13.1 Accumulated amortisation of other intangible assets at December 31, comprise as follows:

	<u>2016</u>	<u>2015</u>
<u>Accumulated amortisation:</u>		
Balance at beginning of the year	(270,297,750)	(218,555,200)
Charge for the year (Note 20)	<u>(23,423,750)</u>	<u>(51,742,550)</u>
Balance at end of the year	<u>(293,721,500)</u>	<u>(270,297,750)</u>

13.2 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 as higher of value in use estimated based on the income approach to valuation using the discounted cash flow method (calculated using cash flow projections based on financial budgets approved by the Board of Directors and a Weighted Average Cost of Capital (WACC) of 11%) and fair value less cost of disposal. The last impairment study was finalized by an independent firm on January 5, 2017.



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**14. ACCOUNTS PAYABLE**

Accounts payable at December 31 comprise the following:

	<u>2016</u>	<u>2015</u>
Due to related parties (Note 25(c))	22,232,609	44,714,378
Other suppliers	6,000,643	7,077,208
	<u>28,233,252</u>	<u>51,791,586</u>

**15. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES**

Accrued expenses and other current liabilities at December 31 comprise the following:

	<u>2016</u>	<u>2015</u>
Related party payables (Note 25(d))	202,357,790	48,799,835
Employee related accruals	98,177,361	84,597,948
Accrued rent and charges	18,918,512	19,694,778
Accrued outsourced service charges	28,811,332	19,482,229
Other accruals	30,256,514	17,343,041
Advances from customers and others	11,405,910	12,596,769
	<u>389,927,419</u>	<u>202,514,600</u>

**16. EMPLOYEES' END OF SERVICE BENEFITS**

	<u>2016</u>	<u>2015</u>
Balance at beginning of the year	265,267,676	222,256,300
Provision for the year	63,740,052	49,239,116
Payment made during the year	(12,632,163)	(6,227,740)
	<u>316,375,565</u>	<u>265,267,676</u>

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**17. SHARE CAPITAL**

The authorized, issued and paid up share capital of the Company as at December 31, 2016, comprise share capital of SR 1,880,000,000 consist of 188,000,000 shares of SR 10 each (December 31, 2015: SR 1,880,000,000 consist of 188,000,000 shares of SR 10 each).

	2016			2015		
	<u>Number of shares</u>	<u>%</u>	<u>Amount</u>	<u>Number of shares</u>	<u>%</u>	<u>Amount</u>
Founding share holders	131,600,000	70	1,316,000,000	131,600,000	70	1,316,000,000
General Public	56,400,000	30	564,000,000	56,400,000	30	564,000,000
<b>Total</b>	<b>188,000,000</b>	<b>100</b>	<b>1,880,000,000</b>	<b>188,000,000</b>	<b>100</b>	<b>1,880,000,000</b>

**18. STATUTORY RESERVE**

In accordance with the Company's bye-laws and the previous Saudi Arabian Regulations for Companies, the Company sets aside 10% of its net income each year as statutory reserve until such reserve equals to 50% of the share capital. The new Saudi Arabian Regulations for Companies that came into effect on 25 Rajab 1437H (corresponding to May 2, 2016) requires companies to set aside 10% of its net income each year as statutory reserve until such reserve reaches 30% of the share capital. This reserve is currently not available for distribution to the shareholders of the Company.

**19. EARNINGS PER SHARE**

Earnings per share on operating income is calculated by dividing the operating income by the weighted average number of outstanding ordinary shares of the Company during the year.

Earnings per share on net income is calculated by dividing the net income by the weighted average number of outstanding ordinary shares of the Company during the year.

Weighted average number of shares 188 million have been used in calculating above earnings per share.

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

**20. GENERAL AND ADMINISTRATIVE EXPENSES**

	<u>2016</u>	<u>2015</u>
Employees' related expenses	106,961,392	84,025,432
Rent, motor vehicle expenses and other office costs	80,747,258	75,877,210
Amortization of intangible assets (Note 13)	23,423,750	51,742,550
Bad and doubtful debts expense (Note 9)	29,055,806	23,711,916
Depreciation (Note 12(c))	8,633,097	6,194,306
	<u>248,821,303</u>	<u>241,551,414</u>

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**21. OTHER INCOME – NET**

	<u>2016</u>	<u>2015</u>
Human Resource Development Fund claims received	4,861,550	12,462,986
Delay penalty on bus delivery	1,833,865	1,653,455
Gain / (loss) on disposal of property and equipment	71,295	(75,752)
Miscellaneous income	815,625	1,662,037
	<u>7,582,335</u>	<u>15,702,726</u>

**22. FINANCE INCOME / CHARRGES - NET**

	<u>2016</u>	<u>2015</u>
Interest income on short term deposits	11,363,033	–
Bank charges	(889,940)	(957,670)
Exchange loss	(714,256)	(49,866)
Others	(58,836)	(61,149)
	<u>9,700,001</u>	<u>(1,068,685)</u>

**23. DIVIDEND DISTRIBUTION**

During the year, the Company declared a cumulative dividend of SR 340,280,000 (2015: SR 401,796,163) out of the profits of 2016. The dividend was approved by the Board of Directors as stated below:

	<u>2016</u>	<u>2015</u>
Annual dividend for 2014	–	113,467,667
Interim dividend for 2015	–	288,328,496
Annual dividend for 2015	95,880,000	–
Interim dividend for 2016	244,400,000	–
	<u>340,280,000</u>	<u>401,796,163</u>

**24. ZAKAT**

**a) Zakat charge**

	<u>2016</u>	<u>2015</u>
Charge for the year	<u>34,131,529</u>	<u>23,312,881</u>

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**24. ZAKAT (continued)**

The significant components of Zakat base for the current year ended December 31 are as follows:

	<u>2016</u>	<u>2015</u>
Share capital	1,880,000,000	1,880,000,000
Statutory reserves	301,114,388	239,007,237
Retained earnings	522,737,243	365,569,046
Adjusted net profit	790,815,841	642,693,316
Provisions made during the year	340,997,991	281,592,220
Dividend paid	(340,280,000)	(401,796,163)
Deduction against written down value of assets	<u>(2,173,991,774)</u>	<u>(1,992,707,903)</u>
<b>Zakat base</b>	<b><u>1,321,393,689</u></b>	<b><u>1,014,357,753</u></b>
<b>Zakat @ 2.5% higher of adjusted net profit or Zakat base</b>	<b>33,034,842</b>	<b>25,358,944</b>
<b>Excess provision made / (existing excess provision utilized)</b>	<b><u>1,096,687</u></b>	<b><u>(2,046,063)</u></b>
	<b><u>34,131,529</u></b>	<b><u>23,312,881</u></b>

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

**b) Accrued Zakat**

The movement in the accrued Zakat for the year ended December 31 is analysed as under:

	<u>2016</u>	<u>2015</u>
Balance at beginning of the year	25,858,944	23,981,932
Charge for the year	34,131,529	23,312,881
Payments during the year	<u>(12,674,299)</u>	<u>(21,435,869)</u>
<b>At the end of the year</b>	<b><u>47,316,174</u></b>	<b><u>25,858,944</u></b>

**c) Status of Zakat**

The Company has filed declaration up to financial year end December 31, 2015 with the General Authority of Zakat and Income Tax (GAZT). The Company also obtained Zakat certificate valid until April 30, 2017. The GAZT has issued the final zakat assessment order for 2008 to 2011 subject to an additional Zakat liability of SR 900,000 related to king bonus payment to staff in 2011. However, the Company has filed an objection with the Appellate Authority with the proof of payment, awaiting response for the appeal.

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**25. RELATED PARTY 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 Company's management. In addition to the disclosures set out in Notes 1, 5, 9, 10, 14 and 15 significant related parties transactions and balances arising there from 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	1,328,704,555	1,268,568,364	721,352,682	552,898,540
National Air Services	Affiliate	Services provided	251,460,976	205,425,326	78,327,310	18,584,195
Saudi Airlines – Cargo Company Limited (SACC)	Affiliate	Services provided	22,152,295	24,636,163	22,381,390	21,606,398
Saudi Aerospace Engineering Industries	Affiliate	Services provided	130,640	199,270	–	1,870
Saudi Airlines Catering Company	Affiliate	Services provided	93,415	116,034	171,300	31,385
Saudi Private Aviation	Affiliate	Services provided	36,240,059	27,123,555	49,005,959	36,178,826
Royal Fleet Services	Affiliate	Services provided	16,212,944	9,706,706	17,051,979	11,797,522
National Aviation Ground Support	Affiliate	Services provided	--	14,400	1,750	2,400
					<u>888,292,370</u>	<u>641,101,136</u>

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

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

<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>
Saudia Arabian Airlines Corporation	Parent company	Recharge of seconded staff cost	347,336,905	298,031,428	187,545,016	53,876,511
Saudi Amad for Airport Services and Transport Support Company	Associate	Manpower & Operational Services	3,017,448	3,718,653	14,675,208	7,308,659
Attar Travels	Affiliate	Recharge of expenses	--	--	583,519	583,519
Medgulf Insurance Co.	Affiliate	Advance against services	--	--	19,761,745	--
Saudi Aerospace Engineering Industries	Affiliate	Recharge of expenses	1,423,706	1,423,706	996,065	2,419,771
					<u>223,561,553</u>	<u>64,188,460</u>

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

(c) 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	19,660,203	21,084,272	13,882,631	12,512,295
Saudi Airlines Catering Company	Affiliate	Services received	54,232,338	30,342,260	--	3,670,553
Saudia Aerospace Engineering Industries	Affiliate	Services received	82,225,415	81,561,040	6,176,774	28,531,530
Saudia Airlines Cargo Limited	Affiliate	Services received	132,203	321,985	132,203	--
Saudi Amad for Airport Services and Transport Support Company	Affiliate	Services received	5,076,419	778,322	2,041,001	--
Medgulf Insurance Co.	Affiliate	Services received	40,720,589	--	--	--
					<u>22,232,609</u>	<u>44,714,378</u>

**SAUDI GROUND SERVICES COMPANY LIMITED**  
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For the year ended December 31, 2016

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

(d) Due to related parties – under accrued expenses and other current liabilities:

<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	Saudia staff pension	36,636,210	35,373,262	141,634,422	31,195,071
Saudi Amad for Airport Services and Transport Support Company	Affiliate	Payment received on behalf of the company	36,135,728	--	32,420,474	--
Saudi Airlines Catering Company	Affiliate	Services received	--	--	13,314,063	17,235,246
Saudi Aerospace Engineering Industries	Affiliate	Services received	--	--	8,302,503	--
National Air Services	Affiliate	Expense claims	600,000	--	600,000	--
Saudia Airlines Cargo Limited	Affiliate	Expense claims	--	--	86,328	9,518
Saudi Private Aviation	Affiliate	Services	3,000,000	--	3,000,000	--
Royal Fleet Services	Affiliate	Services	3,000,000	--	3,000,000	--
Saudi Arabia Real Estate Development	Affiliate	Services	1,520,191	360,000	--	360,000
					<u>202,357,790</u>	<u>48,799,835</u>



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For the year ended December 31, 2016

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

(e) Remuneration:

<u>Name</u>	<u>Nature of transactions</u>	<u>Amount of transactions</u>	
		<u>2016</u>	<u>2015</u>
Key management personnel	Remuneration	7,883,131	4,559,000
Board of Directors	Meeting attendance fee	4,206,000	2,116,401
		<u>12,089,131</u>	<u>6,675,401</u>

The Company's revenues derived from services rendered to Saudi Arabian Airlines Corporation and its affiliates amounted for approximately 51% (2015: 52%) of the total revenue.

**26. CONTINGENT LIABILITY**

The Company's bank has provided, in the normal course of business, bank guarantees amounting to SR 20.33 million (December 31, 2015: SR 14.93 million) to the Ministry of Finance and National Economy, Saudi Airlines, IATA and General Authority of Civil Aviation ("GACA"), in respect of Hajj 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 37.16 million (December 31, 2015: SR 47.42 million) is in respect of capital expenditure committed but not paid.

**27. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT**

Financial instruments carried on the balance sheet include cash and cash equivalents, accounts receivable, accounts payable and accrued expenses and other liabilities.

**Credit risk** is the risk that one party will fail to discharge an obligation to a financial instrument and will cause the other party to incur a financial loss. The Company seeks to limit the credit risk with respect to the customers through by monitoring outstanding receivables. Cash and cash equivalents are placed with national and international banks with sound credit ratings. Accounts receivable are mainly due from Saudia (note 25 (a)) and other foreign airlines and are stated at their estimated realisable values. 45% (2015: 38%) of accounts receivable from other customers comprise of top ten customers.

**Fair value and cash flow interest rate risks** are the exposures to various risks associated with the effect of fluctuations in the prevailing interest rates on the Company's financial position and cash flows. The Company's interest rate risks arise mainly from short-term bank deposits which are at floating rates of interest. All deposits are subject to re-pricing on a regular basis. 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.

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

**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended December 31, 2016

Expressed in Saudi Arabian Riyals

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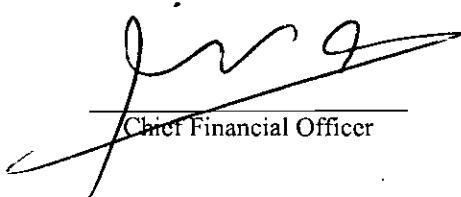
**Liquidity risk** is the risk that an enterprise will encounter difficulty in raising funds to meet commitments associated with financial instruments. Liquidity risk may result from the inability to sell a financial asset quickly at an amount close to its fair value. Liquidity risk is managed by monitoring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

**Currency risk** is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. The Company's transactions are principally in Saudi Riyals, Euros and US Dollars. Due to fixed parity between Saudi Riyals and US Dollars, currency risk is minimal.

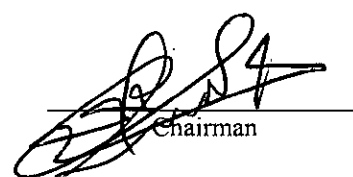
**Fair value** is the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. As the accompanying financial statements are prepared under the historical cost method, differences may arise between the book values and the fair value estimates. Management believes that the fair values of the Company's financial assets and liabilities are not materially different from their carrying values.

**28. BOARD OF DIRECTORS' APPROVAL**

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

  
\_\_\_\_\_  
Chief Financial Officer

  
\_\_\_\_\_  
Chief Executive Officer

  
\_\_\_\_\_  
Chairman