

SAUDI GROUND SERVICES COMPANY LIMITED

CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2011

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, 2011 and the related 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 financial statements.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with generally accepted accounting standards in the Kingdom of Saudi Arabia and in compliance with 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 financial statements.

Auditors' responsibility

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

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

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



Opinion

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

1. present fairly, in all material respects, the financial position of the Group as at December 31, 2011, and the results of its operations and its cash flows for the year then ended in accordance with generally accepted accounting standards in the Kingdom of Saudi Arabia appropriate to the circumstances of the 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



Rabi Al Thani 7, 1434H
Corresponding to February 17, 2013

SAUDI GROUND SERVICES COMPANY
(A Limited Liability Company)

CONSOLIDATED BALANCE SHEET

As at December 31, 2011

Expressed in Saudi Arabian Riyals

	<u>Notes</u>	<u>2011</u>	<u>2010</u>
<u>ASSETS</u>			
Current assets			
Cash and cash equivalents	6	208,503,837	500,000
Trade receivables	7	654,353,912	--
Inventories	8	5,441,804	--
Prepayments and other current assets	9	51,421,257	--
Total current assets		919,720,810	500,000
Non-current assets			
Property and equipment	10	371,189,151	--
Intangible assets	11	1,148,865,443	--
Total non-current assets		1,520,054,594	--
Total assets		2,439,775,404	500,000
<u>LIABILITIES AND SHAREHOLDERS' EQUITY</u>			
Current liabilities			
Trade payables	12	92,568,379	--
Current portion of long-term debt	14	6,113,358	--
Current portion of obligation under finance lease	14	1,327,261	--
Accrued Zakat	18	18,283,533	--
Accrued expenses and other current liabilities	13	178,840,870	60,000
Total current liabilities		297,133,401	60,000
Non-current liabilities			
Long-term debt	14	19,367,923	--
Employees' end of service benefits	5	111,387,875	--
Total non-current liabilities		130,755,798	--
Total liabilities		427,889,199	60,000
<u>SHAREHOLDERS' EQUITY</u>			
Share capital	4&15	886,869,100	500,000
Imputed additional equity	4&15	1,122,282,800	--
Excess consideration transferred	4&15	(535,046,368)	--
Statutory reserve	16	53,784,067	--
Retained earnings		483,996,606	(60,000)
Total shareholders' equity		2,011,886,205	440,000
Total liabilities and equity		2,439,775,404	500,000

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

SAUDI GROUND SERVICES COMPANY
(A Limited Liability Company)

CONSOLIDATED STATEMENT OF INCOME
For the year ended December 31, 2011
Expressed in Saudi Arabian Riyals

	<u>Notes</u>	<u>2011</u>	<u>2010</u>
Revenue		1,790,601,372	--
Operating costs		(1,056,126,235)	--
Gross profit		734,475,137	--
General and administration expenses	17	(179,468,226)	(20,000)
Operating income		555,006,911	(20,000)
Other income - net		3,064,493	--
Finance charges - net		(2,656,585)	--
Income before Zakat		555,414,819	(20,000)
Zakat	18	(17,574,146)	--
Net income		537,840,673	(20,000)

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

SAUDI GROUND SERVICES COMPANY
(A Limited Liability Company)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended December 31, 2011

Expressed in Saudi Arabian Riyals

	<u>2011</u>	<u>2010</u>
OPERATING ACTIVITIES		
Income for the year before zakat	555,414,819	(20,000)
Adjustments for:		
Depreciation	63,276,639	--
Amortization of intangible asset	55,604,216	--
Provision for employees' end of service benefits	37,642,823	--
(Gain)/ loss on disposal of equipment	(133,101)	--
	<u>711,805,396</u>	<u>(20,000)</u>
Changes in operating assets and liabilities:		
Increase in trade receivables	(510,220,042)	--
Increase in inventory	(2,581,297)	--
Increase in prepayments and other current assets	(45,176,924)	--
Decrease in trade payables	(49,954,867)	--
Increase in accrued expenses and liabilities	87,344,398	20,000
Cash from operations	191,216,664	--
Employees' end of service benefits paid	(3,354,801)	--
Zakat paid	(3,262,134)	--
Net cash from operating activities	<u>184,599,729</u>	<u>--</u>
INVESTING ACTIVITIES		
Purchase of property and equipment	(98,306,056)	--
Proceeds from disposal of property and equipment	136,832	--
Business combination of GS, NHS and Attar	129,480,378	--
Net cash used in investing activities	<u>31,311,154</u>	<u>--</u>
FINANCING ACTIVITIES		
Repayment of loan during the year	(3,375,443)	--
Repayment of obligations under finance leases	(4,531,603)	--
Cash used in financing activities	<u>(7,907,046)</u>	<u>--</u>
INCREASE IN CASH AND CASH EQUIVALENTS	208,003,837	--
Cash and cash equivalents at the beginning of the year	<u>500,000</u>	<u>500,000</u>
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	<u>208,503,837</u>	<u>500,000</u>

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

SAUDI GROUND SERVICES COMPANY
(A Limited Liability Company)

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
For the year ended December 31, 2011
Expressed in Saudi Arabian Riyals

	<u>Capital</u>	<u>Imputed additional equity</u>	<u>Excess consideration paid</u>	<u>Statutory reserve</u>	<u>Retained earnings</u>	<u>Total</u>
Balance at January 1 and December 31, 2009	500,000	--	--	--	(40,000)	460,000
Net income for the year	--	--	--	--	(20,000)	(20,000)
Balance at December 31, 2010	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 for the year	--	--	--	--	537,840,673	537,840,673
Transfer to statutory reserve	--	--	--	53,784,067	(53,784,067)	--
Balance at December 31, 2011	<u>886,869,100</u>	<u>1,122,282,800</u>	<u>(535,046,368)</u>	<u>53,784,067</u>	<u>483,996,606</u>	<u>2,011,886,205</u>

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

SAUDI GROUND SERVICES COMPANY
(A Limited Liability Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2011

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 11 Rajab 1429H, (corresponding to July 14, 2008). The Company was formed by Saudi Arabian Airlines Corporation ("Saudia") in 2008 to consolidate the Ground Support Services division of Saudia (GSS) in the Kingdom of Saudi Arabia by acquiring ground handling businesses of Saudi Arabian Airlines, National Handling Services ("NHS") and Attar Ground Handling / Attar Travel (collectively referred as "Attar"). The legal name "Saudi Airlines Ground Services Company" was changed to "Saudi Ground Services Company" under the same Registration number on 20 Safar 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 and the shareholders of NHS to acquire ground handling businesses, as stated above. 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 Safar 20, 1432H (January 24, 2011). The effective date of the above-mentioned acquisition and transfer is 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 financial statements comprise the consolidated 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).

SAUDI GROUND SERVICES COMPANY
(A Limited Liability Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2011

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.

(i) Subsidiary

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) Critical accounting judgements and estimates

The preparation of consolidated financial statements requires the use of certain critical accounting estimates and assumptions that affect the reported amounts of assets and liabilities. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. 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 period affected.

Significant areas where management has used estimates, assumptions or exercised judgements are as follows:

SAUDI GROUND SERVICES COMPANY
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2011

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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.

SAUDI GROUND SERVICES COMPANY
(A Limited Liability Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2011

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 or 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 significant accounting policies adopted and consistently applied by the management are as follows:

(a) Cash and cash equivalent

Cash and cash equivalent comprise cash on hand, cash with banks and other short-term bank deposits with an original maturity of three months or less.

(b) Trade receivables

Trade receivables are carried at original invoice amount less provision made for doubtful account. A provision for doubtful accounts 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 accumulated impairment loss. 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.

SAUDI GROUND SERVICES COMPANY
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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Expressed in Saudi Arabian Riyals

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. Depreciation is charged to the consolidated statement of income on a straight-line basis over the estimated useful lives of individual item of property and equipment as follows:

	<u>Years</u>
Leasehold improvements	6 - 10
Airport equipment	7-10
Motor vehicles	4
Furniture, fixtures and equipment	4 - 10
Computer equipment and applications	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, 2011

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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 contract are amortized using the straight-line method over the related estimated economic lives not exceeding five years.

Customer relationships are amortized using the straight-line method over the related estimated economic lives not exceeding twenty years.

h) Zakat

Zakat is provided for in accordance with Saudi Arabian fiscal regulations. The provision is charged to the consolidated statement of income.

i) 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 able to be measured reliably.

j) 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.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(j) Leases (continued)

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.

(k) 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.

(l) Revenue recognition

Revenue from airport operations is recognised when the services are provided.

(m) Income from bank deposits

Income from bank deposits is recognised on an accrual basis.

(n) 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.

(o) Expenses

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

SAUDI GROUND SERVICES COMPANY
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2011

Expressed in Saudi Arabian Riyals

4. BUSINESS COMBINATIONS

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

i) Ground Support Services Division of Saudia ("GSS")

On February 7, 2010, Saudia and the Company have entered into a Sale and Purchase Agreement (SPA) for the GSS business unit (SBU) of Saudia (a 100% Government owned entity).

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

	<u>(SAR '000)</u>
<u>Assets</u>	
Cash and cash equivalents	93,320
Property and equipment	168,712
Receivables and other assets	70,927
<u>Liabilities</u>	
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.

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.

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4. BUSINESS COMBINATIONS (continued)

ii) National Handling Services Company Limited (“NHS”)

On February 7, 2010, the Company has entered into Sale and Purchase Agreement (SPA) for the 100% acquisition of 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.

	<u>January 1, 2011</u> (SAR ‘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>

iii) Attar Ground Handling / Attar Travel (collectively referred “Attar”)

On 7 February 2010 the Company has entered into Sale and Purchase Agreement (SPA) for the acquisition of ground handling business of Attar in consideration of the Company’s shares.

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4. BUSINESS COMBINATIONS (continued)

The assets, liabilities, intangible assets and goodwill recorded in the books of account of the Company; including purchase consideration is as follows:

	January 1, 2011 <u>(SAR '000)</u>
Cash and cash equivalent	3,500
Property and equipment	72,882
Receivables and other assets	22,604
Payables and other liabilities	<u>(69,851)</u>
Net tangible assets	29,135
Goodwill	63,652
Intangible assets	<u>76,213</u>
Total assets	<u>169,000</u>
Equity:	
Share capital	35,475
Imputed equity	<u>133,525</u>
Total equity	<u>169,000</u>

An independent Purchase Price Allocation Study was conducted by an independent professional firm and the fair value of equity issued by the Company to NHS and Attar is considered equivalent to the fair value of ground handling business acquired from NHS and Attar.

As a result of the above 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, is recognized as "Imputed additional equity" amounting to SAR 1,123 million under equity caption in the balance sheet.

5. SECONDMENT AGREEMENTS

According to the Sale Purchase Agreement signed between Saudia and the Company, the 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).

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5. SECONDMENT AGREEMENTS (continued)

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>2011</u>	<u>2010</u>
Cash in hand	415,218	--
Cash at bank	204,997,975	500,000
Short-term bank deposits	3,090,644	--
	<u>208,503,837</u>	<u>500,000</u>

At 31 December 2011, bank balances amounting to SR 204.4 million (2010: nil) are held in the name of related parties of the Company, on behalf of the Company.

7. TRADE RECEIVABLES

Trade receivables at December 31 comprise the following:

	<u>2011</u>	<u>2010</u>
Trade receivables	260,758,918	--
Related party (note 19)	425,681,678	--
Total	686,440,596	--
Less: Provision for doubtful debts	(32,086,684)	--
	<u>654,353,912</u>	<u>--</u>

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8. INVENTORIES

Inventories at December 31 comprise the following:

	<u>2011</u>	<u>2010</u>
Spare parts	3,779,705	--
Uniforms	2,043,780	--
Others	769,415	--
Total	<u>6,592,900</u>	--
Less: Provision for slow-moving items	<u>(1,151,096)</u>	--
	<u>5,441,804</u>	--

9. PREPAYMENTS AND OTHER CURRENT ASSETS

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

	<u>2011</u>	<u>2010</u>
Related Party receivable (Note 19b)	17,721,087	--
Deposits	13,013,531	--
Advance to suppliers	6,189,839	--
Prepayments	5,610,731	--
Advance to staff	4,439,487	--
Advance to others	3,307,510	--
Others	1,139,072	--
	<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, 2011 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 & applications</u>	<u>Capital work in progress</u>	<u>Total 2011</u>
<u>Cost:</u>							
Assets acquired in business combinations at January 1, 2011	19,603,155	620,388,996	17,085,235	13,622,284	22,241,296	26,834,729	719,775,695
Additions	745,260	80,183,520	2,832,900	2,655,038	1,205,552	10,683,786	98,306,056
Transfer from capital work in Progress	--	26,834,729	--	--	--	(26,834,729)	--
Disposals	--	(822,663)	(1,109,103)	--	(11,089)	--	(1,942,855)
Balance at December 31, 2011	<u>20,348,415</u>	<u>726,584,582</u>	<u>18,809,032</u>	<u>16,277,322</u>	<u>23,435,759</u>	<u>10,683,786</u>	<u>816,138,896</u>
<u>Accumulated depreciation:</u>							
Relating to assets acquired in business combinations at January 1, 2011	12,750,333	343,118,057	3,236,392	9,993,209	14,514,240	--	383,612,231
Charge for the year	1,198,275	51,507,610	5,492,929	2,273,941	2,803,884	--	63,276,639
Disposals	--	(822,660)	(1,109,096)	--	(7,369)	--	(1,939,125)
Balance at December 31, 2011	<u>13,948,608</u>	<u>393,803,007</u>	<u>7,620,225</u>	<u>12,267,150</u>	<u>17,310,755</u>	<u>--</u>	<u>444,949,745</u>
<u>Net book value:</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>
At December 31, 2010	--	--	--	--	--	--	--

- b) At 31 December 2011, airport equipment includes assets acquired under finance leases with a cost of 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 8,518,664.

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11. INTANGIBLE ASSETS

a) Intangible assets at December 31 comprise the following:

	<u>2011</u>
Goodwill (note 11 (b))	582,815,659
Other intangible assets (note 11 (c))	566,049,784
	<u>1,148,865,443</u>

b) Goodwill at December 31, comprise the following:

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

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

	<u>2011</u>
Customer contracts	
Customer relationships	153,179,000
Total	468,475,000
	<u>621,654,000</u>
Less: Amortization for the year	(55,604,216)
	<u>566,049,784</u>

i) 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.

ii) 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.

12. TRADE PAYABLES

	<u>2011</u>	<u>2010</u>
Trade payables	34,766,111	--
Due to related parties (Note 19)	57,802,268,	--
	<u>92,568,379</u>	<u>--</u>

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13. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

	<u>2011</u>	<u>2010</u>
Accrued staff costs	74,908,486	60,000
Accrued vacations	20,561,755	
Accrued rent	17,460,987	
Other accruals	8,679,007	
Due to related parties (Note 19)	41,655,758	--
Others	15,574,877	--
	<u>178,840,870</u>	<u>60,000</u>

14. LONG-TERM DEBT AND LEASE OBLIGATION

a) Long-term debt

Long-term debts at December 31 comprise the following:

	<u>2011</u>	<u>2010</u>
Al Rajhi Bank loan	<u>25,481,281</u>	--

Presented in the balance sheet:

	<u>2011</u>	<u>2010</u>
Current portion included under current liabilities	6,113,358	--
Non-current portion included under non-current liabilities	<u>19,367,923</u>	--
	<u>25,481,281</u>	--

Al Rajhi Bank Loan

The loan was obtained by Attar Ground Handling Company through its partner Attar Travel Company 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 transfer to the Company. The legal formalities in respect of transfer of loan to the Company are in progress.

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. Current obligation under finance lease amounted to SR 1,327,261 represents future lease payment due in 2012.

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15. SHARE CAPITAL

At December 31, 2011 and 2010, the Company's share capital of SR 886,869,100 (2010: SR 500,000) is divided into 8,868,691 shares (2010: 500 shares) of SR 100 each, owned by Saudi Arabian shareholders as follows:

	<u>No. of shares</u>		<u>%</u> 2011	<u>Value</u> <u>per share</u>	<u>Amount</u>	<u>Amount</u> 2010
	<u>Cash</u>	<u>In-kind</u>				
Saudi Arabian Airlines Corporation	1,105,000	5,546,519	75	100	665,151,900	500,000
National Aviation Ground Support Attar Ground Services Company	150,000	1,712,425	21	100	186,242,500	--
	35,000	319,747	4	100	35,474,700	--
Total	1,290,000	7,578,691	100	100	886,869,100	500,000

On 23 Muharram 1432H, corresponding to December 29, 2010, the shareholders of the Company through an amendment to the Articles of Association of the company increased the share capital of the Company from SR 500,000 to SR 886,869,100 with the approval of the Ministry of Commerce and Industry. The capital was increased by issuing 75% of shares to Saudia, 21% of shares to National Aviation Ground Support and 4% shares to Attar Ground Services Company against in-kind assets and cash amount contributions (refer to note 4).

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 ADMINISTRATION EXPENSES

	<u>2011</u>	<u>2010</u>
Employee related expenses	80,306,042	--
Amortization of intangible assets (Note 11)	55,604,216	--
Rent, motor vehicle and other office costs	40,311,477	20,000
Depreciation	3,246,491	--
	179,468,226	20,000

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18. ZAKAT

Charge for the year

	<u>2011</u>	<u>2010</u>
Charge for the year	<u>17,574,146</u>	<u>--</u>

The current year provision is based on the following:

	<u>2011</u>	<u>2010</u>
Share capital	886,869,100	--
Excess consideration	(535,046,368)	--
Imputed additional equity	1,122,282,800	--
Reserves	(60,000)	--
Adjusted net profit	528,089,543	--
Provisions made during the year	83,778,533	--
Book value of long term assets (net of related financing)	26,808,541	--
Deduction against written down value of property, plant and equipment and inventories	<u>(1,409,756,298)</u>	<u>--</u>
Zakat base	<u>702,965,851</u>	<u>--</u>
Zakat @ 2.5% of zakat base	<u>17,574,146</u>	<u>--</u>

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

Movements in provision during the year

The movement in the Zakat provision for the year was as follows:

	<u>2011</u>	<u>2010</u>
Transferred on acquisition	3,971,521	--
Provided during the year	17,574,146	--
Payments during the year	<u>(3,262,134)</u>	<u>--</u>
At the end of the year	<u>18,283,533</u>	<u>--</u>

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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.

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

<u>Name</u>	<u>Relationship</u>	<u>Nature of transactions</u>	<u>Amount of transactions</u>		<u>Closing balance</u>	
			<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Saudi Arabian Airlines Corporation	Parent company	Trade / operations	1,114,593,799	--	402,716,244	--
Saudi Airlines – Cargo Company Limited (SACC)	Affiliate	Trade / operations	23,314,410	--	20,947,892	--
Saudi Aerospace Engineering Industries	Affiliate	Trade / operations	2,017,542	--	2,017,542	--
					<u>425,681,678</u>	<u>--</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>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Saudi Arabian Airlines Corporation	Parent group entity	Minimum cash requirement	16,180,432	--	16,180,432	--
Attar	Affiliate	Loan adjustment	1,540,655	--	1,540,655	--
					<u>17,721,087</u>	<u>--</u>

(c) Due to related parties - under trade payables:

<u>Name</u>	<u>Relationship</u>	<u>Nature of transactions</u>	<u>Amount of transactions</u>		<u>Closing balance</u>	
			<u>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Saudi Arabian Airlines Corporation	Parent group entity	Trade / operations	9,980,766	--	9,926,237	--
Saudia Catering	Parent group entity	Trade / operations	30,194,186	--	15,697,363	--
Saudia Aerospace Engineering Industries	Parent group entity	Trade / operations	48,962,307	--	31,971,452	--
Saudia Airlines Cargo Limited (SACC)	Parent group entity	Trade / operations	207,216	--	207,216	--
					<u>57,802,268</u>	<u>--</u>

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19. RELATED PARTY TRANSACTIONS AND BALANCES (continued)

(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>2011</u>	<u>2010</u>	<u>2011</u>	<u>2010</u>
Saudi Arabian Airlines Corporation	Parent entity	Trade / operations	82,522,959	--	41,655,758	--

20. CONTINGENT LIABILITY

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

21. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Financial instruments carried on the consolidated balance sheet include cash and cash equivalents, accounts receivable, accounts 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 company seeks to limit the credit risk with respect to the customers through by monitoring outstanding receivables. Cash and cash equivalents are placed with national and international banks with sound credit ratings. Accounts receivable are mainly due from Saudia 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.

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21. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

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 authorized for issue by the Board of Directors on 14 October 2012.