SAUDI GROUND SERVICES COMPANY LIMITED

CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2013
with
INDEPENDENT AUDITORS' REPORT

KPMG

KPMG Al Fozan & Al Sadhan
Zahran Business Centre, Tower A, 9th Floor
Prince Sultan Street
PO Box 55078
Jeddah 21534
Kingdom of Saudi Arabia

Telephone +966 12 698 9595
Fax +966 12 698 9494
Internet www.kpmg.com.sa

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, 2013 and the related consolidated statements of income, cash flows and changes in equity for the year then ended and the attached notes 1 through 27 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.

KPMG

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, 2013, 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

Jumada Al Thani 9, 1435H
Corresponding to April 9, 2014

SAUDI GROUND SERVICES COMPANY LIMITED
(A Limited Liability Company)

CONSOLIDATED BALANCE SHEET
As at December 31, 2013
Expressed in Saudi Arabian Riyals

	Notes	2013	2012
ASSETS			
Current assets:			
Cash and cash equivalents	6	**427,224,266**	360,485,512
Accounts receivables	7	**528,002,756**	870,039,918
Inventories	8	**2,205,510**	2,655,217
Prepayments and other current assets	9	**106,177,746**	86,872,708
Total current assets		**1,063,610,278**	1,320,053,355
Non-current assets:			
Property and equipment	10	**532,257,395**	448,022,076
Intangible assets	11	**1,037,657,011**	1,093,261,227
Total non-current assets		**1,569,914,406**	1,541,283,303
Total assets		**2,633,524,684**	2,861,336,658
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Current portion of long-term debt	14(a)	**7,097,741**	6,589,834
Current portion of obligation under finance lease	14(b)	--	96,505
Accounts payables	12	**48,658,055**	148,707,851
Accrued expenses and other current liabilities	13	**216,113,142**	181,669,374
Accrued Zakat	23	**20,157,990**	15,822,261
Total current liabilities		**292,026,928**	352,885,825
Non-current liabilities:			
Long-term debt, non-current portion	14(a)	**5,680,348**	12,778,089
Employees' end of service benefits	15	**178,227,668**	144,496,484
Total non-current liabilities		**183,908,016**	157,274,573
Total liabilities		**475,934,944**	510,160,398
SHAREHOLDERS' EQUITY			
Share capital	4 & 16	**886,869,100**	886,869,100
Proposed increase in share capital	17	**993,130,900**	--
Imputed additional equity	4	--	1,122,282,800
Excess consideration transferred	4	--	(535,046,368)
Statutory reserve	18	**173,309,121**	112,713,073
Retained earnings		**104,280,619**	764,357,655
Total shareholders' equity		**2,157,589,740**	2,351,176,260
Total liabilities and equity		**2,633,524,684**	2,861,336,658

The attached notes 1 to 27 form an integral part of these consolidated financial statements.

SAUDI GROUND SERVICES COMPANY LIMITED
(A Limited Liability Company)

CONSOLIDATED STATEMENT OF INCOME
For the year ended December 31, 2013
Expressed in Saudi Arabian Riyals

	Notes	**2013**	2012
Revenue		**2,143,848,934**	2,007,121,346
Operating costs		**(1,307,376,371)**	(1,173,889,659)
Gross profit		**836,472,563**	833,231,687
General and administrative expenses	19	**(209,706,456)**	(228,640,423)
Operating income		**626,766,107**	604,591,264
Other income - net	20	**2,356,032**	2,452,781
Finance charges	21	**(1,892,115)**	(3,256,447)
Income before Zakat		**627,230,024**	603,787,598
Zakat	23	**(21,269,544)**	(14,497,543)
Net income		**605,960,480**	589,290,055

The attached notes 1 to 27 form an integral part of these consolidated financial statements.

SAUDI GROUND SERVICES COMPANY LIMITED
(A Limited Liability Company)

CONSOLIDATED STATEMENT OF CASH FLOWS
For the year ended December 31, 2013
Expressed in Saudi Arabian Riyals

	Notes	2013	2012
Operating Activities			
Income before Zakat		**627,230,024**	603,787,598
Adjustments for:			
Depreciation	10	**67,031,603**	55,299,180
Amortization of intangible assets	11	**55,604,216**	55,604,216
Provision for employees' end of service benefits	15	**39,838,856**	36,597,911
Provision for doubtful debts	7	**20,000,000**	17,066,497
Inventory write-off		**957,040**	--
Gain on disposal of property and equipment	20	**(1,646,037)**	--
		809,015,702	768,355,402
Changes in operating assets and liabilities:			
Increase in accounts receivables		**(287,307,001)**	(232,752,503)
(Increase)/ decrease in inventories		**(507,333)**	2,786,587
Increase in prepayments and other current assets		**(19,305,038)**	(35,451,451)
(Decrease)/ increase in accounts payables		**(90,365,883)**	56,139,472
Increase in accrued expenses and other current liabilities		**34,443,768**	2,828,504
Cash from operations		**445,974,215**	561,906,011
Employees' end of service benefits paid	15	**(6,107,672)**	(3,489,302)
Zakat paid	23(b)	**(16,933,815)**	(16,958,815)
Net cash provided by operating activities		**422,932,728**	541,457,894
Cash flows from investing activities			
Purchase of property and equipment	10	**(151,283,780)**	(132,132,105)
Proceeds from disposal of property and equipment		**1,662,895**	--
Net cash used in investing activities		**(149,620,885)**	(132,132,105)
Cash flows from financing activities			
Dividend paid	22	**(199,886,750)**	(250,000,000)
Repayment of loan during the year		**(6,589,834)**	(6,113,358)
Repayment of obligations under finance leases		**(96,505)**	(1,230,756)
Net cash used in financing activities		**(206,573,089)**	(257,344,114)
Net increase in cash and cash equivalents		**66,738,754**	151,981,675
Cash and cash equivalents at the beginning of the year		**360,485,512**	208,503,837
Cash and cash equivalents at the end of the year	6	**427,224,266**	360,485,512
Non-cash transaction:			
Dividend set off against accounts receivable		**599,660,250**	--
Related party payable set off against related party receivable		**9,683,913**	--

The attached notes 1 to 27 form an integral part of these consolidated financial statements.

SAUDI GROUND SERVICES COMPANY LIMITED
(A Limited Liability Company)

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY
For the year ended December 31, 2013
Expressed in Saudi Arabian Riyals

	Share capital	Proposed increase in share capital	Imputed additional equity	Excess consideration transferred	Statutory reserve	Retained earnings	Total
Balance at January 1, 2013	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, 2013	886,869,100	--	1,122,282,800	(535,046,368)	112,713,073	764,357,655	2,351,176,260
Dividend paid (Note 22)	--	--	--	--	--	(799,547,000)	(799,547,000)
Net income	--	--	--	--	--	605,960,480	605,960,480
Proposed increase in capital through capitalization of retained earnings, imputed equity adjusted with excess consideration transferred (Note 17)	--	993,130,900	(1,122,282,800)	535,046,368	--	(405,894,468)	--
Transfer to statutory reserve	--	--	--	--	60,596,048	(60,596,048)	--
Balance at December 31, 2013	**886,869,100**	**993,130,900**	**--**	**--**	**173,309,121**	**104,280,619**	**2,157,589,740**

The attached notes 1 to 27 form an integral part of these consolidated financial statements.

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 all 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 and Industry on Muharram 23, 1432H (December 29, 2010). The effective date of the above-mentioned acquisition and transfer was agreed between the shareholders as of January 1, 2011.

The 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).

(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.

2. BASIS OF PREPARATION (continued)

(c) Functional and presentation currency

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

(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:

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.

2. BASIS OF PREPARATION (continued)

(e) Use of estimates and judgements (continued)

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.

(f) Useful lives of property and equipment

The management determines the estimated useful lives of property and equipment for calculating depreciation. These estimates are determined after considering expected usage of the assets and physical wear and tear. Management reviews the residual value and useful lives annually and future depreciation charges are adjusted where management believes the useful lives differ from previous estimates.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(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 accumulated impairment losses, if any. Land is not depreciated. Cost includes expenditure that is directly attributable to the acquisition of asset. Finance cost on borrowings to finance the construction of the asset is capitalized during the period of time that is required to complete and prepare the asset for its intended use.

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

	Years
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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Business combination (continued)

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) arsing is recognised directly in equity.

(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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(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.

(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.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

(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.

Non-monetary items measured at historical cost denominated in a foreign currency are translated at the exchange rate at the date of initial recognition.

(p) Offsetting

Financial assets and liabilities are offset and the net amount reported in the consolidated balance sheet only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liability simultaneously. Income and expense is not offset in the consolidated statement of income unless required or permitted by generally accepted accounting principles in Kingdom of Saudi Arabia.

(q) 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.

(r) 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.

4. BUSINESS COMBINATIONS (continued)

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)
Net tangible assets	130,106
Purchase consideration in the form of Company's shares issued	(665,152)
Excess consideration transferred	(535,046)

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.

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.

4. BUSINESS COMBINATIONS (continued)

	(SR '000)
Net tangible assets	110,396
Goodwill	519,164
Intangible assets	545,441
Total assets	1,175,001
Equity:	
Share capital	186,243
Imputed equity	988,758
Total equity	1,175,001

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)
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.

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:

	2013	2012
Cash in hand	**892,600**	542,859
Cash at bank in current accounts	**423,306,761**	356,846,285
Short-term bank deposits, with original maturity of less than 90 days	**3,024,905**	3,096,368
	427,224,266	360,485,512

At December 31, 2013, cash at bank amounting to SR 3 million (2012: SR 5.07 million) is held in the name of related parties on behalf of the Company.

7. ACCOUNTS RECEIVABLES

Accounts receivables at December 31 comprise the following:

	2013	2012
Related parties (note 24a)	**311,244,413**	591,164,238
Other customers	**258,670,827**	328,028,861
Total	**569,915,240**	919,193,099
Less: provision for doubtful debts	**(41,912,484)**	(49,153,181)
	528,002,756	870,039,918

Movement in provision for doubtful debts is as follows:

	2013	2012
Opening Balance	**49,153,181**	32,086,684
Charge for the year (Note 19)	**20,000,000**	17,066,497
Receivables written-off against provision	**(27,240,697)**	--
Closing balance	**41,912,484**	49,153,181

8. INVENTORIES

Inventories at December 31 comprise the following:

	2013	2012
Spare parts	**3,526,116**	2,757,945
Spare parts write–off	**(957,040)**	--
Spare parts-net	**2,569,076**	2,757,945
Uniforms	**787,530**	1,048,368
Total	**3,356,606**	3,806,313
Less: provision for slow-moving items	**(1,151,096)**	(1,151,096)
	2,205,510	2,655,217

9. PREPAYMENTS AND OTHER CURRENT ASSETS

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

	2013	2012
Deposits	**12,451,355**	27,765,829
Prepayments	**24,228,820**	25,596,915
Advance to suppliers	**15,829,919**	16,717,476
Staff related advances	**24,149,924**	12,694,511
Advance for investment (note 9.1)	**13,523,000**	--
Other related parties receivables (note 24b)	**2,193,763**	3,067,233
IPO related cost recoverable from shareholders (note 9.2)	**6,422,414**	--
Others	**7,378,551**	1,030,744
	106,177,746	86,872,708

9.1 The Group has made cash consideration amounting to SR 13, 523,000 towards a proposed investment in joint venture, however the legal formalities and documentation has not yet been finalized by the Group as at 31.12.2013.

9.2 The Group has incurred certain costs in relation to the IPO process. These costs will be deducted from the proceeds of IPO as expenses incurred on behalf of the shareholders.

SAUDI GROUND SERVICES COMPANY LIMITED
(A Limited Liability Company)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
For the year ended December 31, 2013
Expressed in Saudi Arabian Riyals

10. PROPERTY AND EQUIPMENT

a) The movement in property and equipment during the year ended December 31, 2013 is analyzed as under:

	Land	Leasehold improvements	Airport equipment	Motor vehicles	Furniture, fixtures and equipment	Computer equipment & softwares	Capital work in progress	Total
Cost:								
Balance at January 1, 2013	--	23,968,995	763,537,123	24,064,532	22,263,834	25,729,585	15,528,534	875,092,603
Additions	27,464,040	6,094,496	79,002,198	9,918,650	4,728,555	4,872,041	19,203,800	151,283,780
Transfer from capital work in progress	--	--	15,528,534	--	--	--	(15,528,534)	--
Disposals	--	--	(19,989,639)	(1,437,288)	--	--	--	(21,426,927)
Balance at December 31, 2013	27,464,040	30,063,491	838,078,216	32,545,894	26,992,389	30,601,626	19,203,800	1,004,949,456
Accumulated depreciation:								
Balance at January 1, 2013	--	15,766,846	363,389,287	13,058,279	14,727,805	20,128,310	--	427,070,527
Charge for the year	--	2,463,708	56,284,865	2,074,563	2,780,170	3,428,297	--	67,031,603
Disposals	--	--	(19,972,781)	(1,437,288)	--	--	--	(21,410,069)
Balance at December 31, 2013	--	18,230,554	399,701,371	13,695,554	17,507,975	23,556,607	--	472,692,061
Net book value:								
At December 31, 2013	**27,464,040**	**11,832,937**	**438,376,845**	**18,850,340**	**9,484,414**	**7,045,019**	**19,203,800**	**532,257,395**
At December 31, 2012	--	8,202,149	400,147,836	11,006,253	7,536,029	5,601,275	15,528,534	448,022,076

10. PROPERTY AND EQUIPMENT (continued)

b) At 31 December 2013, airport equipment includes assets acquired under finance leases with a cost of SR 74.3 million (2012: SR 74.3 million). In accordance with the lease agreement, the title of leased equipment are transferred to the Company on the payment of final instalment made during the year.

c) Capital work progress relates 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 1.9 million.(2012: SR 8.5 million)

11. INTANGIBLE ASSETS

a) Intangible assets at December 31 comprise the following:

	2013	2012
Goodwill (note 11 (b))	**582,815,659**	582,815,659
Other intangible assets (note 11 (c))	**454,841,352**	510,445,568
	1,037,657,011	1,093,261,227

b) Goodwill at December 31, comprise the following:

	2013	2012
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
	582,815,659	582,815,659

The management reviews goodwill for impairment annually for the purpose of impairment testing, goodwill has been allocated to the Company (i.e. Company as a single cash generating unit). The recoverable amount of the cash generating unit has been determined based on a value in use calculated using cash flow projection based on financial budgets approved by the Board of Directors.

11. INTANGIBLE ASSETS (continued)

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

	2013	2012
Customer contracts	**153,179,000**	153,179,000
Customer relationships	**468,475,000**	468,475,000
Total	**621,654,000**	621,654,000
Accumulated amortisation:		
Balance at beginning of the year	**(111,208,432)**	(55,604,216)
Charge for the year	**(55,604,216)**	(55,604,216)
Balance at the end of the year	**(166,812,648)**	(111,208,432)
Net book value at December 31	**454,841,352**	510,445,568

12. ACCOUNTS PAYABLES

Accounts payables at December 31 comprise the following:

	2013	2012
Due to related parties (Note 24c)	**23,782,573**	95,971,642
Other suppliers	**24,875,482**	52,736,209
	48,658,055	148,707,851

13. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

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

	2013	2012
Employee related accruals	**79,506,366**	70,626,978
Due to a related party (Note 24d)	**46,913,788**	69,445,854
Other accruals	**49,075,899**	22,309,896
Accrued rent	**32,698,024**	10,190,297
Advances from customers and others	**7,919,065**	9,096,349
	216,113,142	181,669,374

14. LONG-TERM DEBT AND LEASE OBLIGATION

a) Long-term debt

Long-term debt at December 31 comprises the following:

	2013	2012
Current portion included under current liabilities	**7,097,741**	6,589,834
Non-current portion included under non-current liabilities	**5,680,348**	12,778,089
	12,778,089	19,367,923

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.

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. During the year the Company settled its final lease instalment.

15. EMPLOYEES' END OF SERVICE BENEFIT

	2013	2012
Opening Balance	**144,496,484**	111,387,875
Provision for the year	**39,838,856**	36,597,911
Payment made during the year	**(6,107,672)**	(3,489,302)
Closing balance	**178,227,668**	144,496,484

16. SHARE CAPITAL

At December 31, 2013 and 2012, 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:

	%	Amount
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

17. PROPOSED INCREASE IN SHARE CAPITAL

The Board of Directors of the Company has passed a resolution on July 28, 2013, corresponding to Ramadan 20,1434H, recommending to increase the share capital of the Company from SR 887 million to SR 1,880 million. The increase amounting to SR 993 million will be made through capitalization of retained earnings, imputed equity adjusted with excess consideration. The Company has submitted legal documents to the Ministry of Commerce and Industry and is awaiting approval for the amendment to the articles of association and issuance of updated registration certificate of the Company.

18. 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. This reserve is not available for distribution.

19. GENERAL AND ADMINISTRATIVE EXPENSES

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

	2013	2012
Employee related expenses	**89,526,334**	113,163,313
Amortization of intangible assets (Note 11(c))	**55,604,216**	55,604,216
Rent, motor vehicle expenses and other office costs	**37,079,583**	38,192,149
Provision for doubtful debts (Note 7)	**20,000,000**	17,066,497
Depreciation	**7,496,323**	4,614,248
	209,706,456	228,640,423

20. OTHER INCOME- NET

	2013	2012
Gain on disposal of property and equipment	**1,646,037**	--
Car rental income and other recharges	**709,995**	2,452,781
	2,356,032	2,452,781

21. FINANCE CHARGES

	2013	2012
Interest on long-term debt	**1,221,216**	1,697,693
Bank charges, exchange losses and other charges	**670,899**	1,558,754
	1,892,115	3,256,447

22. DIVIDEND DISTRIBUTION

During the year, the Company declared a cumulative dividend of SR 799,547,000 out of the profits of 2011, 2012 and 2013. The dividend was approved by the board on the following as stated below;

Date of approval	Amount (SAR)
18th February 2013	**150,000,000**
30th April 2013	**200,000,000**
18th December 2013	**499,547,000**
	799,547,000

23. ZAKAT

a) Charge for the year

	2013	2012
Charge for the year	**21,269,544**	14,497,543

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

	2013	2012
Share capital	**886,869,100**	886,869,100
Others	**587,236,432**	612,833,432
Reserves	**877,070,728**	537,780,673
Adjusted net profit	**608,480,034**	579,901,723
Provisions made during the year	**161,452,392**	141,136,353
Loans and leases	**12,778,089**	19,367,923
Deduction against written down value of property and equipment, dividends paid and inventories	**(2,283,105,012)**	(2,207,089,525)
Zakat base	**850,781,763**	570,799,679
Zakat @ 2.5% higher of adjusted net profit or Zakat base	**21,269,544**	14,497,543

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

23. ZAKAT (continued)

b) Accrued Zakat

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

	2013	2012
Balance at beginning of the year	**15,822,261**	18,283,533
Charge for the year	**21,269,544**	14,497,543
Payments during the year	**(16,933,815)**	(16,958,815)
At the end of the year	**20,157,990**	15,822,261

c) Status of Zakat

The Company has filed declaration up to financial year end December 31, 2012 with the Department of Zakat and Income Tax (DZIT). The Company also obtained Zakat certificate valid until April 30, 2014. DZIT has raised certain queries pertaining to financial years 2008 to 2011. The Company has provided the necessary information in response to DZIT queries and is in the process of finalizing the Zakat assessment for the years 2008 to 2011.

24. RELATED PARTY TRANSACTIONS AND BALANCES

Related party transactions are undertaken at mutually agreed terms and are approved by the management. In addition to the disclosures set out in notes 1,4,5,6,7,9 ,10 and 14 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:

Name	Relationship	Nature of transactions	Amount of transactions		Closing balance	
			2013	2012	**2013**	2012
Saudi Arabian Airlines Corporation	Parent company	Trade / operations	**1,153,165,478**	1,125,720,622	**202,964,691**	507,301,441
Saudi Airlines – Cargo Company Limited (SACC)	Affiliate	Trade / operations	**32,218,902**	23,699,381	**46,196,566**	32,153,278
Saudi Aerospace Engineering Industries	Affiliate	Trade / operations	**2,601,534**	1,921,694	–	3,950,236
Saudi Private Aviation	Affiliate	Trade / operations	**26,510,618**	27,516,557	**26,745,194**	28,555,922
Royal Fleet Services	Affiliate	Trade / operations	**16,154,748**	12,702,470	**35,337,962**	19,203,361
					311,244,413	591,164,238

24. RELATED PARTY TRANSACTIONS AND BALANCES (continued)

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

Name	Relationship	Nature of transactions	Amount of transactions		Closing balance	
			2013	2012	**2013**	2012
Saudi Arabian Airlines Corporation	Parent Company	Airline tickets	**8,561,574**	--	**1,610,244**	--
Saudi Airlines Catering	Affiliate	Rental charges	--	4,730,570	--	1,526,577
Attar	Affiliate	Loan adjustment	**957,137**	--	**583,519**	1,540,656
					2,193,763	3,067,233

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

Name	Relationship	Nature of transactions	Amount of transactions		Closing balance	
			2013	2012	**2013**	2012
Saudi Arabian Airlines Corporation	Parent Company	Expenses incurred on behalf of the Company	--	25,666,592	--	25,500,405
Saudi Airlines Catering	Affiliate	Expenses incurred on behalf of the Company	**34,791,550**	37,814,408	**2,159,125**	7,177,152
Saudia Aerospace Engineering Industries	Affiliate	Expenses incurred on behalf of the Company	**57,592,224**	63,388,002	**12,592,224**	54,517,962
Saudia Airlines Cargo Limited (SACC)	Affiliate	Expenses incurred on behalf of the Company	**255,101**	809,013	**1,271,330**	1,016,229
Saudi Airlines Real Estate Developers	Affiliate	Expenses incurred on behalf of the Company	--	7,759,894	**7,759,894**	7,759,894
					23,782,573	95,971,642

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

Name	Relationship	Nature of transactions	Amount of transactions		Closing balance	
			2013	2012	**2013**	2012
Saudi Arabian Airlines Corporation	Parent Company	Expenses incurred on behalf of the company	**25,884,219**	69,445,854	**46,913,788**	69,445,854

25. CONTINGENT LIABILITY

The Company's bank has provided, in the normal course of business, bank guarantees amounting to SR 11.8 million (2012: 27.6 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.

26. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Financial instruments carried on the consolidated balance sheet include cash and cash equivalents, trade receivables, trade payables, 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. 50 % (2012: 47%) of trade receivable from other customers comprise of ten customers.

Fair value and cash flow interest rate risks are the exposures to various risks associated with the effect of fluctuations in the prevailing interest rates on the 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 Riyals 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.

27. BOARD OF DIRECTORS' APPROVAL

The consolidated financial statements were approved and authorized for issue by the Board of Directors on Rabi Al Thani 26, 1435H, corresponding to February 26, 2014.