

SAUDI GROUND SERVICES COMPANY
(A Saudi Joint Stock Company)

**CONDENSED INTERIM FINANCIAL STATEMENTS
AND INDEPENDENT AUDITOR'S REPORT**

For the three-month period ended 31 March 2022

SAUDI GROUND SERVICES COMPANY
(A Saudi Joint Stock Company)

CONDENSED INTERIM FINANCIAL STATEMENTS
For the three-month period ended 31 March 2022

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KPMG Professional Services

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Kingdom of Saudi Arabia
Commercial Registration No 4030290792

Headquarters in Riyadh

كي بي إم جي للاستشارات المهنية

مركز زهران للأعمال
شارع الأمير سلطان
ص.ب ٥٥٠٧٨
جده ٢١٥٣٤

المملكة العربية السعودية
سجل تجاري رقم 4030290792

المركز الرئيسي في الرياض

Independent auditor's report on review of condensed interim financial statements:

To the Shareholders of Saudi Ground Services Company

Introduction

We have reviewed the accompanying 31 March 2022 condensed interim financial statements of Saudi Ground Services Company ("the Company"), which comprises:

- the condensed statement of financial position as at 31 March 2022;
- the condensed statement of profit or loss and other comprehensive income for the three-month period ended 31 March 2022;
- the condensed statement of changes in shareholders' equity for the three-month period ended 31 March 2022;
- the condensed statement of cash flows for the three-month period ended 31 March 2022; and
- the notes to the condensed interim financial statements.

Management is responsible for the preparation and presentation of these condensed interim financial statements in accordance with IAS 34, 'Interim Financial Reporting' that is endorsed in the Kingdom of Saudi Arabia. Our responsibility is to express a conclusion on these condensed interim financial statements based on our review.

Scope of review

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

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying 31 March 2022 condensed interim financial statements of Saudi Ground Services Company is not prepared, in all material respects, in accordance with IAS 34, 'Interim Financial Reporting' that is endorsed in the Kingdom of Saudi Arabia.

For KPMG Professional Services

Nasser Ahmed Al Shataiy
License No. 454

Jeddah, 23 May 2022

Corresponding to 22 Shawwal 1443H



KPMG Professional Services, a professional closed joint stock company registered in the Kingdom of Saudi Arabia. With the paid-up capital of (25,000,000) SAR. (Previously known as "KPMG Al Fozan & Partners Certified Public Accountants") A non-partner member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.

كي بي إم جي للاستشارات المهنية شركة مهنية مساهمة مغلقة، مسجلة في المملكة العربية السعودية، رأس ماله (٢٥,٠٠٠,٠٠٠) ريال سعودي منفوع بالكامل، المسماة سابقاً "شركة كي بي إم جي الفوزان وشركاه محاسبين ومراجعين قانونيين". وهي عضو غير شريك في الشبكة العالمية لشركات كي بي إم جي المستقلة والتابعة لـ كي بي إم جي العالمية المحدودة، شركة انجليزية محدودة بضمان. جميع الحقوق محفوظة

SAUDI GROUND SERVICES COMPANY
(A Saudi Joint Stock Company)

CONDENSED STATEMENT OF FINANCIAL POSITION

As at 31 March 2022

(Expressed in thousands of Saudi Arabian Riyals, unless otherwise stated)

	<u>Notes</u>	31 March 2022 (Unaudited)	31 December 2021 (Audited)
<u>ASSETS</u>			
Property and equipment	4	524,502	528,198
Right-of-use assets	5	112,777	122,210
Intangible assets and goodwill	6	803,633	812,571
Equity-accounted investees	7	51,228	51,921
Prepayments and other receivables		4,066	4,264
Non-current assets		1,496,206	1,519,164
Inventories		424	296
Trade receivables	8	1,024,301	1,067,241
Prepayments and other receivables		586,655	614,062
Investments at fair value through profit or loss (FVTPL)	9	1,032,693	1,391,055
Cash and cash equivalents	10	616,887	254,868
Current assets		3,260,960	3,327,522
Total assets		4,757,166	4,846,686
<u>SHAREHOLDERS' EQUITY</u>			
Share capital	11	1,880,000	1,880,000
Statutory reserve	12	499,025	499,025
Accumulated losses		(133,325)	(114,311)
Total shareholders' equity		2,245,700	2,264,714
<u>LIABILITIES</u>			
Loans and borrowings	13	378,053	471,259
Lease liabilities	5	67,295	79,172
Employee benefits	16	593,925	580,696
Non-current liabilities		1,039,273	1,131,127
Loans and borrowings	13	743,750	712,500
Lease liabilities	5	34,874	35,684
Trade payables		60,802	68,716
Other payables		455,749	475,145
Accrued Zakat	19	177,018	158,800
Current liabilities		1,472,193	1,450,845
Total liabilities		2,511,466	2,581,972
Total shareholders' equity and liabilities		4,757,166	4,846,686
Chief Financial Officer	Chief Executive Officer	Chairman	

The notes on pages from 6 to 31 form an integral part of these condensed interim financial statements.

SAUDI GROUND SERVICES COMPANY
(A Saudi Joint Stock Company)

CONDENSED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (UNAUDITED)

For the three-month period ended 31 March 2022

(Expressed in thousands of Saudi Arabian Riyals, unless otherwise stated)

	Notes	For the three-month period ended	
		31 March 2022	31 March 2021
Revenue	15	424,798	372,956
Costs of revenue		(377,234)	(315,335)
Gross profit		47,564	57,621
Other income		1,363	4,489
Administrative expenses		(68,182)	(66,125)
Impairment loss on trade receivables	8	(1,027)	(7,750)
Operating loss		(20,282)	(11,765)
Finance costs		(7,091)	(6,576)
Gain on investments at FVTPL	9	27,270	7,920
Share of loss of investments in equity-accounted investees	7	(693)	(271)
Loss before Zakat		(796)	(10,692)
Zakat charge	19	(18,218)	(6,000)
Loss for the period		(19,014)	(16,692)
Other comprehensive income		--	--
Total comprehensive loss for the period		(19,014)	(16,692)
Loss per share			
Basic and diluted (in SR)	14	(0.10)	(0.09)


Chief Financial Officer


Chief Executive Officer

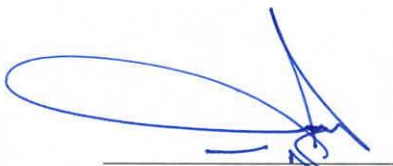

Chairman

The notes on pages from 6 to 31 form an integral part of these condensed interim financial statements.

SAUDI GROUND SERVICES COMPANY
(A Saudi Joint Stock Company)

CONDENSED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY (UNAUDITED)
For the three-month period ended 31 March 2022
(Expressed in thousands of Saudi Arabian Riyals, unless otherwise stated)

	<u>Share capital</u>	<u>Statutory reserve</u>	<u>Retained earnings / (accumulated losses)</u>	<u>Total shareholders' equity</u>
Balance at 01 January 2021	1,880,000	499,025	120,159	2,499,184
<u>Total comprehensive loss:</u>				
Loss for the period	--	--	(16,692)	(16,692)
Balance at 31 March 2021 (Unaudited)	<u>1,880,000</u>	<u>499,025</u>	<u>103,467</u>	<u>2,482,492</u>
Balance at 01 January 2022	1,880,000	499,025	(114,311)	2,264,714
<u>Total comprehensive loss:</u>				
Loss for the period	--	--	(19,014)	(19,014)
Balance at 31 March 2022 (Unaudited)	<u>1,880,000</u>	<u>499,025</u>	<u>(133,325)</u>	<u>2,245,700</u>



Chief Financial Officer



Chief Executive Officer



Chairman

The notes on pages from 6 to 31 form an integral part of these condensed interim financial statements.

SAUDI GROUND SERVICES COMPANY
(A Saudi Joint Stock Company)

CONDENSED STATEMENT OF CASH FLOWS (UNAUDITED)

For the three-month period ended 31 March 2022

(Expressed in thousands of Saudi Arabian Riyals, unless otherwise stated)

	<u>Notes</u>	<u>31 March</u> <u>2022</u>	<u>31 March</u> <u>2021</u>
Cash flows from operating activities:			
Loss for the period		(19,014)	(16,692)
<i>Adjustments for:</i>			
Depreciation on property and equipment	4	24,222	23,416
Depreciation on right-of-use assets	5	9,433	10,248
Amortisation	6	8,938	8,938
Share of loss on investments in equity-accounted investees	7	693	271
Impairment loss on trade receivables	8	1,027	7,750
Trade receivables written-off	8	(13,000)	--
Gain on investments at FVTPL	9	(27,270)	(7,920)
Gain on disposal of property and equipment		--	(4,145)
Finance costs		7,091	6,576
Zakat	19	18,218	6,000
		10,338	34,442
<i>Changes in:</i>			
Inventories		(128)	(601)
Trade receivables		54,913	(138,641)
Prepayments and other receivables		27,605	19,988
Trade payables		(7,914)	(47,022)
Other payables		(19,394)	11,823
Employee benefits		13,229	7,612
Cash generated from / (used in) operating activities		78,649	(112,399)
Finance costs paid		(5,535)	(4,699)
Net cash generated from / (used in) operating activities		73,114	(117,098)
Cash flows from investing activities:			
Additions to property and equipment	4	(20,526)	(21,331)
Proceeds from disposal of property and equipment		--	6,896
Proceeds from disposal of investments at FVTPL		385,632	50,000
Dividends received from equity-accounted investee	7	--	21,589
Dividends received from investments at FVTPL	9	--	1,591
Net cash generated from investing activities		365,106	58,745
Cash flows from financing activities:			
Proceeds from loans and borrowings	13	--	500,000
Repayment of loans and borrowings		(62,500)	--
Repayments of lease liabilities	5	(13,701)	(18,905)
Net cash (used in) / generated from financing activities		(76,201)	481,095
Net increase in cash and cash equivalents		362,019	422,742
Cash and cash equivalents at beginning of the period	10	254,868	95,836
Cash and cash equivalents at end of the period	10	616,887	518,578


Chief Financial Officer


Chief Executive Officer


Chairman

The notes on pages from 6 to 31 form an integral part of these condensed interim financial statements.

SAUDI GROUND SERVICES COMPANY
(A Saudi Joint Stock Company)

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

For the three-month period ended 31 March 2022

(Expressed in thousands of Saudi Arabian Riyals, unless otherwise stated)

1. REPORTING ENTITY

- 1.1 Saudi Ground Services Company (“the Company”) was registered as a limited liability company in the Kingdom of Saudi Arabia under Commercial Registration number 4030181005 dated 11 Rajab 1429H, (corresponding to 14 July 2008). During 2008, the Company was formed by Saudi Arabian Airlines Corporation, a 100% Government owned entity, to consolidate the ground support services business (GSS) in the Kingdom of Saudi Arabia.
- 1.2 The legal name “Saudi Airlines Ground Services Company” was changed to “Saudi Ground Services Company” under the same commercial registration number 4030181005 on 20 Safar 1432H, (corresponding to 24 January 2011).
- 1.3 Pursuant to the Ministerial resolution number -171/R, on 17 Jamadul Thani 1435H, corresponding to 17 April 2014, the Company was converted from a limited liability company to a closed joint stock company.
- 1.4 After obtaining the required approval from the Capital Market Authority, the Company offered 56.4 million shares, with a nominal value of SR 10 each, representing 30% share capital of the Company, to the public during the subscription period from 03 June 2015 (corresponding to 15 Shabaan 1436H) to 09 June 2015 (corresponding to 21 Shabaan 1436H). The Company’s shares started trading on the Saudi Stock Exchange (Tadawul) on 25 June 2015 (corresponding to 08 Ramadan 1436H). Accordingly, after successfully completing Initial Public offering (IPO), the Company was declared a Saudi Joint Stock Company. The Company’s parent is Saudi Arabian Airlines Corporation (the “Parent Company”), having 52.5% of shares in the Company.
- 1.5 The Company is engaged in providing ground handling services, aircraft cleaning, passenger handling, baggage, and fuel to Saudi Airlines Air Transport Company, other local and foreign airlines, and other customers in the Kingdom of Saudi Arabia.
- 1.6 The Company’s registered office is located at the following address:
- Al Yasmin Commercial Center
King Abdul Aziz road, Al Basatin District
P.O. Box 48154
Jeddah 21572
Kingdom of Saudi Arabia.
- 1.7 As at the reporting date, the Company holds 50% ownership interest in Saudi Amad for Airport Services and Transport Support Company (“SAAS”), a joint venture. Accordingly, the Company has classified its interest in SAAS as a joint venture. SAAS is one of the Company's strategic suppliers and is principally engaged in providing transportation services for passengers and crew in the Kingdom of Saudi Arabia (see note 7).
- 1.8 As at the reporting date, the Company holds 50% ownership interest in TLD Arabia Equipment Services (“TLDAES”), a joint venture. Accordingly, the Company has classified its interest in TLDAES as a joint venture. The primary objective of TLDAES is to provide maintenance services for the ground handling equipment across all the airports in the Kingdom of Saudi Arabia (see note 7).

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

For the three-month period ended 31 March 2022

(Expressed in thousands of Saudi Arabian Riyals, unless otherwise stated)

2. BASIS OF PREPARATION

2.1 Statement of compliance

These condensed interim financial statements have been prepared in accordance with International Accounting Standards (IAS) 34 “Interim Financial Reporting” that is endorsed in Kingdom of Saudi Arabia and other standards and pronouncements that are issued by Saudi Organization for Chartered and Professional Accountants (“SOCPA”) and should be read in conjunction with the Company’s annual financial statements as at and for the year ended 31 December 2021 (“last annual Financial Statements”).

These condensed interim financial statements do not include all of the information required for a complete set of financial statements. However, accounting policies and selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the Company’s financial position and performance since the last annual financial statements. In addition, results for the interim period ended 31 March 2022 are not necessarily indicative of the results that may be expected for the financial year ending 31 December 2022.

2.2 Basis of measurement

The condensed interim financial statements have been prepared under the historical cost basis, except for investments at fair value through profit or loss (FVTPL) that are measured at fair value and employee benefits, which are recognized at the present value of future obligations using Projected Unit Credit Method. Further, the condensed interim financial statements are prepared using the accrual basis of accounting and the going concern assumption.

Certain comparative figures have been reclassified to conform to the current period’s presentation.

2.3 Functional and presentation currency

These condensed interim financial statements are presented in Saudi Arabian Riyals (“SR”), which is the functional currency of the Company. All numbers are rounded off to the nearest thousands unless otherwise stated.

2.4 Use of estimates and judgments

The preparation of these condensed interim financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses and the accompanying disclosures, and the disclosure of contingent liabilities. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future periods. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

The significant judgements made by management in applying the Company’s accounting policies and the key sources of estimation of uncertainty were the same as those described in the last annual financial statements.

SAUDI GROUND SERVICES COMPANY
(A Saudi Joint Stock Company)

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

For the three-month period ended 31 March 2022

(Expressed in thousands of Saudi Arabian Riyals, unless otherwise stated)

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies applied in these condensed interim financial statements are the same as those applied in the Company's annual financial statements as at and for the year ended 31 December 2021.

4. PROPERTY AND EQUIPMENT

a) Reconciliation of carrying amounts:

	Three-month period ended 31 March <u>2022</u> (Unaudited)	Year ended 31 December <u>2021</u> (Audited)
Carrying amount at beginning of the period / year	528,198	525,695
Additions during the period / year	20,526	100,568
Disposals during the period / year	--	(2,752)
Impairment loss during the period / year	--	(442)
Depreciation charge for the period / year	(24,222)	(94,871)
Carrying amount at the end of the period / year	<u>524,502</u>	<u>528,198</u>

b) Category-wise carrying amounts are as follows:

	31 March <u>2022</u> (Unaudited)	31 December <u>2021</u> (Audited)
Land	27,464	27,464
Leasehold improvements	18,611	17,422
Airport equipment	393,994	416,698
Motor vehicles	117	128
Furniture, fixture and equipment	4,326	4,759
Computer equipment	4,003	4,442
Capital work-in-progress	<u>75,987</u>	<u>57,285</u>
Carrying amount at the end of the period / year	<u>524,502</u>	<u>528,198</u>

c) Capital work-in-progress mainly relates to the purchases of specialised airport equipment and leasehold improvements.

SAUDI GROUND SERVICES COMPANY
(A Saudi Joint Stock Company)

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

For the three-month period ended 31 March 2022

(Expressed in thousands of Saudi Arabian Riyals, unless otherwise stated)

5. LEASES

a) **Right-of-use assets:**

	Three-month period ended 31 March <u>2022</u> (Unaudited)	Year ended 31 December <u>2021</u> (Audited)
Carrying amount at beginning of the period / year	122,210	130,885
Additions during the period / year	--	43,138
Modification during the period / year	--	(6,011)
Derecognition during the period / year	--	(7,230)
Depreciation charge for the period / year	(9,433)	(38,572)
	112,777	122,210

b) **Lease liabilities:**

	Three-month period ended 31 March <u>2022</u> (Unaudited)	Year ended 31 December <u>2021</u> (Audited)
Carrying amount at the beginning of the period / year	114,856	122,347
Additions during the period / year	--	43,138
Modification during the period / year	--	(6,011)
Derecognition during the period / year	--	(6,381)
Interest expenses for the period / year	1,014	4,950
Payments during the period / year	(13,701)	(43,187)
	102,169	114,856

Lease liabilities are presented in the condensed statement of financial position as follows:

	31 March <u>2022</u> (Unaudited)	31 December <u>2021</u> (Audited)
Non-current portion of lease liabilities	67,295	79,172
Current portion of lease liabilities	34,874	35,684
	102,169	114,856

SAUDI GROUND SERVICES COMPANY
(A Saudi Joint Stock Company)

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

For the three-month period ended 31 March 2022

(Expressed in thousands of Saudi Arabian Riyals, unless otherwise stated)

6. INTANGIBLE ASSETS AND GOODWILL

a) Reconciliation of carrying amounts:

	<u>Goodwill</u>	<u>Customer contracts</u>	<u>Customer relationships</u>	<u>Software</u>	<u>Total</u>
<u>Cost:</u>					
Balance at 31 December 2021 and 31 March 2022	582,816	153,179	468,475	64,117	1,268,587
<u>Accumulated amortisation:</u>					
Balance at 01 January 2021	--	153,179	234,239	32,351	419,769
Amortisation for the year	--	--	23,424	12,823	36,247
Balance at 31 December 2021	--	153,179	257,663	45,174	456,016
Balance at 01 January 2022	--	153,179	257,663	45,174	456,016
Amortisation for the period	--	--	5,776	3,162	8,938
Balance at 31 March 2022	--	153,179	263,439	48,336	464,954
<u>Carrying amounts</u>					
At 31 December 2021 (Audited)	582,816	--	210,812	18,943	812,571
At 31 March 2022 (Unaudited)	582,816	--	205,036	15,781	803,633

7. EQUITY-ACCOUNTED INVESTEEES

a) The investments in equity-accounted investees as at 31 March 2022 are as follows:

<u>Name</u>	<u>Country of incorporation / principal place of business</u>	<u>Effective ownership interest (%)</u>		<u>Carrying value</u>	
		<u>31 March 2022 (Unaudited)</u>	<u>31 December 2021 (Audited)</u>	<u>31 March 2022 (Unaudited)</u>	<u>31 December 2021 (Audited)</u>
Saudi Amad for Airport Services and Transport Support Company ("SAAS")	Kingdom of Saudi Arabia	50%	50%	32,360	34,793
TLD Arabia Equipment Services ("TLDAES")	Kingdom of Saudi Arabia	50%	50%	18,868	17,128
				51,228	51,921

SAUDI GROUND SERVICES COMPANY
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NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

For the three-month period ended 31 March 2022

(Expressed in thousands of Saudi Arabian Riyals, unless otherwise stated)

7. EQUITY-ACCOUNTED INVESTEEES (continued)

b) The movement summary of equity-accounted investees is as follows:

	Three-month period ended 31 March <u>2022</u> (Unaudited)	Year ended 31 December <u>2021</u> (Audited)
Balance at beginning of the period / year	51,921	98,834
Investment during the period / year	--	9,375
Share of loss for the period / year (note 7(c))	(693)	(34,699)
Dividends (note 7(d))	--	(21,589)
Balance at end of the period / year	<u>51,228</u>	<u>51,921</u>

c) These numbers are based on the management accounts of SAAS and TLDAES for the three-month period ended 31 March 2022.

d) During the three-month period 31 March 2022, SAAS announced dividends amounting to SR Nil (31 March 2021: SR 43.178 million). Accordingly, the Company recorded 50% of the dividend in accordance with its percentage of shareholding in SAAS.

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

8. TRADE RECEIVABLES

Trade receivables as at 31 March 2022 is as follows:

	31 March <u>2022</u> (Unaudited)	31 December <u>2021</u> (Audited)
Due from related parties (note 17(a))	901,856	955,108
Other trade receivables	455,997	457,658
	<u>1,357,853</u>	<u>1,412,766</u>
Less: allowance for impairment losses	<u>(333,552)</u>	<u>(345,525)</u>
	<u>1,024,301</u>	<u>1,067,241</u>

SAUDI GROUND SERVICES COMPANY
(A Saudi Joint Stock Company)

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

For the three-month period ended 31 March 2022

(Expressed in thousands of Saudi Arabian Riyals, unless otherwise stated)

8. TRADE RECEIVABLES (continued)

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

	Three-month period ended 31 March 2022 (Unaudited)	Year ended 31 December 2021 (Audited)
Balance at beginning of the period / year	345,525	266,701
Charge for the period / year	1,027	78,824
Allowance written-off during the period / year	<u>(13,000)</u>	<u>--</u>
Balance at end of the period / year	<u>333,552</u>	<u>345,525</u>

For the Company's exposure to credit risk and impairment loss in trade receivables (see note 24).

9. INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS (FVTPL)

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

	31 March 2022 (Unaudited)	31 December 2021 (Audited)
Mutual funds	1,032,693	1,229,106
Quoted equity securities	<u>--</u>	<u>161,949</u>
	<u>1,032,693</u>	<u>1,391,055</u>

a) Movement in investments at FVTPL is as follows:

	Three-month period ended 31 March 2022 (Unaudited)	Year ended 31 December 2021 (Audited)
Balance at beginning of the period / year	1,391,055	976,679
Investments made during the period / year	--	450,000
Disposal of investments during the period / year	(385,632)	(50,000)
Fair value gain during the period / year	<u>27,270</u>	<u>14,376</u>
Balance at end of the period / year	<u>1,032,693</u>	<u>1,391,055</u>

During the period, the Company disposed-off its 100% investments in quoted equity securities.

At 31 March 2022, the carrying amount of the investment at FVTPL was not significantly different from the market value. For fair values of investments at FVTPL (see note 21).

SAUDI GROUND SERVICES COMPANY
(A Saudi Joint Stock Company)

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

For the three-month period ended 31 March 2022

(Expressed in thousands of Saudi Arabian Riyals, unless otherwise stated)

9. INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS (FVTPL) (continued)

b) During the period ended 31 March 2022, income on investments at FVTPL is as follows:

	31 March <u>2022</u>	31 March <u>2021</u>
Gain on investments at FVTPL		
- Realized gain	24,230	256
- Unrealized gain	<u>3,040</u>	<u>6,073</u>
	<u>27,270</u>	6,329
Dividend income on investments in quoted equity securities	--	<u>1,591</u>
	<u><u>27,270</u></u>	<u><u>7,920</u></u>

10. CASH AND CASH EQUIVALENTS

	31 March <u>2022</u> (Unaudited)	31 December <u>2021</u> (Audited)
Cash in hand	771	636
Cash at banks - current accounts	<u>616,116</u>	<u>254,232</u>
	<u><u>616,887</u></u>	<u><u>254,868</u></u>

11. SHARE CAPITAL

At 31 March 2022, the authorized, issued, and paid-up share capital of SR 1,880 million consists of 188 million fully paid shares of SR 10 each (31 December 2021: SR 1,880 million consists of 188 million shares of SR 10 each).

12. STATUTORY RESERVE

In accordance with the Company's By-laws, the Company sets aside 10% of its net total comprehensive income each year to a statutory reserve until such reserve equals 30% of the share capital. This reserve is not available for distribution.

13. LOANS AND BORROWINGS

The Company's interest-bearing loans and borrowings, which are measured at amortized cost are as follows:

	31 March <u>2022</u> (Unaudited)	31 December <u>2021</u> (Audited)
Long-term bank loans	1,121,803	1,183,759
Current portion of long-term bank loans	<u>(743,750)</u>	<u>(712,500)</u>
Non-current portion of long-term bank loans	<u><u>378,053</u></u>	<u><u>471,259</u></u>

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13. LOANS AND BORROWINGS

During the year ended 31 December 2020, the Company signed a loan agreement with a local commercial bank for a value of SR 500 million. This amount was withdrawn in full on 28 July 2020. This loan bears financial charges based on prevailing market rates. The loan was initially repayable over a period of three years on flexible repayment terms. Subsequent to the period end 31 March 2022, the Company was able to negotiate and revise the terms which extended the facility upto 31 October 2024. The Company has paid a management fee of SR 7 million to obtain the facility in accordance with the agreed terms of the loan agreement. The loan is secured by an order note.

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

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

The facility agreements contain certain covenants, which, among other things, require certain financial ratios to be maintained.

14. LOSS PER SHARE

The calculation of the basic and diluted loss per share is as follows:

	31 March 2022	31 March 2021
Loss for the period attributable to the shareholders of the Company (SR '000')	<u>(19,014)</u>	<u>(16,692)</u>
The weighted average number of ordinary shares for the purposes of basic and diluted earnings ('000')	<u>188,000</u>	188,000
Basic and diluted loss per share based on loss for the period attributable to shareholders of the Company (SR)	<u><u>(0.10)</u></u>	<u><u>(0.09)</u></u>

Basic loss per share have been computed by dividing the loss attributable to shareholders of the Company by the weighted average number of shares outstanding.

Diluted loss per share have been computed by dividing the loss attributable to shareholders of the Company by the weighted average number of shares outstanding adjusted for the effects of all dilutive potential ordinary shares. However, in the absence of any convertible liability, the diluted loss per share do not differ from the basic loss per share.

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15. REVENUE

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

	31 March <u>2022</u>	31 March <u>2021</u>
<i>Revenue by categories:</i>		
Rendering of services	421,467	370,181
Sale of goods	3,331	2,775
	<u>424,798</u>	<u>372,956</u>
<i>Revenue by the type of customers:</i>		
Revenue from related parties (note 17(a))	290,575	294,948
Revenue from other local and foreign customers	134,223	78,008
	<u>424,798</u>	<u>372,956</u>
<i>Revenue by the airports:</i>		
Riyadh	147,533	124,298
Jeddah	136,813	111,873
Dammam	42,876	39,519
Madina	27,091	10,473
Others	70,485	86,793
	<u>424,798</u>	<u>372,956</u>

16. EMPLOYEE BENEFITS

a) General Description of the plan

The Company operates an approved unfunded employees' end of service benefits scheme/plan for its permanent employees as required by the Saudi Arabian Labour law. The amount recognized in the statement of financial position is determined as follows:

	31 March <u>2022</u> (Unaudited)	31 December <u>2021</u> (Audited)
Present value of defined benefit obligations	<u>593,925</u>	<u>580,696</u>

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16. EMPLOYEE BENEFITS (continued)

b) Movement in net defined benefit liability

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

	Three-month period ended 31 March 2022 (Unaudited)	Year ended 31 December 2021 (Audited)
Balance at the beginning of the period / year	580,696	557,791
<i>Included in statement of profit or loss:</i>		
Current service costs	14,860	59,312
Interest costs	3,771	16,582
Curtailement gain	--	(2,254)
	18,631	73,640
<i>Included in statement of other comprehensive income:</i>		
Remeasurement loss arising from:		
- Financial assumptions	--	(12,155)
- Experience adjustments	--	(7,785)
	--	(19,940)
Benefits paid	(5,402)	(30,795)
Balance at the end of period / year	593,925	580,696

- c) As at 31 December 2021, the valuation for the end of service liabilities was performed by an independent external firm of actuaries using the following key assumptions:

Key assumptions:

Discount rate	2.65%
Future salary growth / Expected rate of salary increase	1.75% - 3%
Retirement age	60 years

The weighted average duration of the defined benefit obligation is 12.72 years.

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17. RELATED PARTY TRANSACTIONS AND BALANCES

The Company, in the normal course of business, enters into transactions with other entities that fall within the definition of a related party contained in International Accounting Standard 24. Related parties comprise of founding shareholders of the Company, being parent Companies, their subsidiaries and associates, and other companies with common directorship with significant influence on other companies and key management personnel. Transactions with related parties arise mainly from services provided / received, secondments, and various business arrangements and are undertaken at approved contractual terms.

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

<u>Name</u>	<u>Relationship</u>	<u>Nature of transactions</u>	<u>Amount of transactions for the period ended</u>		<u>Closing balances</u>	
			<u>31 March 2022</u>	<u>31 March 2021</u>	<u>31 March 2022 (Unaudited)</u>	<u>31 December 2021 (Audited)</u>
Saudi Airlines Air Transport Company	Fellow subsidiary	Services provided	234,903	210,809	429,332	428,253
Saudi Airlines Cargo Company	Fellow subsidiary	Services provided	88	3,953	5,605	11,087
Saudia Aerospace Engineering Industries Company	Fellow subsidiary	Services provided	9,337	30,833	185,489	176,152
Saudi Airlines Catering Company	Common shareholder	Services provided	567	480	1,538	886
Saudi Private Aviation	Fellow subsidiary	Services provided	3,785	4,376	4,963	44,990
Saudia Royal Fleet	Fellow subsidiary	Services provided	15,070	19,489	190,355	196,997
Saudi Arabian Airlines Corporation	Parent Company	Services provided	--	--	683	683
Flyadeal Company	Fellow subsidiary	Services provided	22,821	23,846	74,600	72,028
Saudi Logistics Services Company	Fellow subsidiary	Services provided	3,347	702	9,291	24,032
TLD Arabia Equipment Services	Joint venture	Services received	34	11	--	--
Saudi Amad for Airport Services And Transport Support Company	Joint venture	Services provided	623	449	--	--
					901,856	955,108

The Company's revenues derived from services rendered to Saudi Airlines Air Transport Company amounted to approximately 55.3% (31 March 2021: 56.5%) of the total revenue.

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17. RELATED PARTY TRANSACTIONS AND BALANCES (continued)

(b) Due from related parties - significant transactions and balances under prepayments and other receivables:

<u>Name</u>	<u>Relationship</u>	<u>Nature of transactions</u>	<u>Amount of transactions for the period ended</u>		<u>Closing balances</u>	
			31 March 2022	31 March 2021	31 March 2022 (Unaudited)	31 December 2021 (Audited)
Saudi Arabian Airlines Corporation	Parent Company	VAT receivable (refer note 17(b)(i))	9,140	5,679	385,915	376,775
Saudi Airlines Air Transport Company	Fellow subsidiary	Ticket advances	--	--	--	22,405
Saudi Amad for Airport Services And Transport Support Company	Joint venture	Manpower & Operational Services Expenses incurred on behalf the related party Dividends	Note 17 (c) & (d)	Note 17 (c) & (d)		
			--	7,615		
			--	21,589	100,473	95,182
					486,388	494,362

(i) This represents amount receivable from the Parent Company on account of Value Added Tax ("VAT").

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17. RELATED PARTY TRANSACTIONS AND BALANCES (continued)

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

<u>Name</u>	<u>Relationship</u>	<u>Nature of transactions</u>	<u>Amount of transactions for the period ended</u>		<u>Closing balances</u>	
			31 March 2022	31 March <u>2021</u>	31 March 2022 (Unaudited)	31 December <u>2021 (Audited)</u>
Saudi Airlines Air Transport Company	Fellow subsidiary	Services received	--	8	715	715
Saudi Airlines Catering Company	Common shareholder	Services received	5,567	9,412	1,578	2,206
Saudi Amad for Airport Services And Transport Support Company	Joint venture	Services received	2,249	1,463	--	--
Saudia Aerospace Engineering Industries Company	Fellow subsidiary	Services received	--	350	--	--
TLD Arabia Equipment Services	Fellow subsidiary	Maintenance services	27,939	35,733	--	11,360
Saudi Airlines Real Estate Development Company	Fellow subsidiary	Services received	--	508	--	--
					<u>2,293</u>	<u>14,281</u>

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17. RELATED PARTY TRANSACTIONS AND BALANCES (continued)

(d) Due to related parties – significant transactions and balances under other payables:

<u>Name</u>	<u>Relationship</u>	<u>Nature of transactions</u>	<u>31 March 2022</u>	<u>31 March 2021</u>	<u>31 March 2022 (Unaudited)</u>	<u>31 December 2021 (Audited)</u>
			<u>Amount of transactions for the period ended</u>		<u>Closing balances</u>	
Saudi Airlines Air Transport Company	Fellow subsidiary	Saudia staff and other related charges	250	--	47,212	72,089
Saudi Amad for Airport Services and Transport Support Company	Joint venture	Payments received on behalf of the Joint Venture	20,388	4,162	--	--
Saudi Airlines Catering Company	Common shareholder	Services received	Note 17(c)	Note 17(c)	15,663	14,258
Saudia Aerospace Engineering Industries Company	Fellow subsidiary	Services received	900	Note 17(c)	22,336	21,436
Saudi Airlines Cargo Company	Fellow subsidiary	Expense claims	--	--	861	861
TLD Arabia Equipment Services	Joint venture	Services received	Note 17(c)	Note 17(c)	34,094	24,250
Saudi Airlines Real Estate Development Company	Fellow subsidiary	Expense claims	--	--	792	792
					120,958	133,686

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17. RELATED PARTY TRANSACTIONS AND BALANCES (continued)

(e) Remuneration:

<u>Name</u>	<u>Nature of transactions</u>	31 March <u>2022</u>	31 March <u>2021</u>
Key management personnel	Short term employee benefits	2,260	2,060
	End of service benefits	912	79
		3,172	2,139
Board of Directors	Directors' fees	1,258	1,258
		4,430	3,397

18. OPERATING SEGMENTS

The Company's primary format for segmental reporting is based on business segments. The business segments are determined based on the Company's management and internal reporting structure. The Company is principally involved in providing ground handling services to local and foreign airlines at all airports in the Kingdom of Saudi Arabia. Other operations are related to the supply of fuel to the local and foreign airlines and other customers. The operations related to supply of fuel and other services has not met the quantitative thresholds for reportable segments for the three-month period ended 31 March 2022 and 31 March 2021. Accordingly, the management believes that the Company's business falls within a single reportable business segment and is subject to similar risks and returns.

19. ZAKAT

a) Charge for the period

Zakat for the period ended comprise the following:

	31 March <u>2022</u>	31 March <u>2021</u>
Charge for the period	18,218	6,000

Zakat is payable at the rate of 2.5% of higher of Zakat base and adjusted net income / (losses) for the period.

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19. ZAKAT (continued)

b) Accrued Zakat

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

	Three-month period ended 31 March 2022 (Unaudited)	Year ended 31 December 2021 (Audited)
Balance at the beginning of the period / year	158,800	126,175
Charge for the period / year	18,218	40,127
Payments during the period / year	<u> --</u>	<u>(7,502)</u>
Balance at the end of the period / year	<u>177,018</u>	<u>158,800</u>

c) Status of Zakat

The Company has filed Zakat declaration up to the financial year ended 31 December 2021 with the Zakat, Tax and Customs Authority (ZATCA). The Company has also obtained Zakat certificate valid until 30 April 2023. The ZATCA issued Zakat assessments for the years from 2014 to 2020. The Company has filed appeal against the ZATCA assessments for the years 2014 to 2020 with the Tax Violations and Disputes Resolution Committees (TVDRC) of the General Secretariat of Tax Committees (GSTC) and also approached the ZATCA Settlement Committee for negotiating the zakat liability raised by ZATCA.

20. CONTINGENT LIABILITIES AND COMMITMENTS

In addition to contingencies disclosed in note 19, the Company has provided, in the ordinary course of business, bank guarantees amounting to SR 19.93 million (31 December 2021: SR 8.5 million) to the Saudi Airlines, International Air Transport Association (IATA) and General Authority of Civil Aviation (“GACA”), in respect of tickets, airline ticket sales, and rentals as at 31 March 2022.

Commitments amounting to SR 11.07 million (31 December 2021: SR 14.7 million) are in respect of capital expenditure committed, but not paid.

In relation to agreements entered on behalf of SAAS, the Company has not received any claim from the General Authority for Civil Aviation (“GACA”) regarding contractually agreed fees on each domestic and international trip to King Abdul Aziz International Airport from 01 November 2019 onwards. Currently, management’s discussions on this matter are ongoing with GACA. Consequently, it is difficult to estimate the related liability as at the reporting date.

As at 31 March 2022, there are cases filed by laborers and subcontractors where the Company is a defendant. Currently, as the legal proceedings are ongoing, it is difficult to estimate the related liability as at the reporting date.

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21. FINANCIAL INSTRUMENTS

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

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

Fair value hierarchy

The Company's management regularly reviews significant unobservable inputs and valuation adjustments. If third-party information, such as broker quotes or pricing services is used to measure fair values, then the evidence obtained from the third parties is assessed to support the conclusion that these valuations meet the requirements of IFRS, including the level in the fair value hierarchy in which the valuations should be classified.

The Company recognises transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

When quoted prices are available, the Company measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

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

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

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

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

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

The fair values of financial instruments are not materially different from their carrying values. At 31 March 2022, there were no financial instruments held by the Company that was measured at fair value, apart from investments at FVTPL.

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21. FINANCIAL INSTRUMENTS (continued)

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
31 March 2022 (Unaudited)				
Investments at FVTPL				
- Mutual funds	--	1,032,693	--	1,032,693
	<u>--</u>	<u>1,032,693</u>	<u>--</u>	<u>1,032,693</u>
31 December 2021 (Audited)				
Investments at FVTPL				
- Mutual funds	--	1,229,106	--	1,229,106
- Equity securities	161,949	--	--	161,949
	<u>161,949</u>	<u>1,229,106</u>	<u>--</u>	<u>1,391,055</u>

There were no transfers between levels of the fair value hierarchy during the period ended 31 March 2022 and the year ended 31 December 2021. Additionally, there were no changes in the valuation techniques. The fair value of investments in mutual funds at level 2 is based on the net asset values communicated by the fund manager, and the daily prices are available on Tadawul. The fair value of investments in equity securities at level 1 is based on quoted prices available on Tadawul.

The following table shows the carrying amounts and fair values of financial assets and financial liabilities, it does not include fair value information for financial assets and financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

<u>Description:</u>	Carrying amount			<u>Total</u>
	<u>Amortised cost</u>	<u>Fair value through profit or loss</u>	<u>Fair value through other comprehensive income</u>	
Financial assets not measured at fair value:				
Cash at banks	616,116	--	--	616,116
Trade and other receivables	1,538,253	--	--	1,538,253
Financial assets measured at fair value:				
Investments at FVTPL	--	1,032,693	--	1,032,693
Financial liabilities not measured at fair value:				
Loans and borrowings	1,121,803	--	--	1,121,803
Trade and other payables	506,279	--	--	506,279
Lease liabilities	102,169	--	--	102,169

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21. FINANCIAL INSTRUMENTS (continued)

31 December 2021 (Audited)

<u>Description:</u>	Carrying amount			<u>Total</u>
	<u>Amortised cost</u>	<u>Fair value through profit or loss</u>	<u>Fair value through other comprehensive income</u>	
<i>Financial assets not measured at fair value</i>				
Cash at banks	254,232	--	--	254,232
Trade and other receivables	1,589,156	--	--	1,589,156
<i>Financial assets measured at fair value</i>				
Investments at FVTPL	--	1,391,055	--	1,391,055
<i>Financial liabilities not measured at fair value</i>				
Loans and borrowings	1,183,759	--	--	1,183,759
Trade and other payables	533,132	--	--	533,132
Lease liabilities	114,856	--	--	114,856

22. NEW STANDARDS AND AMENDMENTS TO STANDARDS

The following amendments to existing standards and framework have been applied by the Company in preparation of these financial statements. The adoption of the below did not result in changes to the previously reported net profit or equity of the Company.

<u>Standard / Interpretation</u>	<u>Description</u>	<u>Effective date</u>
IFRS 16	COVID-19-Related Rent Concessions beyond 30 June 2021 (Amendment to IFRS 16)	01 April 2021
IAS 37	Onerous contracts – cost of fulfilling a contract – Amendment	01 January 2022
IFRS Standards	Annual improvements to IFRS standards 2018 – 2020	01 January 2022
IAS 16	Property, plant and equipment: proceeds before intended use - Amendment	01 January 2022
IFRS 3	Reference to the conceptual framework – Amendment	01 January 2022

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23. STANDARDS ISSUED BUT NOT YET EFFECTIVE

The standards, interpretations and amendments issued, but not yet effective up to the date of issuance of the condensed interim financial statements are disclosed below. The Company intends to adopt these standards, where applicable, when they become effective.

<i><u>Standard / Interpretation</u></i>	<i><u>Description</u></i>	<i><u>Effective from periods beginning on or after the following date</u></i>
IFRS 17	Insurance contracts	1 January 2023
	Classification of liabilities as current or non-current	1 January 2023
IAS 1	(amendments to IAS 1)	
IFRS 17	Amendments to IFRS 17	1 January 2023
IAS 8	Definition to accounting estimates	1 January 2023
	Deferred Tax related to Assets and Liabilities arising from a Single Transaction`	1 January 2023
IAS 12		
IAS 1 and IFRS Practice Statement 2	Disclosure of Accounting Policies	1 January 2023
	Sale or contribution of assets between investor and its associate or joint venture (amendments to IFRS 10 and IAS 28)	Available for optional adoption / effective date deferred indefinitely
IFRS 10 and IAS 28		

24. FINANCIAL RISK MANAGEMENT

Financial risk management

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

- Credit risk
- Market risk
- Liquidity risk

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

Risk management is carried out by senior management under policies approved by the Board of Directors. Senior management identifies, evaluates, and hedges financial risks in close co-operation with the Company's operating units. The most important types of risk are market risk, credit risk, and liquidity risk.

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

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

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24. FINANCIAL RISK MANAGEMENT (continued)

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

Financial instruments carried on the condensed interim financial statements include cash and cash equivalents, trade and other receivables, investments at FVTPL, trade and other payables, borrowings, and lease liabilities. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item.

Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company is exposed to risk on its trade and other receivables, investments at FVTPL, and cash at banks.

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

	31 March <u>2022</u> (Unaudited)	31 December <u>2021</u> (Audited)
Financial assets		
Trade receivables	1,357,853	1,412,766
Other receivables	513,952	521,915
Investments at FVTPL	1,032,693	1,391,055
Cash at banks	616,116	254,232
	<u>3,520,614</u>	<u>3,579,968</u>

Impairment losses

The Company manages credit risk with respect to receivables from customers by monitoring in accordance with defined policies and procedures. To reduce exposure to credit risk, the Company has developed a formal approval process whereby credit limits are applied to its customers. The management also continuously monitors the credit exposure towards the customers and makes provisions against those balances considered doubtful of recovery. To mitigate the risk, the Company has a system of assigning credit limits to its customers based on an extensive evaluation of the customer profile and payment history.

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

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24. FINANCIAL RISK MANAGEMENT (continued)

Credit risk (continued)

Impairment losses (continued)

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

At 31 March 2022, trade receivables are mainly due from related parties (note 17(a)) and other trade receivables and are stated at their estimated realisable values. The ten largest non-related party customers account for 66% (31 December 2021: 60%) of outstanding gross other trade receivables. The financial position of the related parties is stable.

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

The changes in the gross carrying amounts of trade receivables contributed mainly to the changes in the impairment loss allowance during the period ended 31 March 2022. The decrease in trade receivables is mainly due to improved collectability from customers.

Market risk

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

Interest rate risk

Interest rate risks are the exposures to various risks associated with the effect of fluctuations in the prevailing interest rates on the Company's financial position and cash flows.

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

	31 March 2022 (Unaudited)	31 December 2021 (Audited)
Variable rate instruments		
Financial assets		
- Investments at FVTPL – mutual funds	<u>1,032,693</u>	<u>1,229,106</u>
Financial liabilities		
- Loans and borrowings	<u>1,121,803</u>	<u>1,183,759</u>

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS

For the three-month period ended 31 March 2022

(Expressed in thousands of Saudi Arabian Riyals, unless otherwise stated)

24. FINANCIAL RISK MANAGEMENT (continued)

Market risk (continued)

Interest rate risk (continued)

Fair value sensitivity analysis for fixed interest rate instruments

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

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates at the reporting date would have increased / (decreased) profit or loss by SR 0.89 million (31 December 2021: SR 0.45 million). This analysis assumes that all other variables, in particular, foreign currency rates, remain constant.

Currency risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates for its transactions principally in Saudi Arabian Riyals, United States Dollars, Euros and United Kingdom Pounds. Currently, such exposures are mainly related to exchange rate movements between foreign currencies against Euros and United Kingdom Pounds. The Company's management monitors such fluctuations and manages its effect on the financial statements accordingly.

The cash and cash equivalents, trade and other receivables, loans and borrowings, lease liabilities, and trade payables of the Company are denominated in Saudi Arabian Riyals.

Price risk

The risk that the value of a financial instrument will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all instruments traded in the market. The Company is exposed to price risk, which arises from investments at FVTPL. The management of the Company monitors the portfolio on a regular basis, and all the significant decisions are approved by the Risk Management Committee.

Sensitivity analysis

Every 5% increase or decrease in the value with all other variables held constant will decrease or increase profit before Zakat for the period by SR 51.6 million (31 December 2021: SR 69.6 million).

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24. FINANCIAL RISK MANAGEMENT (continued)

Liquidity risk

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

The following are the remaining contractual maturities of financial liabilities at the reporting date. The amounts are gross and undiscounted, and include contractual interest payments and exclude the impact of netting agreements.

Non-derivative financial liabilities	Carrying amount	Contractual cash flows		
		Less than one year	More than one year	Total
<u>31 March 2022 (Unaudited)</u>				
Trade payables	60,802	60,802	--	60,802
Other payables (excluding advances)	445,477	445,477	--	445,477
Loans and borrowings	1,121,803	763,650	384,655	1,148,305
Lease liabilities	102,169	38,296	81,957	120,253
	<u>1,730,251</u>	<u>1,308,225</u>	<u>466,612</u>	<u>1,774,837</u>
<u>31 December 2021 (Audited)</u>				
Trade payables	68,716	68,716	--	68,716
Other payables (excluding advances)	464,416	464,416	--	464,416
Loans and borrowings	1,183,759	734,003	482,724	1,216,727
Lease liabilities	114,856	39,417	85,495	124,912
	<u>1,831,747</u>	<u>1,306,552</u>	<u>568,219</u>	<u>1,874,771</u>

Capital risk management

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

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25. IMPACT OF COVID-19

The novel ("COVID-19") pandemic has spread across various geographies globally, disrupting business and economic activities. COVID-19 has brought about uncertainties in the global economic environment. The fiscal and monetary authorities, both domestic and international, have announced various support measures across the globe to counter possible adverse implications. The Company's operations were severely impacted by the actions taken by governments to address the health impacts of the COVID-19 global pandemic. This included imposing travel restrictions and international and domestic border closures, which had significantly disrupted air travel. The Company's management has proactively assessed the impacts on its operations and took a series of preventive measures, including the formation of sub-committees for active monitoring of the situations, identifying areas of cost optimization, etc. During the year 2020, the Company has signed loan facilities amounting to SR 2,000 million to meet its working capital requirements (refer note 13).

During the period ended 31 March 2022, the Government announced to end the social distancing restrictions in the Kingdom of Saudi Arabia and resumed direct flights from limited destinations and specific routes that were earlier suspended due to Omicron. The Company believes that it has taken appropriate and sufficient measures to address the significant cash outflows experienced thus far and continues to evaluate options should the reduced demand for air travel continue beyond the near term. Given the Company's continued current access to capital markets and unencumbered assets, it believes that it has opportunities and options to raise additional liquidity at reasonable terms, if required. Thus, the Company believes it is probable that the plans it has in place, or that it has the ability to execute when fully implemented, will sufficiently mitigate the present conditions, and allow the Company to reasonably handle the liquidity risks presented by the current climate.

The management has considered the potential impacts of the current economic volatility in determining the reported amounts of the Company's financial and non-financial assets. These are considered to represent management's best assessment based on observable information. Markets, however, remain volatile, and the recorded amounts remain sensitive to market fluctuations.

26. SUBSEQUENT EVENTS

There have been no significant subsequent events since the period-end, that would require disclosures or adjustments in these condensed interim financial statements, except as disclosed in note 13.

27. BOARD OF DIRECTORS' APPROVAL

The condensed interim financial statements were approved and authorized for issue by the Board of Directors on 17 May 2022, corresponding to 16 Shawwal 1443H.


Chief Financial Officer


Chief Executive Officer


Chairman