

SAUDI AIRLINES CATERING COMPANY
(A Saudi Joint Stock Company)

**UNAUDITED INTERIM CONDENSED
FINANCIAL STATEMENTS**

For the three-month period ended

March 31, 2016

with

Independent Auditors' Review report



KPMG Al Fozan & Partners
Certified Public Accountants
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

REVIEW REPORT ON INTERIM CONDENSED FINANCIAL STATEMENTS

The Shareholders
Saudi Airlines Catering Company
(A Saudi Joint Stock Company)
Jeddah, Kingdom of Saudi Arabia.

Scope of review

We have reviewed the accompanying interim balance sheet of Saudi Airlines Catering Company (the "Company") as at March 31, 2016, the related interim statement of income, cash flows and changes in shareholders' equity for the three-month period then ended and the attached notes 1 through 18 which form an integral part of these interim condensed financial statements. These interim condensed financial statements are the responsibility of the Company's management and have been prepared by them and submitted to us together with all the information and explanations which we required. Our responsibility is to provide a conclusion on the review of these interim condensed financial statements based on our review.

We conducted our review in accordance with Auditing Standard on Review of Interim Financial Reporting issued by the Saudi Organization for Certified Public Accountants (SOCPA). A review consists principally of analytical procedures applied to financial data and information and making inquiries of Company's personnel responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with generally accepted auditing standards, the objective of which is the expression of an opinion on the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Review conclusion

Based on our review, we are not aware of any material modifications that should be made to the accompanying interim condensed financial statements for them to be in conformity with the accounting standards generally accepted in the Kingdom of Saudi Arabia.

For KPMG Al Fozan & Partners

Ebrahim Oboud Baeshen
License No. 382



Jeddah, Rajab 11, 1437H
Corresponding to April 18, 2016

SAUDI AIRLINES CATERING COMPANY
(Saudi Joint Stock Company)

INTERIM BALANCE SHEET (UNAUDITED)

As at March 31, 2016

(Expressed in Saudi Arabian Riyals)

	Notes	2016	2015
ASSETS			
Current assets:			
Cash and cash equivalents		308,466,078	476,802,240
Held-for-trading investment	4	206,199,328	203,803,742
Trade receivables		117,160,144	89,580,308
Due from related parties	12	504,378,001	625,372,184
Inventories		133,892,825	96,266,889
Held-to-maturity investment – current portion	5	--	100,000,000
Prepayments and other current assets		162,588,205	79,578,094
Total current assets		1,432,684,581	1,671,403,457
Non-current assets:			
Held-to-maturity investment – non-current portion	5	40,000,000	40,000,000
Property and equipment	6	505,738,870	254,022,085
Margins on letters of guarantee		16,501,893	10,939,941
Total non-current assets		562,240,763	304,962,026
Total assets		1,994,925,344	1,976,365,483
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Trade payables		185,552,882	155,826,142
Due to related parties	12	15,358,486	6,630,138
Dividend payable	14	145,112,906	2,936,351
Accrued expenses and other current liabilities		150,425,294	254,276,263
Accrued Zakat and income tax	7	46,498,415	52,702,564
Total current liabilities		542,947,983	472,371,458
Non-current liabilities:			
Employees' end of service benefits		139,955,675	117,244,574
Accrued long-term bonus		5,811,142	6,012,516
Total non-current liabilities		145,766,817	123,257,090
Total liabilities		688,714,800	595,628,548
Shareholders' equity			
Share capital	15	820,000,000	820,000,000
Statutory reserve		300,767,544	233,493,772
Retained earnings		185,443,000	327,243,163
Total shareholders' equity		1,306,210,544	1,380,736,935
Total liabilities and shareholders' equity		1,994,925,344	1,976,365,483

Chief Financial Officer

Chief Executive Officer

Authorized Board of Directors' Member

The accompanying notes 1 to 18 form an integral part
of these unaudited interim condensed financial statements.

SAUDI AIRLINES CATERING COMPANY
(Saudi Joint Stock Company)

INTERIM STATEMENT OF INCOME (UNAUDITED)

For the three-month period ended March 31, 2016

(Expressed in Saudi Arabian Riyals)

	<u>Notes</u>	<u>2016</u>	<u>2015</u>
Revenue	8	559,165,842	560,349,058
Cost of revenue	10	<u>(367,870,418)</u>	<u>(365,614,971)</u>
Gross profit		191,295,424	194,734,087
General and administrative expenses		<u>(51,814,854)</u>	<u>(32,621,778)</u>
Operating income		139,480,570	162,112,309
Other revenues and expenses, net		<u>2,192,995</u>	<u>5,324,494</u>
Net income for the period		<u>141,673,565</u>	<u>167,436,803</u>
Earnings per share:			
Operating income	13	<u>1.70</u>	<u>1.98</u>
Non-operating income	13	<u>0.03</u>	<u>0.06</u>
Net income	13	<u>1.73</u>	<u>2.04</u>



Chief Financial Officer



Chief Executive Officer



Authorized Board of Directors' Member

The accompanying notes 1 to 18 form an integral part
of these unaudited interim condensed financial statements.

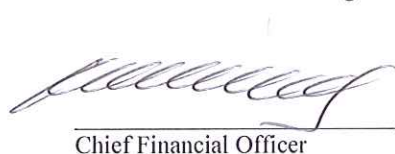
SAUDI AIRLINES CATERING COMPANY
(Saudi Joint Stock Company)

INTERIM STATEMENT OF CASH FLOWS (UNAUDITED)

For the period ended March 31, 2016

(Expressed in Saudi Arabian Riyals)

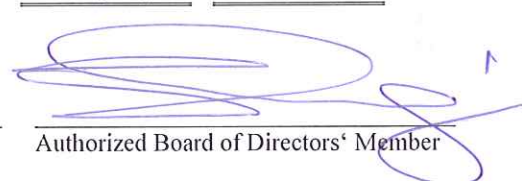
	<u>2016</u>	<u>2015</u>
Cash flows from operating activities:		
Net income for the period	141,673,565	167,436,803
<u>Adjustments for:</u>		
Depreciation	7,902,890	5,311,095
Allowance (reversal) for doubtful debts	1,169,625	(10,156,787)
Allowance for slow moving inventories	661,477	947,336
Loss on sale of property and equipment	--	58,747
Unrealised gain on held-for-trading investment	(1,028,454)	(290,933)
Provision for employees' end of service benefits	4,290,209	3,861,761
Provision for accrued bonus – long-term	763,995	(843,130)
Investment income	(226,873)	(892,626)
	<u>155,433,304</u>	<u>165,432,266</u>
<i>Changes in operating assets and liabilities</i>		
(Increase) decrease in trade receivables	(14,865,371)	5,517,654
Increase in due from related parties	(54,430,919)	(160,600,104)
Decrease (increase) in inventories	7,822,092	(10,460,653)
(Increase) decrease in prepayments and other current assets	(32,192,827)	71,821,040
Increase in margins on letters of guarantee	(1,694,480)	(772,830)
Decrease in trade payables	(8,820,728)	(6,593,331)
Decrease in due to related parties	(217,164)	(5,805,414)
Increase in accrued expenses and other current liabilities	<u>13,923,212</u>	<u>13,169,080</u>
	<u>64,730,245</u>	<u>71,707,708</u>
Payment of accrued bonus - long-term	(3,423,561)	--
Employees' end of service benefits paid	(1,497,134)	(3,537,757)
Net cash from operating activities	<u>59,809,551</u>	<u>68,169,951</u>
Cash flows from investing activities:		
Purchase of property and equipment	(55,588,048)	(67,894,536)
Investment income received	--	637,094
Net cash used in investing activities	<u>(55,588,048)</u>	<u>(67,257,442)</u>
Cash flows from financing activities:		
Dividend paid	<u>(3,540)</u>	<u>(636,023)</u>
Net increase in cash and cash equivalents	<u>4,217,963</u>	<u>276,486</u>
Cash and cash equivalents as at beginning of the period	<u>304,248,115</u>	<u>476,525,754</u>
Cash and cash equivalents as at end of the period	<u>308,466,078</u>	<u>476,802,240</u>
Non-cash supplemental information:		
Zakat and income tax charged to shareholders accounts	<u>11,388,471</u>	<u>12,406,788</u>



Chief Financial Officer



Chief Executive Officer



Authorized Board of Directors' Member

The accompanying notes 1 to 18 form an integral part of these unaudited interim condensed financial statements.

SAUDI AIRLINES CATERING COMPANY
(Saudi Joint Stock Company)

INTERIM STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY (UNAUDITED)

For the period ended March 31, 2016

(Expressed in Saudi Arabian Riyals)

	<u>Share capital</u>	<u>Statutory reserves</u>	<u>Retained earnings</u>	<u>Total</u>
Balance at January 1, 2016 (Audited)	820,000,000	286,600,187	211,560,179	1,318,160,366
Net income for the period	--	--	141,673,565	141,673,565
Transfer to reserves	--	14,167,357	(14,167,357)	--
Zakat and income tax (Note 7)	--	--	(11,388,471)	(11,388,471)
Dividends net of Zakat and income tax (Note 14)	--	--	(142,234,916)	(142,234,916)
Balance at March 31, 2016 (Unaudited)	820,000,000	300,767,544	185,443,000	1,306,210,544
Balance at January 1, 2015	820,000,000	216,750,092	188,956,828	1,225,706,920
Net income for the period	--	--	167,436,803	167,436,803
Transfer to reserves	--	16,743,680	(16,743,680)	--
Zakat and income tax (Note 7)	--	--	(12,406,788)	(12,406,788)
Balance at March 31, 2015	820,000,000	233,493,772	327,243,163	1,380,736,935


Chief Financial Officer


Chief Executive Officer


Authorized Board of Directors' Member

The accompanying notes 1 to 18 form an integral part
of these unaudited interim condensed financial statements.

SAUDI AIRLINES CATERING COMPANY
(Saudi Joint Stock Company)

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED)

For the three-month period ended March 31, 2016

(Expressed in Saudi Arabian Riyals)

1. ORGANIZATION AND PRINCIPLE ACTIVITIES

Saudi Airlines Catering Company (the "Company") was registered as a Saudi limited liability company on Muharram 20, 1429H (January 29, 2008) under commercial registration number 4030175741. The share capital of the Company, amounting to SR 100,767,000, was divided into 1,007,670 shares of SR 100 each. The Company was established as a wholly owned subsidiary of Saudi Arabian Airlines Corporation ("Saudia") whose contribution to the share capital was made up of SR 500,000 cash and SR 100,267,000 of net assets of its catering division transferred effective on Dhul-Hijjah 22, 1428H (January 1, 2008).

On Rabi Al-Thani 6, 1429H (April 22, 2008), Saudia sold 493,758 shares representing 49% of the total share capital of the Company to the Strategic Catering Company Limited. The formalities of the transaction were completed on Rajab 19, 1429H (July 22, 2008).

On Muharram 20, 1432H (December 26, 2010) the shareholders resolved to amend the Articles of Association to reflect the sale of 3% of Saudia's shares in the Company to Saudi Airlines Company Limited, Saudia Private Aviation Company Limited and Saudia Real Estate and Development Company Limited which are wholly owned subsidiaries of Saudia.

Furthermore, the shareholders decided to convert the Company from a limited liability company to a closed joint stock company and divide the capital of the Company which amounted to SR 100,767,000 into 10,076,700 ordinary shares of SR 10 each instead of 1,007,670 shares of SR 100 each. The Company obtained the approval of the Minister of Commerce and Industry for the above sale and conversion on Muharram 29, 1432H (January 4, 2011) and obtained the amended Commercial Registration on Rabi-al-Awwal 10, 1432H (February 13, 2011).

On Rabi Al-Thani 14, 1432H (March 19, 2011) the shareholders resolved to increase the share capital by SR 719,233,000 by transferring SR 658,791,392 from the retained earnings, SR 13,718,428 from general reserve and SR 46,723,180 from statutory reserve. The Company finalized the related formalities and obtained the amended commercial registration on Jamadi-al-Awwal 26, 1432H (April 30, 2011).

During the period from Rajab 28, 1433 (June 18, 2012) to Shaban 4, 1433 (June 24, 2012), the Company sold 24.6 million shares through an initial public offering representing 30% of the Company's share capital at SR 54 per share including the nominal value amounting to SR 10 per share and an issue premium of SR 44 per share. Thus, the Company converted into a public joint stock company and commenced trading on the Saudi Stock Exchange (Tadawul) in the Kingdom of Saudi Arabia on Shabaan 19, 1433H (July 9, 2012). The Company has obtained the amended commercial registration and the amended by-laws reflecting the public offering.

The main objectives of the Company are provision of cooked and non-cooked food to private and public sectors, provision of sky sales, operation and management of duty free zones in Saudi Arabian airports and ownership, operation and management of restaurants and groceries at airports and other places, ownership, operation and management of central laundries.

The Company mainly provides catering services to Saudi Arabian Airlines (Saudia) and other foreign airlines in the airports of Jeddah, Riyadh, Dammam and Madinah in Saudi Arabia and to Saudia's flights operating from Cairo International Airport.

SAUDI AIRLINES CATERING COMPANY
(Saudi Joint Stock Company)

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED)

For the three-month period ended March 31, 2016

(Expressed in Saudi Arabian Riyals)

1. ORGANIZATION AND ACTIVITIES (continued)

The Company also has the following branches, which are operating under separate CRs:

<u>Branch location</u>	<u>C.R.</u>	<u>Date</u>
Medina	4650055980	Jumada Al-Thani 1, 1433H (April 23, 2012)
Dammam	2050082998	Jumada Al-Thani 1, 1433H (April 23, 2012)
Jeddah	4030227251	Jumada Al-Thani 1, 1433H (April 23, 2012)
Riyadh	1010336558	Jumada Al-Thani 1, 1433H (April 23, 2012)
Makkah	4031084114	Jumada Al-Awwal 23, 1435H (March 25, 2014)
Rabigh	4602006306	Rajab 16, 1436H (May 5, 2015)
Jeddah	4030285290	Muharram 2, 1437H (October 16, 2015)

The registered head office of the Company is located at the following address:

Khalidiyah District,
P. O. Box 9178, Jeddah 21413,
Kingdom of Saudi Arabia.

2. BASIS OF PREPARATION

a) Statement of compliance

These interim condensed financial statements have been prepared in accordance with the accounting standards generally accepted in the Kingdom of Saudi Arabia and the Accounting Standard on Interim Financial Reporting issued by Saudi Organization for Certified Public Accountants (SOCPA). These interim condensed financial statements do not contain all information and disclosures required for full financial statements prepared in accordance with accounting standards generally accepted in the Kingdom of Saudi Arabia and should be read in conjunction with the Company's audited financial statements for the year ended December 31, 2015. The interim condensed financial statements were approved and authorised to issue by the Board of Directors on Rajab 11, 1437H corresponding to April 18, 2016.

b) Basis of measurement

The interim condensed financial statements have been prepared under the historical cost convention, except for held-for-trading investments which are stated at their fair values, and held to maturity investments which are using accrual basis of accounting and going concern assumption.

c) Functional and presentation currency

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

SAUDI AIRLINES CATERING COMPANY
(Saudi Joint Stock Company)

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED)

For the three-month period ended March 31, 2016

(Expressed in Saudi Arabian Riyals)

2. BASIS OF PREPARATION (continued)

d) Use of estimates and judgments

The preparation of interim condensed financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. 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 future periods affected. The key areas requiring significant management judgments and estimates are as follows:

i. Impairment of trade receivables

An allowance for impairment of trade receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the agreement. 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 of objective evidence 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.

ii. Allowance for slow moving inventories

The management makes an allowance for slow moving and obsolete 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 period.

iii. Useful lives of property and equipment

The management determines the estimated useful lives of property and equipment for calculating depreciation. This estimate is determined after considering expected usage of the assets and physical wear and tear. Management reviews the residual value and useful lives annually and change in depreciation charges, if any, are adjusted in current and future periods.

iv. Accruals for services provided by Saudia and its affiliates

Accruals made by the Company for services rendered by Saudia and its affiliates based on the contractual terms and in certain cases on a valid expectation. Those amounts are provided for to the extent that the Company has a present obligation (legal or constructive) arising as a result of a past event and it is probable that an outflow of resources will be required to settle the obligation which can be reliably estimated. This requires the exercise of judgment by management based on prior experience, application of contract terms and relationship with Saudia and its affiliates.

SAUDI AIRLINES CATERING COMPANY
(Saudi Joint Stock Company)

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED)

For the three-month period ended March 31, 2016

(Expressed in Saudi Arabian Riyals)

2. BASIS OF PREPARATION (continued)

d) Use of estimates and judgments (continued)

v. Impairment of held-to-maturity investments

The management considers evidence of impairment for these assets at both an individual asset and collective level. All individually significant assets are individually assessed for impairment. Those found not to be impaired are then collectively assessed for any impairment that has been incurred but not yet individually identified. Assets that are not individually significant are collectively assessed for impairment. Collective assessment is carried out by grouping together assets with similar risk characteristics. In assessing collective impairment, the management uses historical information of the timing of recoveries and the amount of loss incurred, and makes an assessment of current economic and credit conditions as to whether actual losses are likely to be greater or lesser than suggested by historical trends.

vi. Going concern

The Company's management has made an assessment of its ability to continue as a going concern and is satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Company's ability to continue as a going concern. Therefore, the interim condensed financial statements continue to be prepared on the going concern basis.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following significant accounting policies used by the Company for the preparation of these interim condensed financial statements and are consistent with those used for the preparation of the annual financial statements.

a) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, cash at banks in current accounts and other short-term highly liquid investments with original maturities of three month or less, if any, which are available to the Company without any restrictions.

b) Trade receivables

Trade receivables are stated at original invoice amount less provisions made for doubtful debts. A provision against doubtful debts is established when there is objective evidence that the Company will not be able to collect the amounts due according to the original terms of receivables. Bad debts are written off when identified, against its related provisions. The provisions are charged to the statement of income and any subsequent recovery of receivable amounts previously written off are credited to statement of income.

SAUDI AIRLINES CATERING COMPANY
(Saudi Joint Stock Company)

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED)
For the three-month period ended March 31, 2016
(Expressed in Saudi Arabian Riyals)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

c) Inventories

Inventories are stated at the lower of cost and net realizable value. The cost of inventories is principally based on the weighted average method, and includes expenditure incurred in acquiring the inventories and other costs incurred in bringing them to their existing location and condition.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated cost of completion and selling expenses. Provision is made where necessary for obsolete and slow moving inventories.

d) Investments

i) Held-for-trading investments

Investment in securities which are purchased for trading purposes are initially recorded at cost and then re-measured and stated in the balance sheet at fair value and included under current assets. Realized gain or loss on sale of held-for-trading investments and changes in fair value at balance sheet date are credited or charged to statement of income.

ii) Held-to-maturity investments

Investments having fixed or determinable payments and fixed maturity that the management has the positive intention and ability to hold to maturity are classified as held-to-maturity. Held to maturity investments are initially recognised at fair value including direct and incremental transaction costs and subsequently measured at amortised cost, less provision for impairment in their value. Amortised cost is calculated by taking into account any discount or premium on acquisition using the effective yield method. Any gain or loss on such investments is recognized in the statement of income when the investment is derecognized or impaired. On impairment, the difference between carrying cost and the present value of estimated future cash flows is included in the statement of income as impairment loss on held-to-maturity investments. If the amount of impairment loss is subsequently decreased and the decrease can be related objectively to an event occurring after the impairment was recognized, then the previously recognized impairment loss is reversed through statement of income.

e) Property and equipment

Property and equipment are measured at cost, less accumulated depreciation and accumulated impairment loss. Cost includes expenditure that is directly attributable to the acquisition of the asset.

Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the item of property and equipment. All other expenditure is recognized in the statement of income when incurred.

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

SAUDI AIRLINES CATERING COMPANY
(Saudi Joint Stock Company)

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED)

For the three-month period ended March 31, 2016

(Expressed in Saudi Arabian Riyals)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

e) Property and equipment (continued)

Leasehold improvements	5-20 years
Equipment	3-7 years
Motor vehicles	7-10 years

Capital work-in-progress represents all costs relating directly to the on-going projects in progress and will be capitalized as property and equipment when the project is completed.

f) Impairment of assets

Financial assets and 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.

g) Accounts payable and accruals

Liabilities are recognized for amounts to be paid in the future for goods or services received, whether billed by the supplier or not.

h) Provisions

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

i) Employees' end of service benefits

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

j) Revenue recognition

Revenue is recognized to the extent of the following recognition requirements:

- it is probable that the economic benefits will flow to the Company
- it can be reliably measured, regardless of when the payment is being made
- the cost incurred to date and expected future costs are identifiable and can be measured reliably.

Revenue is measured at the fair value of the consideration received or the contractually defined terms of payment.

SAUDI AIRLINES CATERING COMPANY
(Saudi Joint Stock Company)

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED)
For the three-month period ended March 31, 2016
(Expressed in Saudi Arabian Riyals)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

j) Revenue (continued)

Revenue from sales is recognized upon delivery of goods by which the significant risks and rewards of ownership of the goods have been transferred to the buyer and the Company has no effective control or continuing managerial involvement to the degree usually associated with ownership over the goods. Revenue is recorded net of returns, trade discounts and volume rebates.

Revenue from rendered service is recognized when the outcome of the transaction can be estimated reliably and completely performed.

k) Expenses

All expenses, excluding cost of revenue, are classified as general and administrative expenses. Allocations of common expenses between cost of revenue and general and administrative expenses, when required, are made on a consistent basis.

l) Operating lease

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

m) Zakat and income tax

Zakat and income tax are provided for in the financial statements in accordance with Saudi Department of Zakat and Income Tax ("DZIT") regulations. Zakat and income tax are charged to the statement of changes in shareholders' equity. Additional Zakat and income tax liabilities, if any, related to prior years' assessments arising from DZIT are accounted for in the period in which the final assessments are finalized.

n) Segment reporting

An operating segment is a component of the Company that is engaged in business activities from which it earns revenues and incurs expenses and about which discrete financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. For management purposes, the Company is organized into business units based on their products and services and has two reportable operating segments as follows:

- Catering, which includes business lounges, non-airlines and others
- Sky sales

Segment performance is evaluated based on profit or loss, which, in certain respects, is measured differently from profit or loss in the accompanying interim condensed financial statements.

SAUDI AIRLINES CATERING COMPANY
(Saudi Joint Stock Company)

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED)
For the three-month period ended March 31, 2016
(Expressed in Saudi Arabian Riyals)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

o) Foreign currency transactions

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

p) Dividends

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

4. HELD-FOR-TRADING INVESTMENT

Movement in held-for-trading investment is as follows:

	<u>2016</u>	<u>2015</u>
Balance at beginning of the period	205,170,874	203,512,809
Unrealized gain on held-for-trading investment	<u>1,028,454</u>	<u>290,933</u>
	<u>206,199,328</u>	<u>203,803,742</u>

The above investment represent units of a mutual fund, denominated in Saudi Arabian Riyals.

5. HELD-TO-MATURITY INVESTMENTS

The held-to-maturity investments at March 31 comprise the followings:

		<u>2016</u>	<u>2015</u>
Held-to-maturity – short-term investment	5.1	<u>--</u>	<u>100,000,000</u>
Held-to-maturity – long-term investment	5.2	<u>40,000,000</u>	<u>40,000,000</u>

5.1 The Saudi Binladin Group Sukuk carrying a return of SIBOR plus a margin of 1.7 percent calculated quarterly was redeemed on October 7, 2015.

5.2 The Saudi British Bank (SABB) Sukuk ("Sukuk II") carries a return SIBOR plus a margin of 1.4 percent calculated semi-annually. The Sukuk II shall be liquidated in 2020 but SABB has the option to redeem the Sukuk in 2018 by serving a call option notice. The Company has purchased the investment in Sukuk II for an amount of SR 40,000,000.

SAUDI AIRLINES CATERING COMPANY
(Saudi Joint Stock Company)

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED)
For the three-month period ended March 31, 2016
(Expressed in Saudi Arabian Riyals)

6. PROPERTY AND EQUIPMENT

Included in the property and equipment is an amount equivalent to SR 343.7 million (2015: SR 130.9 million) in capital work-in-progress which principally represents construction work on the new buildings in Madinah, Dammam Camp and the Jeddah laundry project.

7. ZAKAT AND INCOME TAX

The Company has charged directly to its retained earnings the Zakat and income tax liabilities for the period ended March 31, 2016 amounting to SR 11,388,471 (2015: SR 12,406,788).

The Company has finalized its Zakat and income-tax assessment for the year ended 31 December 2008. The Company has submitted its Zakat and income tax declarations for the years 2009 to 2014. The Company has paid the amounts due according to the declarations, which are currently under review by the DZIT.

8. REVENUE

	<u>2016</u>	<u>2015</u>
Inflight catering revenue	398,102,991	410,579,962
Sky sales revenue	66,485,964	55,300,105
Business lounge revenue	36,776,397	29,116,568
Non-airlines revenue	50,426,760	55,595,436
Other operating revenue (note 9)	7,373,730	9,756,987
	<u>559,165,842</u>	<u>560,349,058</u>

9. OTHER OPERATING REVENUE

	<u>2016</u>	<u>2015</u>
Camp facilities sales	441,380	426,958
Exclusive purchase income and services to suppliers	620,743	3,078,729
Transfer of airline equipment charges	6,311,607	6,251,300
	<u>7,373,730</u>	<u>9,756,987</u>

10. COST OF REVENUE

	<u>2016</u>	<u>2015</u>
Cost of materials and goods sold	232,030,861	235,471,101
Personnel cost	55,104,933	55,326,869
Rent and maintenance of production units	27,670,160	23,796,010
Depreciation	6,609,267	4,376,837
Other operating cost (note 11)	46,455,197	46,644,154
	<u>367,870,418</u>	<u>365,614,971</u>

SAUDI AIRLINES CATERING COMPANY
(Saudi Joint Stock Company)

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED)

For the three-month period ended March 31, 2016

(Expressed in Saudi Arabian Riyals)

11. OTHER OPERATING COST

	<u>2016</u>	<u>2015</u>
Communication and utilities - net	4,779,610	4,623,591
Supplies and expendable items	9,687,869	9,926,871
Service agreement	21,465,122	19,725,345
Other operational cost	10,522,596	12,368,347
	<u>46,455,197</u>	<u>46,644,154</u>

12. RELATED PARTY TRANSACTIONS

- a) Related parties include the Company's shareholders and their relatives up to the fourth generation, associated and affiliated companies and directors and key management personnel of the Company. Terms and conditions of these transactions are approved by the Company's management.
- b) Significant related party transactions for the period ended March 31 and balances arising therefrom are described as under:

Name	Relationship	Nature of transactions	Amount of transactions		Closing balance	
			2016	2015	2016	2015
Due from related parties included in trade receivables:						
Saudi Arabian Airlines Corporation	Shareholder	Trade / operations	356,152,000	359,705,000	450,594,577	587,421,295
Alhokair Group Joint Stock Company	Shareholder	Trade / operations	--	--	367,949	367,949
Saudi Airlines Cargo Company	Affiliate	Trade / operations	3,708,000	3,784,000	26,255,054	13,145,191
Newrest Group Holding S.L.	Shareholder	Trade / operations	256,000	--	15,881	--
Saudi Ground Services Company	Affiliate	Trade / operations	13,361,000	14,424,000	27,144,540	24,437,749
					504,378,001	625,372,184

SAUDI AIRLINES CATERING COMPANY
(Saudi Joint Stock Company)

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED)
For the three-month period ended March 31, 2016
(Expressed in Saudi Arabian Riyals)

12. RELATED PARTY TRANSACTIONS (continued)

<u>Name</u>	<u>Relationship</u>	<u>Nature of transactions</u>	<u>Amount of transactions</u>		<u>Closing balance</u>	
			<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
<u>Due to related parties included in trade payables:</u>						
Newrest Group Holding S.L.	Shareholder	Trade / operations	4,290,000	3,000,000	--	73,207
Saudi Airlines Real Estate Development Company	Affiliate	Trade / operations	113,000	14,000	15,358,486	6,556,931
					15,358,486	6,630,138

- c) Remuneration, compensation and bonuses of the key management personnel/executive directors and attendance fee of Board Directors and members of Board Committees paid during the period ended March 31, was as under:

<u>Name</u>	<u>Nature of transactions</u>	<u>Amount of transactions</u>	
		<u>2016</u>	<u>2015</u>
Key management personnel	Remuneration	1,147,218	1,164,012
Board of Directors	Annual fee	563,000	669,000

13. EARNINGS PER SHARE

Earnings per share on income from operations are calculated by dividing the income from operations by the weighted average number of ordinary shares of the Company in issue during the period.

Earnings per share on profit from non-operating income are calculated by dividing the income from non-operations by the weighted average number of ordinary shares of the Company in issue during the period.

Earnings per share on net income attributable to shareholders of the Company are calculated by dividing the net income by the weighted average number of ordinary shares in issue of the Company during the period.

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

14. DIVIDENDS

On March 3, 2016, the Board of Directors resolved to distribute interim dividend amounting to SR 143.5 million, which is equivalent to SR 1.75 per share after Zakat and before income tax deduction, from the Company's interim profit.

SAUDI AIRLINES CATERING COMPANY
(Saudi Joint Stock Company)

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED)
For the three-month period ended March 31, 2016
(Expressed in Saudi Arabian Riyals)

15. SHARE CAPITAL

The share capital of the Company amounting to SR 820 million (2015: SR 820 million) is divided into 82 million (2015: 82 million) shares of SR 10 each (2015: SR 10 each). At March 31, 2016, the shareholders and their percentage interests in the share capital of the Company are as follows:

	<u>No. of shares</u>	<u>Value in SR</u>	<u>%</u>
Saudi Arabian Airlines Corporation	29,274,000	292,740,000	35.70
Strategic Catering Company Limited	20,375,918	203,759,180	24.84
Public stockholders	32,350,082	323,500,820	39.46
	<u>82,000,000</u>	<u>820,000,000</u>	<u>100</u>

16. COMMITMENTS AND CONTINGENCIES

As at March 31, the Company had the following commitments and contingencies:

	<u>March 31, 2016 (Unaudited)</u>	<u>March 31, 2015 (Unaudited)</u>
Capital commitments	<u>97,968,277</u>	<u>208,489,549</u>
Letter of guarantees	<u>16,501,893</u>	<u>10,939,941</u>

17. SEGMENTAL INFORMATION

Segment information is related to the activities of the Company as a basis for the preparation of its own financial information.

The assets, liabilities and the results of operations of the segments include items related directly to a certain segment and items which could be distributed on the segments on a consistent basis. The activities consist of the following business segments:

1. Catering including business lounges, non-airlines and others
2. Sky sales

The Company's assets, liabilities and results of operations as of and for the three-month period ended March 31, 2016 and 2015 by business segments are detailed below:

	<u>Catering</u>	<u>Sky sales</u>	<u>Total</u>
<u>2016 (Unaudited)</u>			
Assets	<u>1,856,004,705</u>	<u>138,920,639</u>	<u>1,994,925,344</u>
Liabilities	<u>637,618,876</u>	<u>51,095,924</u>	<u>688,714,800</u>
Revenue	<u>492,679,878</u>	<u>66,485,964</u>	<u>559,165,842</u>
Net income	<u>129,094,125</u>	<u>12,579,440</u>	<u>141,673,565</u>

SAUDI AIRLINES CATERING COMPANY
(Saudi Joint Stock Company)

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED)

For the three-month period ended March 31, 2016

(Expressed in Saudi Arabian Riyals)

17. SEGMENT INFORMATION (continued)

	<u>Catering</u>	<u>Sky sales</u>	<u>Total</u>
2015 (Unaudited)			
Assets	1,856,267,540	120,097,943	1,976,365,483
Liabilities	544,733,778	50,894,770	595,628,548
Revenue	505,048,953	55,300,105	560,349,058
Net income	151,174,165	16,262,638	167,436,803

18. RECLASSIFICATION AND CORRESPONDING FIGURES

Certain reclassification has been made to the prior period financial statements to confirm with current period's presentation.

<u>Reclassification from component</u>	<u>Reclassification to component</u>	<u>Amount (SR)</u>
Cash and cash equivalents	Held-for-trading investment	200,000,000
Prepayments and other current assets	Held-for-trading investment	3,803,742



Chief Financial Officer



Chief Executive Officer



Authorized Board of Directors' Member