

**SAUDI AIRLINES CATERING COMPANY  
(SAUDI JOINT STOCK COMPANY)**

**FINANCIAL STATEMENTS AND AUDITORS' REPORT  
YEAR ENDED DECEMBER 31, 2012**

**SAUDI AIRLINES CATERING COMPANY**  
**(SAUDI JOINT STOCK COMPANY)**

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## AUDITORS' REPORT

To the shareholders  
Saudi Airlines Catering Company  
Jeddah, Saudi Arabia

### Scope of Audit

We have audited the balance sheet of SAUDI AIRLINES CATERING COMPANY (a Saudi Joint Stock Company) ("the Company") as of December 31, 2012, and the related statements of income, shareholders' equity and cash flows for the year then ended, and notes 1 to 21 which form an integral part of these financial statements as prepared by the Company in accordance with Article 123 of the Regulations for Companies and presented to us with all the necessary information and explanations. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the Kingdom of Saudi Arabia. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

### Unqualified Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2012, and the results of its operations and its cash flows for the year then ended in conformity with accounting standards generally accepted in the Kingdom of Saudi Arabia and appropriate to the nature of the Company, and comply with the relevant provisions of the Regulations for Companies and the Company's byelaws as these relate to the preparation and presentation of these financial statements.

Deloitte & Touche  
Bakr Abulkhair & Co.





Al-Mutahhar Y. Hamiduddin  
License No. 296  
24 Rabi'I, 1434  
February 5, 2013


**SAUDI AIRLINES CATERING COMPANY**  
(SAUDI JOINT STOCK COMPANY)

**BALANCE SHEET**  
**AS OF DECEMBER 31, 2012**  
(Expressed in Saudi Riyals)

	Note	2012	2011
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	3	1,022,122,495	655,052,918
Accounts receivable - trade	4	53,791,898	52,118,786
Due from related parties	9	256,147,161	511,816,225
Inventories	5	73,280,130	65,540,117
Prepaid expenses and other receivables		61,384,302	30,165,441
<b>Total current assets</b>		<b>1,466,725,986</b>	<b>1,314,693,487</b>
<b>Non-current assets</b>			
Property, plant and equipment	6	90,046,477	109,769,825
<b>Total non-current assets</b>		<b>90,046,477</b>	<b>109,769,825</b>
<b>TOTAL ASSETS</b>		<b>1,556,772,463</b>	<b>1,424,463,312</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>Current liabilities</b>			
Accounts payable - trade		151,631,390	115,581,607
Dividends payable		689,006	-
Accrued expenses and other liabilities	7	237,320,274	233,253,008
<b>Total current liabilities</b>		<b>389,640,670</b>	<b>348,834,615</b>
<b>Non-current liabilities</b>			
End-of-service indemnities	8	105,433,190	94,626,220
<b>Total non-current liabilities</b>		<b>105,433,190</b>	<b>94,626,220</b>
<b>Shareholders' equity</b>			
Share capital	1	820,000,000	820,000,000
Statutory reserve	11	94,421,618	45,716,496
Retained earnings		147,276,985	115,285,981
<b>Total shareholders' equity</b>		<b>1,061,698,603</b>	<b>981,002,477</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b>1,556,772,463</b>	<b>1,424,463,312</b>

  
Chief Financial Officer

  
Chief Executive Officer

  
Authorized Board of Directors' Member

The accompanying notes form an integral part of these financial statements


**SAUDI AIRLINES CATERING COMPANY**  
(SAUDI JOINT STOCK COMPANY)

**STATEMENT OF INCOME**  
**YEAR ENDED DECEMBER 31, 2012**  
(Expressed in Saudi Riyals)

	Note	2012	2011
<b>Revenues</b>			
In-flight catering revenue		1,301,374,793	1,172,451,082
Sky sales revenue		176,886,061	147,052,010
Business lounge revenue		51,049,938	39,980,130
Non-airlines revenue		69,920,455	44,844,701
Other revenues		88,161,445	60,943,165
<b>Total revenues</b>	9	<u>1,687,392,692</u>	<u>1,465,271,088</u>
<b>Cost of revenues</b>			
Cost of materials and goods		688,811,950	578,395,699
Personnel costs		169,609,121	162,787,231
Rent and maintenance of production units		71,995,548	64,809,480
Depreciation		13,506,914	13,864,780
Other costs		115,469,921	86,952,358
<b>Total cost of revenues</b>		<u>1,059,393,454</u>	<u>906,809,548</u>
<b>Gross profit</b>		<u>627,999,238</u>	<u>558,461,540</u>
General and administrative expenses	13	<u>121,217,226</u>	<u>139,823,782</u>
<b>Operating income</b>		<u>506,782,012</u>	<u>418,637,758</u>
Other (expenses) and revenues, net	18	<u>(19,730,787)</u>	<u>1,924,001</u>
<b>NET INCOME</b>		<u><u>487,051,225</u></u>	<u><u>420,561,759</u></u>
<b>Earnings per share from net operations</b>	15	<u><u>5.94</u></u>	<u><u>5.13</u></u>

  
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**SAUDI AIRLINES CATERING COMPANY**  
(SAUDI JOINT STOCK COMPANY)

**STATEMENT OF SHAREHOLDERS' EQUITY**  
**YEAR ENDED DECEMBER 31, 2012**  
(Expressed in Saudi Riyals)

	Note	Share capital	Statutory reserve	Retained earnings	General reserve	Total
January 1, 2011	1	100,767,000	50,383,500	658,791,392	13,718,428	823,660,320
Increase in share capital	1	719,233,000	(46,723,180)	(658,791,392)	(13,718,428)	-
Net income for the year		-	-	420,561,759	-	420,561,759
Transfer to statutory reserve	11	-	42,056,176	(42,056,176)	-	-
Zakat and income tax	10	-	-	(38,219,602)	-	(38,219,602)
Dividends	12	-	-	(225,000,000)	-	(225,000,000)
December 31, 2011		820,000,000	45,716,496	115,285,981	-	981,002,477
Net income for the year		-	-	487,051,225	-	487,051,225
Transfer to statutory reserve	11	-	48,705,122	(48,705,122)	-	-
Zakat and income tax	10	-	-	(45,355,099)	-	(45,355,099)
Dividends	12	-	-	(361,000,000)	-	(361,000,000)
December 31, 2012		<u>820,000,000</u>	<u>94,421,618</u>	<u>147,276,985</u>	<u>-</u>	<u>1,061,698,603</u>

  
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**SAUDI AIRLINES CATERING COMPANY**  
(SAUDI JOINT STOCK COMPANY)

**STATEMENT OF CASH FLOWS**  
**YEAR ENDED DECEMBER 31, 2012**  
(Expressed in Saudi Riyals)

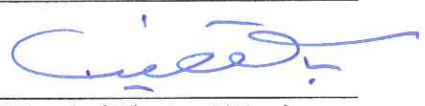
	2012	2011
<b>OPERATING ACTIVITIES</b>		
Net income	487,051,225	420,561,759
Adjustments for:		
Depreciation	15,859,218	16,100,647
Allowance for doubtful debts	(3,487,883)	26,115,366
Allowance for slow moving inventories	1,536,373	(475,542)
Loss from disposal of property, plant and equipment	24,060,923	140,474
Provision for end-of-service indemnities	19,169,839	17,614,179
Changes in operating assets and liabilities:		
Accounts receivable - trade	(4,056,044)	(25,283,520)
Due from related parties	261,539,879	(261,553,347)
Inventories	(9,276,386)	(12,545,123)
Prepaid expenses and other receivables	(31,218,861)	(5,865,460)
Accounts payable - trade	36,049,783	26,125,365
Accrued expenses and other liabilities	(2,682,076)	21,184,133
Cash generated from operations	794,545,990	222,118,931
End-of-service indemnities paid	(8,362,869)	(7,863,440)
<b>Net cash from operating activities</b>	<b>786,183,121</b>	<b>214,255,491</b>
<b>INVESTING ACTIVITIES</b>		
Purchase of property, plant and equipment	(20,366,343)	(58,810,474)
Proceeds from disposal of property, plant and equipment	169,550	82,175
<b>Net cash used in investing activities</b>	<b>(20,196,793)</b>	<b>(58,728,299)</b>
<b>FINANCING ACTIVITIES</b>		
Zakat and income tax paid	(38,605,757)	(36,298,301)
Dividends paid	(360,310,994)	(225,000,000)
<b>Net cash used in financing activities</b>	<b>(398,916,751)</b>	<b>(261,298,301)</b>
<b>Net change in cash and cash equivalents</b>	<b>367,069,577</b>	<b>(105,771,109)</b>
Cash and cash equivalents, January 1	655,052,918	760,824,027
<b>CASH AND CASH EQUIVALENTS, DECEMBER 31</b>	<b>1,022,122,495</b>	<b>655,052,918</b>

**Additional disclosure for non-cash transactions**

Capital increase from retained earnings, general reserve and statutory reserve	-	719,233,000
Bad debts written-off	5,186,407	3,966,804
Inventory written-off	480,375	475,915
Unpaid dividends	689,006	-
Zakat and income tax liabilities debited to retained earnings	45,355,099	38,219,602

  
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**SAUDI AIRLINES CATERING COMPANY**  
**(SAUDI JOINT STOCK COMPANY)**

**NOTES TO THE FINANCIAL STATEMENTS**  
**YEAR ENDED DECEMBER 31, 2012**  
(Expressed in Saudi Riyals)

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**1. ORGANIZATION AND ACTIVITIES**

Saudi Airlines Catering Company ("the Company") was registered as a Saudi limited liability company on 20 Muharram 1429 (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 January 1, 2008.

On 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 19 Rajab, 1429 (July 22, 2008).

On 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 29/1/1432 (January 4, 2011) and obtained the amended Commercial Registration on 10/3/1432 (February 13, 2011).

Accordingly the share capital of the Company became as follows:

	Shares	Value
Strategic Catering Company Limited	4,937,583	49,375,830
Saudi Arabian Airlines Corporation	4,836,816	48,368,160
Saudi Airlines Company Limited	100,767	1,007,670
Saudia Private Aviation Company Limited	100,767	1,007,670
Saudia Real Estate and Development Company Limited	100,767	1,007,670
	<u>10,076,700</u>	<u>100,767,000</u>

On 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. Consequently, the current shareholding of the Company after these changes became as follows:

	Shares	Value
Strategic Catering Company Limited	40,180,000	401,800,000
Saudi Arabian Airlines Corporation	39,360,000	393,600,000
Saudi Airlines Company Limited	820,000	8,200,000
Saudia Private Aviation Company Limited	820,000	8,200,000
Saudia Real Estate and Development Company Limited	820,000	8,200,000
	<u>82,000,000</u>	<u>820,000,000</u>

The Company finalized the related formalities and obtained the amended commercial registration on 26 Jamad'I, 1432 (April 30, 2011).



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During the period from 28 Rajab, 1433 (June 18, 2012) to 4 Shaban, 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 Tadawul in the Kingdom of Saudi Arabia on July 9, 2012. Following the sale of shares, the Company is owned as follows:

	Shares	Value
Saudi Arabian Airlines Corporation	29,274,000	292,740,000
Strategic Catering Company Limited	28,126,000	281,260,000
Public shareholders	24,600,000	246,000,000
	<u>82,000,000</u>	<u>820,000,000</u>

The Company is in the process of obtaining the amended bye-laws and commercial registration 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 operation and management of restaurants and groceries at airports.

The Company mainly provides catering services to Saudi Arabian Airlines 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.

On August 2, 2012, the board of directors resolved to establish a limited liability company with a share capital of SR 30 million to be mainly owned and controlled by the Company. The new established company will be under the name of Saudi Airlines Catering Services ("SAC Services") and will include "business and industry" catering activity which is currently part of the Company's operation.

## **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accompanying financial statements have been prepared in accordance with accounting standards generally accepted in the Kingdom of Saudi Arabia. The following is a summary of significant accounting policies applied by the Company:

### **Use of estimates**

The preparation of the financial statements in conformity with accounting standards generally accepted in the Kingdom of Saudi Arabia requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on management's best knowledge of current events and actions, actual results ultimately may differ from those estimates.

### **Revenue recognition**

Revenues are recognized when goods are delivered and services are rendered to customers and are stated net of discounts.

### **Expenses**

General and administrative expenses include direct and indirect costs not specifically part of cost of revenues as required under accounting standards generally accepted in the Kingdom of Saudi Arabia. Allocations between general and administrative expenses and cost of revenues, when required, are made on a consistent basis.

**SAUDI AIRLINES CATERING COMPANY**  
(SAUDI JOINT STOCK COMPANY)

**NOTES TO THE FINANCIAL STATEMENTS**  
**YEAR ENDED DECEMBER 31, 2012**  
(Expressed in Saudi Riyals)

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**Inventories**

Inventories are stated at the lower of cost or net realizable value. Cost is determined on a weighted average cost basis. An allowance is also established for items deemed to be slow moving or obsolete.

**Property, plant and equipment**

Land is recorded at cost. Property, plant and equipment other than land are stated at cost less accumulated depreciation. Expenditure on maintenance and repairs is expensed, while expenditure for betterment is capitalized. Depreciation is provided over the estimated useful lives of the applicable assets using the straight line method. The estimated useful lives of the principal classes of assets are as follows:

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

The carrying amount of all property, plant and equipment is reduced to recognize other than temporary diminution in value.

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

**Impairment of non-current assets**

At each balance sheet date, the Company assesses whether there are any indications, whether internal or external, of impairment in the value of non-current assets. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss.

A non-current asset is considered impaired if its carrying amount is higher than its recoverable amount. To determine impairment, the Company compares the non-current asset's carrying amount with the undiscounted estimated cash flow from the asset's use. If the carrying amount exceeds the undiscounted cash flow from the asset, the Company estimates the present value of the estimated future cash flows from the asset. The excess of the carrying amount over the present value of the estimated future cash flows from the assets is considered an impairment loss.

An impairment loss is recognized immediately in the statement of income. Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, such that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset in the prior years. A reversal of an impairment loss is recognized immediately in the statement of income.

**Financial assets and financial liabilities**

The Company's financial assets comprise cash and cash equivalents, accounts receivable - trade and due from related parties. These financial assets are stated at their nominal values as reduced by an appropriate allowance for estimated irrecoverable amounts.

Financial liabilities are classified according to the substance of the contractual arrangements entered into. Significant financial liabilities which include accounts payable - trade are stated at their nominal values.

**SAUDI AIRLINES CATERING COMPANY**  
**(SAUDI JOINT STOCK COMPANY)**

**NOTES TO THE FINANCIAL STATEMENTS**  
**YEAR ENDED DECEMBER 31, 2012**

**(Expressed in Saudi Riyals)**

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**Impairment of financial assets**

Financial assets are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial asset have been impacted.

Certain categories of financial assets, such as accounts receivable, that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Company's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period as well as observable changes in national or local economic conditions that correlate with default on receivables.

The carrying amount of the financial asset is reduced through the use of an allowance account with a corresponding charge to the statement of income. When a financial asset is not considered recoverable, it is written-off against the allowance account. Subsequent recoveries of amounts previously written-off are credited to the statement of income.

**Foreign currency transactions**

Foreign currency transactions are translated into Saudi Riyals at the rates of exchange prevailing at the time of the transactions. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the exchange rates prevailing at that date. Gains and losses from settlement and translation of foreign currency transactions are included in the statement of income.

**End-of-service indemnities**

End-of-service indemnities, required by Saudi Arabian Labor Law, are provided in the financial statements based on the employees' length of service.

**Zakat and income tax**

The Company is subject to the Regulations of the Directorate of Zakat and Income Tax ("DZIT") in the Kingdom of Saudi Arabia. Zakat and income tax are provided on an accruals basis. The zakat charge is computed on the zakat base. Income tax is computed on adjusted net income. Any difference in the estimate is recorded when the final assessment is approved, at which time the provision is cleared.

**Leasing**

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Rentals payable under operating leases are charged to income on a straight-line basis over the term of the operating lease.

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**NOTES TO THE FINANCIAL STATEMENTS**  
**YEAR ENDED DECEMBER 31, 2012**  
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**Segmental analysis**

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 financial statements.

**3. CASH AND CASH EQUIVALENTS**

Cash and cash equivalents include cash, demand deposits and highly liquid investments with original maturities of three months or less.

	2012	2011
Cash on hand	2,115,533	2,169,153
Bank balances	1,020,006,962	652,883,765
	<u>1,022,122,495</u>	<u>655,052,918</u>

**4. ACCOUNTS RECEIVABLE - TRADE**

	2012	2011
Trade receivables	144,996,232	146,126,595
Less: Allowance for doubtful debts	(91,204,334)	(94,007,809)
	<u>53,791,898</u>	<u>52,118,786</u>

Balances from 5 customers represent 68% (2011: 73%) of total trade receivables.

**5. INVENTORIES**

	2012	2011
Catering (food, beverages and other items)	27,302,845	32,125,004
Sky sales items	40,382,534	28,063,378
Packing and other materials	8,222,884	6,663,190
Spare parts	3,410,358	3,671,038
Allowance for slow moving and obsolete inventories	(6,038,491)	(4,982,493)
	<u>73,280,130</u>	<u>65,540,117</u>

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**NOTES TO THE FINANCIAL STATEMENTS**  
**YEAR ENDED DECEMBER 31, 2012**  
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**6. PROPERTY, PLANT AND EQUIPMENT**

	January 1	Additions	Disposals	Transfers	December 31
<b>Cost:</b>					
Land	33,786,058	-	-	-	33,786,058
Buildings	33,315,142	465,484	(33,780,626)	-	-
Leasehold improvements	18,931,078	3,281,956	(1,636,288)	-	20,576,746
Equipment	34,191,516	12,377,754	(271,600)	-	46,297,670
Motor vehicles	26,947,935	2,653,880	(2,187,550)	13,464,593	40,878,858
Capital work-in-progress	13,464,593	1,587,269	-	(13,464,593)	1,587,269
<b>Total Cost</b>	<b>160,636,322</b>	<b>20,366,343</b>	<b>(37,876,064)</b>	<b>-</b>	<b>143,126,601</b>
<b>Accumulated Depreciation:</b>					
Buildings	8,891,622	2,094,346	(10,985,968)	-	-
Leasehold improvements	8,995,249	1,149,097	(402,043)	-	9,742,303
Equipment	16,217,962	7,059,992	(243,283)	-	23,034,671
Motor vehicles	16,761,664	5,555,783	(2,014,297)	-	20,303,150
<b>Total Depreciation</b>	<b>50,866,497</b>	<b>15,859,218</b>	<b>(13,645,591)</b>	<b>-</b>	<b>53,080,124</b>
<b>Net Book Value at January 1</b>	<b><u>109,769,825</u></b>				
<b>Net Book Value at December 31</b>					<b><u>90,046,477</u></b>

The buildings were constructed on land leased by Saudia from the Ministry of Defense and Civil Aviation for a period of 20 years which started from 1992 for an annual amount of SR 527,000. On assignment of the lease on incorporation of the Company, it was management's intention to renew the lease contract and accordingly, the buildings were depreciated over their estimated useful life. However, following the expiry of the contract during the year and following changes to the new lease contract to include a right by the General Authority of Civil Aviation to terminate the lease contract at any point in time with no compensation, management believes that as the future benefit is doubtful, it has decided to write-off the carrying value of SR 22.8 million.

Capital-in-progress represents the cost of machines under installation.

**7. ACCRUED EXPENSES AND OTHER LIABILITIES**

	2012	2011
Employees' accruals	23,308,516	20,722,956
Accrued expenses and other liabilities	153,091,217	156,260,996
Provision for restructuring	25,937,949	28,035,806
Zakat and income tax (note 10)	34,982,592	28,233,250
	<b><u>237,320,274</u></b>	<b><u>233,253,008</u></b>

Accrued expenses and other liabilities include services provided by Saudia but not invoiced amounting to SR 71,790,601 (2011: SR 59,304,380) and management fees due to Newrest Group Holding S.L amounting to SR10,200,000 (2011: SR 10,200,000) net of withholding tax of SR 1,800,000 (2011: SR 1,800,000).



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**NOTES TO THE FINANCIAL STATEMENTS**  
**YEAR ENDED DECEMBER 31, 2012**  
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**8. END-OF-SERVICE INDEMNITIES**

	2012	2011
January 1	94,626,220	84,875,481
Provision for the year	19,169,839	17,614,179
Payment during the year	(8,362,869)	(7,863,440)
December 31	<u>105,433,190</u>	<u>94,626,220</u>

**9. RELATED PARTY TRANSACTIONS**

During the year, the Company transacted with the following related parties:

Name	Relationship
Saudi Arabian Airlines Corporation ("Saudia")	Shareholder
Newrest Group Holding S.L.	One of the ultimate shareholders
Saudi Airlines Cargo Company	Affiliate
Saudi Ground Services Company	Affiliate
Board of directors	Connected persons

The significant transactions and the related approximate amounts are as follows:

	2012	2011
Catering and other services rendered to Saudia	1,177,176,000	1,026,241,000
Services and other expenses charged by Saudia	5,171,000	23,963,000
Net services charged and expenses re-allocated to Saudi Ground Services Company	40,687,000	29,472,000
Net services rendered to/charged by Saudi Airlines Cargo Company	16,509,000	14,238,000
Management fees	12,000,000	12,000,000
Board of directors' fees and expenses	<u>2,001,000</u>	<u>1,990,000</u>

Due from related parties as of December 31 are comprised of the following:

	2012	2011
Saudi Arabian Airlines Corporation ("Saudia")-trade account (net of allowance for doubtful debts of SR 9,134,054 – SR 10,912,147 in 2011)	245,092,434	462,952,611
Saudi Ground Services Company (net of allowance for doubtful debts of SR nil - SR 4,092,722 in 2011)	8,669,801	40,248,378
Saudi Airlines Cargo Company	<u>2,384,926</u>	<u>8,615,236</u>
	<u>256,147,161</u>	<u>511,816,225</u>

The Company's revenue and receivables are concentrated with Saudia which is a shareholder and Governmental Party.

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The details of these transactions and balances are as follows:

	<u>2012</u>	<u>2011</u>
Revenue from Saudia	<b>1,177,176,000</b>	1,026,240,990
Percentage of revenue from Saudia	<b>70%</b>	70%
Saudia's receivable	<b>245,092,434</b>	462,952,611
Percentage of Saudia's receivables to the total receivables	<b>79%</b>	82%

**10. ZAKAT AND INCOME TAX**

The zakat base is comprised of the following:

	<u>2012</u>	<u>2011</u>
Non-current assets	<b>90,046,477</b>	109,769,825
Non-current liabilities	<b>105,433,190</b>	94,626,220
Shareholders' equity	<b>981,002,477</b>	823,660,320
Net income	<b>487,051,225</b>	420,561,759

Some of these amounts have been adjusted in arriving at the zakat charge for the year.

The movement in zakat provision is as follows:

	<u>2012</u>	<u>2011</u>
January 1	<b>24,514,069</b>	21,328,688
Payments during the year	<b>(24,808,674)</b>	(21,623,293)
Provision for the year	<b>32,757,570</b>	24,808,674
December 31	<b>32,462,965</b>	24,514,069

The movement in income tax provision is as follows:

	<u>2012</u>	<u>2011</u>
January 1	<b>3,719,181</b>	4,983,261
Payments during the year	<b>(13,797,083)</b>	(14,675,008)
Provision for the year	<b>12,597,529</b>	13,410,928
December 31	<b>2,519,627</b>	3,719,181

The Company has finalized its zakat position for the year 2008.

The Company has submitted its zakat and income tax declarations for the years 2009, 2010 and 2011. The Company has paid the amounts due according to the declarations which are currently under review by the DZIT.

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**11. STATUTORY RESERVE**

In accordance with the Regulations for Companies in Saudi Arabia, the Company has established a statutory reserve by the appropriation of 10% of net income until the reserve equals 50% of the share capital. This reserve is not available for dividend distribution.

**12. DIVIDENDS**

On 15<sup>th</sup> October 2012, the Board of Directors resolved to distribute interim dividends amounting to SR 82 million, which is equivalent to SR 1 per share, from the Company's interim profit.

On 2<sup>nd</sup> August 2012, the Board of Directors resolved to distribute interim dividends amounting to SR 164 million, which is equivalent to SR 2 per share, from the Company's interim profit.

In their annual general meeting on March 7, 2012, the shareholders ratified the interim dividends distributed during the year ended December 31, 2011 amounting to SR 225 million from the retained earnings. The shareholders also approved at the meeting, the additional distribution of SR 115 million from the Company's retained earnings as of December 31, 2011 which was paid during the year.

**13. GENERAL AND ADMINISTRATIVE EXPENSES**

	2012	2011
Salaries and other benefits	60,992,892	58,666,354
Depreciation	2,352,304	2,235,867
Allowance for doubtful debts	(3,487,883)	26,115,366
Professional and technical fees	-	9,511,675
Rents	10,309,203	8,786,208
Marketing and promotional expenses	5,411,143	3,213,460
Utilities	9,014,400	5,356,206
Stationery and printing	615,293	555,636
Repair and maintenance	409,340	220,796
Travel expenses	2,708,474	2,035,517
Management fees	12,000,000	12,000,000
Board of directors' fees and expenses	2,001,000	1,989,574
Service agreement	6,234,902	1,906,249
Insurance	2,173,625	1,639,208
Others	10,482,533	5,591,666
	<u>121,217,226</u>	<u>139,823,782</u>

**14. OPERATING LEASE ARRANGEMENTS**

	2012	2011
Payments under operating leases recognized as an expense during the year	<u>55,146,055</u>	<u>47,069,150</u>

Operating lease payments represent rentals payable by the Company for the premises of the business units, offices and residential properties which are mainly leased from Saudia and the General Authority of Civil Aviation and are renewable on an annual basis.

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During 2010, the Company leased a central kitchen in Riyadh from the General Authority of Civil Aviation for a period of 10 years which started from January 1, 2010 for an annual amount of SR 17,407,657.

At the expiry of its term, the lease is renewable upon agreement between the Company and the lessor. As per the lease agreement the lessor is entitled to 8% of the lessee's annual sales that exceeds SR 290,000,000 to be paid in the first month of the following year.

The Company re-allocates certain leasing charges to Saudia Ground Services Company for an annual amount of SR 4,533,232 (2011: SR 4,533,232).

**15. EARNINGS PER SHARE**

	2012	2011
<i>EPS from net operations</i>		
Net income	487,051,225	420,561,759
Weighted average number of shares	82,000,000	82,000,000
Earnings per share	5.94	5.13
<i>EPS from continuing operations</i>		
Operating income	506,782,012	418,637,758
Weighted average number of shares	82,000,000	82,000,000
Earnings per share	6.18	5.11
<i>EPS from non-operating operations</i>		
Non-operating income	(19,730,787)	1,924,001
Weighted average number of shares	82,000,000	82,000,000
(Loss)/earnings per share	(0.24)	0.02

**16. COMMITMENTS AND CONTINGENCIES**

As of December 31, the Company had the following commitments:

	2012	2011
Commitments for future capital expenditure	34,868,122	4,337,537

**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 to the segments on a consistent basis.

The Company's activities consist of the following business segments:

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

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The Company's assets, liabilities and results of operations as of and for the year ended December 31, 2012 and 2011 by business segments are detailed below:

	Catering	Sky sales	Total
<b><u>2012</u></b>			
Assets	1,480,783,279	75,989,184	1,556,772,463
Liabilities	449,709,225	45,364,635	495,073,860
Sales and revenues	1,510,506,631	176,886,061	1,687,392,692
Net income	431,316,802	55,734,423	487,051,225
<b><u>2011</u></b>			
Assets	1,218,717,892	205,745,420	1,424,463,312
Liabilities	409,633,356	33,827,479	443,460,835
Sales and revenues	1,318,219,078	147,052,010	1,465,271,088
Net income	380,567,499	39,994,260	420,561,759

The Company operates in the principal geographical area of the Kingdom of Saudi Arabia.

**18. OTHER EXPENSE AND REVENUES, NET**

During the year ended December 31, 2012 the Company has written-off the carrying value of the buildings amounting to SR 22.8 million (note 6).

**19. RISK MANAGEMENT**

**a) Liquidity risk**

Liquidity risk is the risk that the Company will be unable to meet its net funding requirements. This risk is managed by the Company by monitoring the maturity profile of its financial assets and liabilities to ensure that adequate liquidity is maintained or made available, as necessary to the Company.

The Company's financial liabilities primarily consist of accounts payable and other liabilities. The majority of the financial liabilities are expected to be settled within 12 months from the balance sheet date and the Company expects to have adequate liquid funds to do so.

**b) Credit risk**

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company's principal financial assets are cash, accounts receivable and due from related parties.

Credit risk arises from the possibility of asset impairment occurring because counter parties cannot meet their obligations in transactions involving financial instruments. Concentration of credit risk indicates the relative sensitivity of the Company's performance to developments affecting a particular segment of customers. The Company's credit risk is primarily attributable to its accounts receivables. The Company has established procedures to manage credit exposure by including credit approvals and credit limits and guarantees, where necessary. These procedures are mainly due to the Company's internal guidelines. An allowance for potential doubtful receivables is maintained at a level which, in the judgement of management, is adequate to provide for losses on delinquent receivables. Amounts due from related parties are principally due from Saudia, a majority shareholder and consequently management believes that its exposure to credit risk is limited on this amount.



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The amounts presented in the balance sheet are net of allowance for doubtful receivables, estimated by the Company's management based on prior experience and their assessment of the current economic environment.

**20. FAIR VALUE**

The fair value of the Company's financial assets and liabilities approximate their carrying amounts.

**21. COMPARATIVE FIGURES**

Certain figures for 2011 have been reclassified to conform with the presentation in the current year.