

SAUDI GROUND SERVICES COMPANY LIMITED

CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2012

with

INDEPENDENT AUDITORS' REPORT

**KPMG Al Fozan & Al Sadhan**

Al Dainy Plaza
Al Madinah Road
P. O. Box 55078
Jeddah 21534
Kingdom of Saudi Arabia

Telephone
Fax +966 2 605 0597
Internet

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

INDEPENDENT AUDITORS' REPORT

The Shareholders
Saudi Ground Services Company Limited
Jeddah, Kingdom of Saudi Arabia.

We have audited the accompanying consolidated financial statements of Saudi Ground Services Company Limited ("the Company") and its subsidiary (collectively referred as "the Group") which comprise the consolidated balance sheet as at December 31, 2012 and the related consolidated statements of income, cash flows and changes in equity for the year then ended and the attached notes 1 through 22 which form an integral part of the consolidated financial statements.

Management's responsibility for the consolidated financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with generally accepted accounting standards in the Kingdom of Saudi Arabia and in compliance with Article 175 of the Regulations for Companies and the Company's Articles of Association and for such internal control as management determines is necessary to enable the preparation of consolidated 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 consolidated financial statements.

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements taken as a whole:

1. present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2012, and the consolidated results of its operations and its consolidated 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 Group; and
2. comply with the requirements of the Regulations for Companies and the Company's Articles of Association with respect to the preparation and presentation of financial statements.

For KPMG Al Fozan & Al Sadhan:

Ebrahim Oboud Baeshen
License No. 382



Shawwal 15, 1434H
Corresponding to August 22, 2013

SAUDI GROUND SERVICES COMPANY LIMITED
(A Limited Liability Company)

CONSOLIDATED BALANCE SHEET

As at December 31, 2012

Expressed in Saudi Arabian Riyals

	<u>Notes</u>	<u>2012</u>	<u>2011</u>
<u>ASSETS</u>			
Current assets:			
Cash and cash equivalents	6	360,485,512	208,503,837
Accounts receivables	7	870,039,918	654,353,912
Inventories	8	2,655,217	5,441,804
Prepayments and other current assets	9	86,872,708	51,421,257
Total current assets		1,320,053,355	919,720,810
Non-current assets:			
Property and equipment	10	448,022,076	371,189,151
Intangible assets	11	1,093,261,227	1,148,865,443
Total non-current assets		1,541,283,303	1,520,054,594
Total assets		2,861,336,658	2,439,775,404
<u>LIABILITIES AND SHAREHOLDERS' EQUITY</u>			
Current liabilities:			
Current portion of long-term debt	14(a)	6,589,834	6,113,358
Current portion of obligation under finance lease	14(b)	96,505	1,327,261
Accounts payables	12	148,707,851	92,568,379
Accrued Zakat	18	15,822,261	18,283,533
Accrued expenses and other current liabilities	13	181,669,374	178,840,870
Total current liabilities		352,885,825	297,133,401
Non-current liabilities:			
Long-term debt	14(a)	12,778,089	19,367,923
Employees' end of service benefits	5	144,496,484	111,387,875
Total non-current liabilities		157,274,573	130,755,798
Total liabilities		510,160,398	427,889,199
<u>SHAREHOLDERS' EQUITY</u>			
Share capital	4&15	886,869,100	886,869,100
Imputed additional equity	4	1,122,282,800	1,122,282,800
Excess consideration transferred	4	(535,046,368)	(535,046,368)
Statutory reserve	16	112,713,073	53,784,067
Retained earnings		764,357,655	483,996,606
Total shareholders' equity		2,351,176,260	2,011,886,205
Total liabilities and equity		2,861,336,658	2,439,775,404

The attached notes 1 to 22 form an integral part of these financial statements.

SAUDI GROUND SERVICES COMPANY LIMITED
(A Limited Liability Company)

CONSOLIDATED STATEMENT OF INCOME

For the year ended December 31, 2012

Expressed in Saudi Arabian Riyals

	<u>Notes</u>	<u>2012</u>	<u>2011</u>
Revenue		2,007,121,346	1,790,601,372
Operating costs		<u>(1,173,889,659)</u>	<u>(1,033,495,656)</u>
Gross profit		833,231,687	757,105,716
General and administrative expenses	17	<u>(228,640,423)</u>	<u>(202,098,805)</u>
Operating income		604,591,264	555,006,911
Other income - net		2,452,781	3,064,493
Finance charges - net		<u>(3,256,447)</u>	<u>(2,656,585)</u>
Income before Zakat		603,787,598	555,414,819
Zakat	18	<u>(14,497,543)</u>	<u>(17,574,146)</u>
Net income		<u>589,290,055</u>	<u>537,840,673</u>

The attached notes 1 to 22 form an integral part of these financial statements.

SAUDI GROUND SERVICES COMPANY LIMITED
(A Limited Liability Company)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended December 31, 2012

Expressed in Saudi Arabian Riyals

	<u>Notes</u>	<u>2012</u>	<u>2011</u>
Operating Activities			
Income before zakat		603,787,598	555,414,819
Adjustments for:			
Depreciation	10	55,299,180	63,276,639
Amortization of intangible asset	11	55,604,216	55,604,216
Provision for employees' end of service benefits		36,597,911	37,642,823
Gain on disposal of equipment		--	(133,101)
		751,288,905	711,805,396
Changes in operating assets and liabilities:			
Increase in accounts receivables		(215,686,006)	(510,220,042)
Decrease / (increase) in inventories		2,786,587	(2,581,297)
Increase in prepayments and other current assets		(35,451,451)	(45,176,924)
Increase / (decrease) in accounts payables		56,139,472	(49,954,867)
Increase in accrued expenses and other current liabilities		2,828,504	87,344,398
Cash from operations		561,906,011	191,216,664
Employees' end of service benefits paid		(3,489,302)	(3,354,801)
Zakat paid	18	(16,958,815)	(3,262,134)
Net cash provided by operating activities		541,457,894	184,599,729
Cash flows from investing activities			
Purchase of property and equipment	10	(132,132,105)	(98,306,056)
Proceeds from disposal of property and equipment		--	136,832
Net effect of business combination of GS, NHS and Attar		--	129,480,378
Net cash (used in)/ provided by investing activities		(132,132,105)	31,311,154
Cash flows from financing activities			
Dividend paid		(250,000,000)	--
Repayment of loan during the year		(1,230,756)	(3,375,443)
Repayment of obligations under finance leases		(6,113,358)	(4,531,603)
Cash used in financing activities		(257,344,114)	(7,907,046)
Net increase in cash and cash equivalents		151,981,675	208,003,837
Cash and cash equivalents at the beginning of the year		208,503,837	500,000
Cash and cash equivalents at the end of the year	6	360,485,512	208,503,837

The attached notes 1 to 22 form an integral part of these financial statements.

SAUDI GROUND SERVICES COMPANY LIMITED
(A Limited Liability Company)

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

For the year ended December 31, 2012

Expressed in Saudi Arabian Riyals

	<u>Capital</u>	<u>Imputed additional equity</u>	<u>Excess consideration transferred</u>	<u>Statutory reserve</u>	<u>Retained earnings</u>	<u>Total</u>
Balance at January 1, 2011	500,000	--	--	--	(60,000)	440,000
Additional share capital issued (notes 4 & 15)	886,369,100	1,122,282,800	(535,046,368)	--	--	1,473,605,532
Net income	--	--	--	--	537,840,673	537,840,673
Transfer to statutory reserve	--	--	--	53,784,067	(53,784,067)	--
Balance at January 1, 2012	886,869,100	1,122,282,800	(535,046,368)	53,784,067	483,996,606	2,011,886,205
Dividend paid	--	--	--	--	(250,000,000)	(250,000,000)
Net income	--	--	--	--	589,290,055	589,290,055
Transfer to statutory reserve	--	--	--	58,929,006	(58,929,006)	--
Balance at December 31, 2012	<u>886,869,100</u>	<u>1,122,282,800</u>	<u>(535,046,368)</u>	<u>112,713,073</u>	<u>764,357,655</u>	<u>2,351,176,260</u>

The attached notes 1 to 22 form an integral part of these financial statements.

SAUDI GROUND SERVICES COMPANY LIMITED
(A Limited Liability Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2012

Expressed in Saudi Arabian Riyals

1. ORGANIZATION AND PRINCIPLE ACTIVITIES

Saudi Ground Services Company ("the Company") is a limited liability company registered 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. The legal name "Saudi Airlines Ground Services Company" was changed to "Saudi Ground Services Company" under the same commercial registration number on Safar 20, 1432H (corresponding to January 24, 2011).

The Company is engaged in providing aircraft cleaning, passenger handling, baggage and ground handling services to Saudia airlines, other local and foreign airlines at various airports in the Kingdom of Saudi Arabia.

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 (Note 4). The amended Articles of Association reflecting the above changes were approved by the Ministry of Commerce of Industry on Muharram 23, 1432H (December 29, 2010). The effective date of the above-mentioned acquisition and transfer was agreed between the shareholders as January 1, 2011.

The Company's registered office is located at the following address:

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

2. BASIS OF PREPARATION

(a) Statement of compliance

The consolidated financial statements comprise the financial statements of the Company and NHS, its subsidiary as mentioned in Note 1, collectively referred as "the Group". The accompanying consolidated financial statements have been prepared in accordance with the generally accepted accounting standards in the Kingdom of Saudi Arabia issued by the Saudi Organization for Certified Public Accountants (SOCPA).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2012

Expressed in Saudi Arabian Riyals

2. BASIS OF PREPARATION (continued)

(b) Basis of measurement

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

(c) Functional and presentation currency

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

(d) Basis of consolidation

These consolidated financial statements include the financial statements of the Company and its subsidiary set forth in Note 1 above.

Subsidiary is an entity controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account. The financial statements of subsidiary are included in the consolidated financial statements from the date that control commences until the date control ceases.

The financial statements of the subsidiary are prepared for the same reporting year as that of the Group, using consistent accounting policies.

(e) Use of estimates and judgements

The preparation of consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of assets and liabilities. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Significant areas requiring management judgement and estimates are as follows:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2012

Expressed in Saudi Arabian Riyals

2. BASIS OF PREPARATION (continued)

i) Impairment of non-financial assets:

The Group 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 Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an assets or cash-generating units (CGU) fair value less cost to sell, and its value in use, and is determined for the individual asset, unless the asset does not generate cash inflows which are largely independent to those from other assets or groups. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining the fair value less costs to sell, an appropriate source is used, such as observable market prices or, if no observable market prices exist, estimated prices for similar assets or if no estimated prices for similar assets prevail, or it is based on discounted future cash flow calculations.

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

ii) Provision for doubtful debts

A provision for impairment of trade receivables is established when there is objective evidence that the Group 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 trade receivable is impaired. For significant individual amounts, assessment is made on an individual basis. Amounts which are not individually significant, but are overdue, are assessed collectively and a provision is recognized considering the length of time considering past recovery rates.

iii) Provision for slow moving inventory items

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2012

Expressed in Saudi Arabian Riyals

2. BASIS OF PREPARATION (continued)

(f) Useful lives of property and equipment

The management determines the estimated useful lives of property and equipment for calculating depreciation. This estimate is 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.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in the consolidated financial statements. Certain comparative figures have been reclassified to conform to 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.

(b) Trade receivables

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

(c) Inventories

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

(d) Property and equipment

Property and equipment are stated at cost less accumulated depreciation and impairment, if any. Cost includes expenditure that is directly attributable to the acquisition of asset. Finance cost on borrowings to finance the construction of the asset is capitalized during the period of time that is required to complete and prepare the asset for its intended use.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2012

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

d) Property and equipment (continued)

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

	<u>Years</u>
Leasehold improvements	6 - 10
Airport equipment	7-10
Motor vehicles	5
Furniture, fixtures and equipment	4 - 10
Computer equipment and softwares	4

(e) Business combination

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

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

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

(f) Business combination under common control

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2012

Expressed in Saudi Arabian Riyals

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) 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 Group'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.

(h) Impairment of assets

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

(i) Zakat

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2012

Expressed in Saudi Arabian Riyals

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Provisions

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

(k) Leases

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

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

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

(l) Employees' end of service benefits

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

(m) Revenue recognition

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

(n) Income from bank deposits

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

(o) Foreign currencies

Transactions denominated in foreign currencies are translated to the functional currencies of the Group at the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated to the functional currencies of the Group at the foreign exchange rate ruling at that date. Exchange differences arising on translation are recognized in the consolidated statement of income.

SAUDI GROUND SERVICES COMPANY LIMITED
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Expressed in Saudi Arabian Riyals

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(p) Operating costs

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

(q) 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.

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:

	(SR '000)
Cash and cash equivalents	93,320
Property and equipment	168,712
Receivables and other assets	70,927
Payables and other liabilities	<u>(202,853)</u>
Net tangible assets	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 is also 75% owned by Saudia, therefore Saudia owned and controlled the GSS division before this transaction and will continue to control the Company after this transaction.

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4. BUSINESS COMBINATIONS (continued)

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 has identified Saudia as the acquirer in this transaction and adopted "book value accounting". Accordingly, the net assets transferred from Saudia are recorded by the Company at their book values and no separate goodwill and intangibles are 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. 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)
Cash and cash equivalents	15,000
Property and equipment	94,570
Receivable and other assets	84,809
Payables and other liabilities	<u>(83,983)</u>
Net tangible assets	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>

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4. BUSINESS COMBINATIONS (continued)

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 is as follows:

	(SR '000)
Cash and cash equivalent	3,500
Property and equipment	72,882
Receivables and other assets	22,604
Payables and other liabilities	(69,851)
Net tangible assets	29,135
Goodwill	63,652
Intangible assets	76,213
Total assets	169,000
Equity:	
Share capital	35,475
Imputed equity	133,525
Total equity	169,000

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 1,123 million under equity caption in the balance sheet.

- b) Following are the balances arising from these business combinations as presented in the shareholders' equity:

	<u>Imputed equity</u> (SR '000)	<u>Excess consideration</u> (SR '000)
from Saudia	--	535,046
from NHS	988,758	--
from Attar	133,525	--
	<u>1,122,283</u>	<u>535,046</u>

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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 which exceed 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>2012</u>	<u>2011</u>
Cash in hand	542,859	415,218
Cash at bank in current accounts	356,846,285	204,997,975
Short-term bank deposits	<u>3,096,368</u>	<u>3,090,644</u>
	<u>360,485,512</u>	<u>208,503,837</u>

At December 31, 2012, cash at bank amounting to SR 5.07 million (2011: SR 204.4 million) is held in the name of related parties on behalf of the Company.

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7. ACCOUNTS RECEIVABLES

Accounts receivables at December 31 comprise the following:

	<u>2012</u>	<u>2011</u>
Related parties (note 19a)	591,164,238	425,681,678
Other customers	328,028,861	260,758,918
Total	<u>919,193,099</u>	<u>686,440,596</u>
Less: Provision for doubtful debts	<u>(49,153,181)</u>	<u>(32,086,684)</u>
	<u>870,039,918</u>	<u>654,353,912</u>

8. INVENTORIES

Inventories at December 31 comprise the following:

	<u>2012</u>	<u>2011</u>
Spare parts	2,757,945	3,779,705
Uniforms	1,048,368	2,813,195
Total	<u>3,806,313</u>	<u>6,592,900</u>
Less: Provision for slow-moving items	<u>(1,151,096)</u>	<u>(1,151,096)</u>
	<u>2,655,217</u>	<u>5,441,804</u>

9. PREPAYMENTS AND OTHER CURRENT ASSETS

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

	<u>2012</u>	<u>2011</u>
Deposits	27,765,829	13,013,531
Prepayments	25,596,915	5,610,731
Advance to suppliers	16,717,476	6,189,839
Staff related advances	12,694,511	7,746,997
Other related parties receivables (Note 19b)	3,067,233	17,721,087
Others	<u>1,030,744</u>	<u>1,139,072</u>
	<u>86,872,708</u>	<u>51,421,257</u>

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10. PROPERTY AND EQUIPMENT

- a) The movement in property and equipment during the year ended December 31, 2012 is analyzed as under:

	<u>Leasehold improvements</u>	<u>Airport equipment</u>	<u>Motor vehicles</u>	<u>Furniture, fixtures and equipment</u>	<u>Computer equipment & softwares</u>	<u>Capital work in progress</u>	<u>Total 2012</u>
<u>Cost:</u>							
Balance at January 1, 2012	20,348,415	726,584,582	18,809,032	16,277,322	23,435,759	10,683,786	816,138,896
Additions	3,620,580	99,399,153	5,303,500	5,986,512	2,293,826	15,528,534	132,132,105
Transfer from capital work in progress	--	10,683,786	--	--	--	(10,683,786)	--
Adjustment	--	(73,130,398)	--	--	--	--	(73,130,398)
Disposals	--	--	(48,000)	--	--	--	(48,000)
Balance at December 31, 2012	<u>23,968,995</u>	<u>763,537,123</u>	<u>24,064,532</u>	<u>22,263,834</u>	<u>25,729,585</u>	<u>15,528,534</u>	<u>875,092,603</u>
<u>Accumulated depreciation:</u>							
Balance at January 1, 2012	13,948,608	393,803,007	7,620,225	12,267,150	17,310,755	--	444,949,745
Charge for the year	1,818,238	42,716,678	5,486,054	2,460,655	2,817,555	--	55,299,180
Adjustment	--	(73,130,398)	--	--	--	--	(73,130,398)
Disposals	--	--	(48,000)	--	--	--	(48,000)
Balance at December 31, 2012	<u>15,766,846</u>	<u>363,389,287</u>	<u>13,058,279</u>	<u>14,727,805</u>	<u>20,128,310</u>	<u>--</u>	<u>427,070,527</u>
<u>Net book value:</u>							
At December 31, 2012	<u>8,202,149</u>	<u>400,147,836</u>	<u>11,006,253</u>	<u>7,536,029</u>	<u>5,601,275</u>	<u>15,528,534</u>	<u>448,022,076</u>
At December 31, 2011	<u>6,399,807</u>	<u>332,781,575</u>	<u>11,188,807</u>	<u>4,010,172</u>	<u>6,125,004</u>	<u>10,683,786</u>	<u>371,189,151</u>

- b) At 31 December 2012, airport equipment includes assets acquired under finance leases with a cost of SR 74.3 million (2011: SR 74.3 million). As per the lease agreement, the title to leased equipment will be transferred to the Company at the expiry of the lease term, on payment of the final instalment.
- c) Capital work progress related to the progress payments made towards purchase of airport equipment committed and ordered.
- d) Assets held by the Company and registered in the name of related parties are in the amount of SR 3.98 million.(2011: SR 8.5 million)

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11. INTANGIBLE ASSETS

a) Intangible assets at December 31 comprise the following:

	<u>2012</u>	<u>2011</u>
Goodwill (note 11 (b))	582,815,659	582,815,659
Other intangible assets (note 11 (c))	510,445,568	566,049,784
	<u>1,093,261,227</u>	<u>1,148,865,443</u>

b) Goodwill at December 31, comprise the following:

	<u>2012</u>	<u>2011</u>
Goodwill from acquisition of:		
National Handling Services (note 4(ii))	519,164,059	519,164,059
Ground handling business of Attar (note 4(iii))	63,651,600	63,651,600
	<u>582,815,659</u>	<u>582,815,659</u>

c) Other intangible assets at December 31 comprise the following:

	<u>2012</u>	<u>2011</u>
Customer contracts	153,179,000	153,179,000
Customer relationships	468,475,000	468,475,000
Total	<u>621,654,000</u>	<u>621,654,000</u>
<u>Accumulated amortisation</u>		
Balance at beginning of the year	(55,604,216)	--
Charge for the year	(55,604,216)	(55,604,216)
Balance at the end of the year	<u>(111,208,432)</u>	<u>(55,604,216)</u>
Net balance at December 31	<u>510,445,568</u>	<u>566,049,784</u>

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12. ACCOUNTS PAYABLES

Accounts payables at December 31 comprise the following:

	<u>2012</u>	<u>2011</u>
Due to related parties (Note 19c)	95,971,642	57,802,268
Other suppliers	52,736,209	34,766,111
	<u>148,707,851</u>	<u>92,568,379</u>

13. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

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

	<u>2012</u>	<u>2011</u>
Employee related accruals	70,626,978	95,470,241
Due to related parties (Note 19(d))	69,445,854	41,655,758
Other accruals	22,309,896	8,679,007
Accrued rent	10,190,297	17,460,987
Advances from customers and others	9,096,349	15,574,877
	<u>181,669,374</u>	<u>178,840,870</u>

14. LONG-TERM DEBT AND LEASE OBLIGATION

a) Long-term debt

Long-term debt at December 31 comprises the following:

	<u>2012</u>	<u>2011</u>
Current portion included under current liabilities	6,589,834	6,113,358
Non-current portion included under non-current liabilities	12,778,089	19,367,923
	<u>19,367,923</u>	<u>25,481,281</u>

The loan was obtained by Attar Ground Handling through its partner Attar Travel from Al Rajhi Bank in 2009. The loan bears financial charges based on the prevailing market rates. The loan is repayable in monthly instalments by 2015 as per the loan agreement. The loan agreement includes certain covenants, which among other things require certain financial ratios to be maintained. As stated in note 1, the Company acquired ground handling business of Attar therefore the loan obligation along with all the related covenants and pledges were transferred to the Company. The legal formalities in respect of transfer of loan to the Company are in progress.

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14. LONG-TERM DEBT AND LEASE OBLIGATION (continued)

b) Lease obligation

Airport equipments were purchased by National Handling Service Company under a finance lease agreement in 2009. Obligation under finance leases is payable in monthly instalments over a period up to three years. Instalments due within one year are shown as current liability.

15. SHARE CAPITAL

At December 31, 2012 and 2011, the Company's share capital of SR 886,869,100 consist of 8,868,691 shares of SR 100 each, owned by the shareholders as follows:

	<u>%</u>	<u>Amount</u>
Saudi Arabian Airlines Corporation	75	665,151,900
National Aviation Ground Support	21	186,242,500
Attar Ground Services Company	4	35,474,700
Total	100	886,869,100

16. STATUTORY RESERVE

In accordance with the Company's Articles of Association and the Regulations for Companies in the Kingdom of Saudi Arabia, the Company is required to transfer each year 10% of its net income to a statutory reserve until such reserve equals 50% of its share capital.

17. GENERAL AND ADMINISTRATIVE EXPENSES

General and administrative expenses for the year ended December 31 comprise the following:

	<u>2012</u>	<u>2011</u>
Employee related expenses	113,163,313	80,306,042
Amortization of intangible assets (Note 11(c))	55,604,216	55,604,216
Rent, motor vehicle expenses and other office costs	38,192,149	40,311,477
Provision for doubtful debts	17,066,497	22,630,579
Depreciation	4,614,248	3,246,491
	228,640,423	202,098,805

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18. ZAKAT

a) Charge for the year

	<u>2012</u>	<u>2011</u>
Charge for the year	<u>14,497,543</u>	<u>17,574,146</u>

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

	<u>2012</u>	<u>2011</u>
Share capital	886,869,100	886,869,100
Others	612,833,432	(535,046,368)
Reserves	537,780,673	1,122,282,800
Adjusted net profit	579,901,723	(60,000)
Provisions made during the year	141,136,353	528,089,543
Loans and leases	19,367,923	83,778,533
Others	--	26,808,541
Deduction against written down value of property and equipment, dividends paid and inventories	<u>(2,207,089,525)</u>	<u>(1,409,756,298)</u>
Zakat base	<u>570,799,679</u>	<u>702,965,851</u>
Zakat @ 2.5% higher of adjusted net profit or Zakat base	<u>14,497,543</u>	<u>17,574,146</u>

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

b) Accrued Zakat

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

	<u>2012</u>	<u>2011</u>
Balance at beginning of the year	18,283,533	--
Transferred on acquisition	--	3,971,521
Charge for the year	14,497,543	17,574,146
Payments during the year	<u>(16,958,815)</u>	<u>(3,262,134)</u>
At the end of the year	<u>15,822,261</u>	<u>18,283,533</u>

c) Status of Zakat

The Company has filed declaration up to financial year end December 31, 2011 with the DZIT. The Company also obtained Zakat certificate valid until April 30, 2013. DZIT has raised certain queries pertaining to financial years 2008, 2009, 2010 and 2011. The Company is in process of collecting the necessary information to submit the responses to DZIT for these years.

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19. RELATED PARTY TRANSACTIONS AND BALANCES

Related party transactions are undertaken at mutually agreed terms and are approved by the management. Significant related party transactions for the year ended December 31 and balance arising therefrom are described as under:

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

<u>Name</u>	<u>Relationship</u>	<u>Nature of transactions</u>	<u>Amount of transactions</u>		<u>Closing balance</u>	
			<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Saudi Arabian Airlines Corporation	Parent company	Trade / operations	1,125,720,622	1,114,593,799	507,301,441	402,716,244
Saudi Airlines – Cargo Company Limited (SACC)	Affiliate	Trade / operations	23,699,381	23,314,410	32,153,278	20,947,892
Saudi Aerospace Engineering Industries	Affiliate	Trade / operations	1,921,694	2,017,542	3,950,236	2,017,542
Saudi Private Aviation	Affiliate	Trade / operations	27,516,557	--	28,555,922	--
Royal Fleet Services	Affiliate	Trade / operations	12,702,470	--	19,203,361	--
					<u>591,164,238</u>	<u>425,681,678</u>

(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>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Saudi Arabian Airlines Corporation	Parent Company	Minimum cash requirement	--	16,180,432	--	16,180,432
Saudi Airlines Catering	Affiliate	Rental charges	4,730,570	--	1,526,577	--
Attar	Affiliate	Loan adjustment	--	1,540,656	1,540,656	1,540,655
					<u>3,067,233</u>	<u>17,721,087</u>

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19. 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>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Saudi Arabian Airlines Corporation	Parent Company	Expenses incurred on behalf of company	25,666,592	9,980,766	25,500,405	9,926,237
Saudia Catering	Affiliate	Expenses incurred on behalf of company	37,814,408	30,194,186	7,177,152	15,697,363
Saudia Aerospace Engineering Industries	Affiliate	Expenses incurred on behalf of company	63,388,002	48,962,307	54,517,962	31,971,452
Saudia Airlines Cargo Limited (SACC)	Affiliate	Expenses incurred on behalf of company	809,013	207,216	1,016,229	207,216
Saudi Airlines Real Estate Developers	Affiliate	Expenses incurred on behalf of company	7,759,894	--	7,759,894	--
					<u>95,971,642</u>	<u>57,802,268</u>

(d) Due to related parties - under accrued expenses and other payables:

<u>Name</u>	<u>Relationship</u>	<u>Nature of transactions</u>	<u>Amount of transactions</u>		<u>Closing balance</u>	
			<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
Saudi Arabian Airlines Corporation	Parent Company	Expenses incurred on behalf of company	69,445,854	82,522,959	69,445,854	41,655,758

20. CONTINGENT LIABILITY

The Company's bank has provided, in the normal course of business, bank guarantees amounting to SR 27.6 million (2011: 13.2 million) to the Ministry of Finance and National Economy, Saudi Aramco and General Authority of Civil Aviation ("GACA"), in respect of labour visa, fuel supply and Hajj operations, respectively. The Company's bank has marked bank balances in the same amount as lien against these guarantees.

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21. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Financial instruments carried on the consolidated balance sheet include cash and cash equivalents, trade receivables, trade payable, long-term debts 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 Group 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. Trade receivables are mainly due from Saudia and other foreign airlines and are stated at their estimated realizable values.

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 Group's financial position and cash flows. The Group'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 Group are not significant.

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 Group'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 Group's transactions are principally in Saudi Arabian Riyal and United States Dollars. Other transactions in foreign currencies are not material.

Fair value is the amount for which an asset could be exchanged, or a liability settled between knowledgeable willing parties in an arm's length transaction. As the accompanying consolidated 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 Group's financial assets and liabilities are not materially different from their carrying values.

22. BOARD OF DIRECTORS' APPROVAL

The consolidated financial statements were approved and authorized for issue by the Board of Directors on Ramadan 17, 1434H, corresponding to July 25, 2013.