

**SAUDI AIRLINES CATERING COMPANY**  
(Saudi Joint Stock Company)

**FINANCIAL STATEMENTS**  
For the year ended December 31, 2016  
with  
**INDEPENDENT AUDITORS' REPORT**



KPMG Al Fozan & Partners  
Certified Public Accountants  
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## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of Saudi Airlines Catering Company ("the Company") which comprise the balance sheet as at December 31, 2016 and the related statements of income, cash flows and changes in shareholders' equity for the year then ended and the attached notes 1 through 26 which form an integral part of the financial statements.

### *Management's responsibility for the financial statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with generally accepted accounting standards in the Kingdom of Saudi Arabia and in compliance with the Regulations for Companies and Company's bylaws, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. Management has provided us with all the information and explanations that we require relating to our audit of these financial statements.

### *Auditors' responsibilities*

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

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

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



**Opinion**

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

1. present fairly, in all material respects, the financial position of Saudi Airlines Catering Company as at December 31, 2016, and of its results of operations and its cash flows for the year then ended in accordance with generally accepted accounting standards in the Kingdom of Saudi Arabia appropriate to the circumstances of the Company; and
2. comply with the requirements of the Regulations for Companies and the Company's bylaws with respect to the preparation and presentation of the financial statements.

**For KPMG Al Fozan & Partners  
Certified Public Accountants**

Ebrahim Oboud Baeshen  
License No. 382



Jeddah, 2 Jumada Al-Thani 1438H  
Corresponding to 1 March 2017

SAUDI AIRLINES CATERING COMPANY  
(Saudi Joint Stock Company)

BALANCE SHEET

As at December 31, 2016

(Expressed in Saudi Arabian Riyals)

	Notes	2016	2015
<b>ASSETS</b>			
Current assets:			
Cash and cash equivalents	4	151,711,045	304,248,115
Investments	7	84,721,772	205,170,874
Trade receivables	5	730,691,867	553,395,599
Inventories	6	149,070,060	142,376,394
Prepayments and other current assets	8	143,101,215	130,168,505
Total current assets		1,259,295,959	1,335,359,487
Non-current assets:			
Letters of guarantee	23	42,258,676	14,807,413
Investments	7	40,000,000	40,000,000
Property and equipment	9	563,769,799	458,053,712
Total non-current assets		646,028,475	512,861,125
Total assets		1,905,324,434	1,848,220,612
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
Current liabilities:			
Trade payables	10	207,990,908	209,933,379
Dividend payable		3,167,828	2,881,530
Accrued expenses and other current liabilities	11	242,703,157	136,502,083
Accrued Zakat and income tax	12	27,100,352	35,109,943
Total current liabilities		480,962,245	384,426,935
Non-current liabilities:			
Employees' end of service benefits	12	155,656,500	137,162,600
Accrued long-term bonus		7,616,142	8,470,711
Total non-current liabilities		163,272,642	145,633,311
Total liabilities		644,234,887	530,060,246
Shareholders' equity			
Share capital	13	820,000,000	820,000,000
Statutory reserve	14	340,714,074	286,600,187
Retained earnings		100,375,473	211,560,179
Total shareholders' equity		1,261,089,547	1,318,160,366
Total liabilities and shareholders' equity		1,905,324,434	1,848,220,612

  
Chief Financial Officer

  
Chief Executive Officer

  
Authorized Board of Directors' Member

The accompanying notes 1 to 26 form an integral part  
of these financial statements.



SAUDI AIRLINES CATERING COMPANY  
(Saudi Joint Stock Company)

STATEMENT OF INCOME  
For the year ended December 31, 2016  
(Expressed in Saudi Arabian Riyals)

	Notes	2016	2015
Inflight catering revenue		1,578,603,654	1,635,052,624
Retail revenue (formerly Skysales)		269,159,400	239,341,916
Business lounge revenue		155,416,911	133,155,933
Non-airlines revenue		198,531,405	206,840,345
Other operating revenue	15	54,938,898	46,409,643
Total revenue		<u>2,256,650,268</u>	<u>2,260,800,461</u>
Cost of revenue:			
Cost of materials and goods sold		(918,011,500)	(937,109,018)
Personnel cost		(244,424,716)	(222,524,834)
Rent and maintenance of production units		(119,850,897)	(73,917,851)
Depreciation		(32,507,287)	(20,483,405)
Other operating cost	16	(185,883,962)	(182,224,152)
Total cost of revenue		<u>(1,500,678,362)</u>	<u>(1,436,259,260)</u>
Gross profit		755,971,906	824,541,201
General and administrative expenses	17	(221,714,501)	(155,629,333)
Operating income		534,257,405	668,911,868
Other non-operating revenues and expenses, net		6,881,460	29,589,086
Net income		<u>541,138,865</u>	<u>698,500,954</u>
Earnings per share:			
Operating income	21	<u>6.52</u>	<u>8.16</u>
Non-operating income	21	<u>0.08</u>	<u>0.36</u>
Net income	21	<u>6.60</u>	<u>8.52</u>



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Chief Executive Officer



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SAUDI AIRLINES CATERING COMPANY  
(Saudi Joint Stock Company)

STATEMENT OF CASH FLOWS  
For the year ended December 31, 2016  
(Expressed in Saudi Arabian Riyals)

	Note	2016	2015
Cash flows from operating activities:			
Net income		541,138,865	698,500,954
Adjustments for:			
Depreciation	9	39,317,676	24,661,054
Allowance (reversal) of provision for doubtful debts	17	26,629,082	(16,225,207)
Allowance for slow moving and obsolete items	6	870,298	1,853,627
Loss on disposal of property and equipment		160,741	256,423
Unrealised gain on held-for-trading investments	7	(4,550,898)	(1,658,065)
Provision for employees' end of service benefits	12	25,279,947	30,006,786
Provision for accrued long-term bonus		2,810,000	3,753,745
Investment income		(1,331,976)	(2,827,313)
		630,323,735	738,322,004
Changes in operating assets and liabilities			
(Increase) / decrease in trade receivables		(203,925,350)	12,542,863
Increase in inventories		(7,563,965)	(57,476,449)
(Increase) / decrease in prepayments and other current assets		(12,913,986)	20,341,781
Increase in letter of guarantee		(27,451,263)	(4,640,302)
(Decrease) / increase in trade payables		(1,942,471)	35,078,354
Increase / (decrease) in accrued expenses and other current liabilities		106,201,078	(104,605,100)
		482,727,778	639,563,151
Payment of accrued long-term bonus		(3,664,570)	(2,138,680)
Zakat and income tax paid	19	(41,515,436)	(47,026,527)
Employees' end of service benefits paid	12	(6,786,047)	(9,764,756)
Net cash from operating activities		430,761,725	580,633,188
Cash flows from investing activities:			
Purchase of property and equipment	9	(145,211,024)	(291,586,825)
Proceeds from sale of held-for-trading investments	7	125,000,000	—
Proceeds from maturity of held-to-maturity investments		—	100,000,000
Proceeds from disposal of property and equipment		16,520	113,027
Investment income received		1,313,251	3,460,629
Net cash used in investing activities		(18,881,253)	(188,013,169)
Cash flows from financing activities:			
Dividend paid	18	(564,417,542)	(564,897,658)
Net decrease in cash and cash equivalents		(152,537,070)	(172,277,639)
Cash and cash equivalents as at beginning of the year		304,248,115	476,525,754
Cash and cash equivalents as at end of the year	4	151,711,045	304,248,115
Non-cash supplemental information:			
Zakat and income tax charged to shareholders accounts		33,505,845	41,840,694

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Chief Executive Officer

Authorized Board of Directors' Member

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SAUDI AIRLINES CATERING COMPANY  
(Saudi Joint Stock Company)

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY  
For the year ended December 31, 2016  
(Expressed in Saudi Arabian Riyals)

	Notes	Share capital	Statutory reserves	Retained earnings	Total
Balance at January 1, 2016		820,000,000	286,600,187	211,560,179	1,318,160,366
Net income for the period		--	--	541,138,865	541,138,865
Transfer to reserves	14	--	54,113,887	(54,113,887)	--
Zakat and income tax	19	--	--	(33,505,845)	(33,505,845)
Dividends	18	--	--	(564,703,839)	(564,703,839)
Balance at December 31, 2016		820,000,000	340,714,074	100,375,473	1,261,089,547
Balance at January 1, 2015		820,000,000	216,750,092	188,956,828	1,225,706,920
Net income for the period		--	--	698,500,954	698,500,954
Transfer to reserves	14	--	69,850,095	(69,850,095)	--
Zakat and income tax	19	--	--	(41,840,694)	(41,840,694)
Dividends	18	--	--	(564,206,814)	(564,206,814)
Balance at December 31, 2015		820,000,000	286,600,187	211,560,179	1,318,160,366

  
Chief Financial Officer

  
Chief Executive Officer

  
Authorized Board of Directors' Member

The accompanying notes 1 to 26 form an integral part  
of these financial statements.



**SAUDI AIRLINES CATERING COMPANY**  
(Saudi Joint Stock Company)

**NOTES TO THE FINANCIAL STATEMENTS**  
For the year ended December 31, 2016  
(Expressed in Saudi Arabian Riyals)

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**I. 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 retail (formerly Skysales), 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 FINANCIAL STATEMENTS**

For the year ended December 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>
Rabigh	4602006306	Rajab 16, 1436H (May 5, 2015)
Medina	4650055980	Jumada Al-Thani 1, 1433H (April 23, 2012)
Dammam	2050082998	Jumada Al-Thani 1, 1433H (April 23, 2012)
Makkah	4031084114	Jumada Al-Awwal 23, 1435H (March 25, 2014)
Jeddah	4030227251	Jumada Al-Thani 1, 1433H (April 23, 2012)
Jeddah	4030285290	Muharram 2, 1437H (October 16, 2015)
Riyadh	1010336558	Jumada Al-Thani 1, 1433H (April 23, 2012)

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 financial statements have been prepared in accordance with the accounting standards generally accepted in the Kingdom of Saudi Arabia issued by Saudi Organization for Certified Public Accountants (SOCPA).

As required by Saudi Organization for Certified Public Accountants (SOCPA), all listed companies are required to transition to International Financial Reporting Standards ("IFRS") as endorsed by SOCPA effective 1 January 2017 for preparation of their financial statements. In preparing the first set of IFRS financial statements, the Company will analyze the impact of the first time adoption of IFRS on current and prior year financial statements and will accordingly incorporate the necessary adjustments in its first set of IFRS financial statements.

The new Regulation for Companies issued through Royal Decree M/3 on 11 November 2015 (hereinafter referred as "The Law") came into force on 25/07/1437H (corresponding to 2 May 2016). The Company has to amend its Articles of Association for any changes to align the Articles to the provisions of The Law. Consequently, the Company shall present the amended Articles of Association to the stockholders in their Extraordinary General Assembly meeting for their ratification. The full compliance with The Law is expected not later than 24/07/1438H (corresponding to 21 April 2017).

**b) Basis of measurement**

The financial statements have been prepared under the historical cost convention, except for the held-for-trading investment which is stated at fair value, using accrual basis of accounting and going concern assumption.

**SAUDI AIRLINES CATERING COMPANY**  
(Saudi Joint Stock Company)

**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended December 31, 2016

(Expressed in Saudi Arabian Riyals)

**2. BASIS OF PREPARATION (continued)**

**c) Functional and presentation currency**

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

**d) Use of estimates and judgments**

The preparation of 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 and related party receivables**

An allowance for impairment of trade or related party 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 and 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 existed 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.



SAUDI AIRLINES CATERING COMPANY  
(Saudi Joint Stock Company)

NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2016

(Expressed in Saudi Arabian Riyals)

2. BASIS OF PREPARATION (continued)

d) Use of estimates and judgments (continued)

iv. Accruals for services provided by Saudia and its affiliates

Accruals are 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 the relationship with Saudia and its affiliates.

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 financial statements continue to be prepared on the going concern basis.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies set out below have been applied consistently to all periods presented in the 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.



NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2016

(Expressed in Saudi Arabian Riyals)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 statement of income and any subsequent recovery of receivable amounts previously written off are credited to statement of income.

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 the 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.

**SAUDI AIRLINES CATERING COMPANY**  
(Saudi Joint Stock Company)

**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended December 31, 2016

(Expressed in Saudi Arabian Riyals)

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**c) Property and equipment**

Except for free-hold land, 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:

Leasehold improvements	2-30 years
Equipment	3-15 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**

Non-financial 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.



**SAUDI AIRLINES CATERING COMPANY**  
(Saudi Joint Stock Company)

**NOTES TO THE FINANCIAL STATEMENTS**

For the year ended December 31, 2016

(Expressed in Saudi Arabian Riyals)

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**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**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 by estimating the amount of future benefit that employees have earned in the current and prior periods, using the projected unit credit method. 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.

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 is 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.



SAUDI AIRLINES CATERING COMPANY  
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NOTES TO THE FINANCIAL STATEMENTS

For the year ended December 31, 2016

(Expressed in Saudi Arabian Riyals)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

m) Zakat and income tax

Zakat and income tax are provided for in the financial statements in accordance with Saudi General Authority of Zakat and Income Tax ("GAZT") 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 GAZT 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 customers and others
- Retail (formerly Skysales)

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.

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.

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

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.

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**4. CASH AND CASH EQUIVALENTS**

Cash and cash equivalents at December 31 comprise the following:

	<u>2016</u>	<u>2015</u>
Cash in hand	1,441,133	1,806,039
Cash at bank - current accounts	<u>150,269,912</u>	<u>302,442,076</u>
	<u>151,711,045</u>	<u>304,248,115</u>

**5. TRADE RECEIVABLES**

a) Trade receivables at December 31 comprise the following:

	<u>2016</u>	<u>2015</u>
Related parties, net (Note 20)	621,822,428	449,931,201
Other customers	<u>174,586,634</u>	<u>139,766,614</u>
	<u>796,409,062</u>	<u>589,697,815</u>
Provision for doubtful debts (other customers)	<u>(65,717,195)</u>	<u>(36,302,216)</u>
	<u>730,691,867</u>	<u>553,395,599</u>

The Company does not have any collateral over receivables and the vast majority are, therefore, unsecured. Unimpaired trade receivables are expected, on the basis of past experience to be fully recoverable.

The ageing analysis of trade receivable is as follows:

	<u>Up to three months</u>	<u>Above three and up to six months</u>	<u>Above six months</u>	<u>Total</u>
December 31, 2016	<u>276,573,098</u>	<u>139,797,236</u>	<u>314,321,533</u>	<u>730,691,867</u>
December 31, 2015	<u>220,912,545</u>	<u>44,814,302</u>	<u>287,668,752</u>	<u>553,395,599</u>

b) Movements summary in provision for doubtful debts for other customers for the year ended December 31 are as follows:

	<u>2016</u>	<u>2015</u>
Balance at beginning of the year	36,302,216	53,196,829
Additions	36,217,522	14,774,074
Reversals	<u>(6,802,543)</u>	<u>(31,668,687)</u>
Balance at end of the year	<u>65,717,195</u>	<u>36,302,216</u>

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**6. INVENTORIES**

a) Inventories at December 31 comprise the following:

	<u>2016</u>	<u>2015</u>
Catering items	24,465,968	29,995,221
Retail items (formerly Skysales)	114,227,533	104,902,508
Packing and other materials	14,900,949	11,533,060
Spare parts	3,798,394	3,873,825
	<u>157,392,844</u>	<u>150,304,614</u>
Provision for slow moving and obsolete items	<u>(8,322,784)</u>	<u>(7,928,220)</u>
	<u>149,070,060</u>	<u>142,376,394</u>

b) Movements summary in provision for slow moving and obsolete items for the year ended December 31 are as follows:

	<u>2016</u>	<u>2015</u>
Balance at beginning of the year	7,928,220	6,169,063
Additions	4,544,816	3,375,569
Write-off	(475,734)	(94,470)
Reversals	<u>(3,674,518)</u>	<u>(1,521,942)</u>
Balance at end of the year	<u>8,322,784</u>	<u>7,928,220</u>

**7. INVESTMENTS**

Investments at December 31 comprise of the following:

		<u>2016</u>	<u>2015</u>
<u>Current assets</u>			
Held-for-trading investment	7.1	<u>84,721,772</u>	<u>205,170,874</u>
<u>Non-current assets</u>			
Held-to-maturity investment	7.2	<u>40,000,000</u>	<u>40,000,000</u>
		<u>124,721,772</u>	<u>245,170,874</u>



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**7. INVESTMENTS (continued)**

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

	<u>2016</u>	<u>2015</u>
Balance at beginning of the year	205,170,874	203,512,809
Disposal of held-for-trading investment	(125,000,000)	—
Unrealized gain on held-for-trading investment	4,550,898	1,658,065
Balance at end of the year	<u>84,721,772</u>	<u>205,170,874</u>

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

7.2 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.

**8. PREPAYMENTS AND OTHER CURRENT ASSETS**

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

	<u>2016</u>	<u>2015</u>
Prepayments	88,509,663	94,244,584
Unbilled receivables	42,933,873	26,372,844
Margin deposits with banks	4,177,770	3,983,516
Advances to suppliers	1,245,189	570,914
Advances to employees	3,659,829	3,117,415
Accrued income	53,628	34,904
Others	2,521,263	1,844,328
	<u>143,101,215</u>	<u>130,168,505</u>

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**9. PROPERTY AND EQUIPMENT**

The movement in property and equipment during the year ended December 31, 2016 is analyzed as under:

<b>Cost:</b>	<b>Land</b>	<b>Leasehold improvements</b>	<b>Equipment</b>	<b>Motor vehicles</b>	<b>Capital work-in-progress</b>	<b>Total</b>
Balance at January 1, 2016	33,786,058	38,260,036	104,773,988	76,057,118	296,757,239	549,634,439
Additions	--	996,357	5,713,552	573,502	137,927,613	145,211,024
Disposals	--	(1,713,675)	(13,046,995)	(8,032,229)	--	(22,792,899)
Transfer from capital work-in-progress	--	228,416,698	38,779,585	32,523,981	(299,720,264)	--
Balance at December 31, 2016	33,786,058	265,959,416	136,220,130	101,122,372	134,964,588	672,052,564
<b>Accumulated depreciation:</b>						
Balance at January 1, 2016	--	18,979,597	50,713,363	21,887,767	--	91,580,727
Charge for the year	--	10,535,741	19,970,719	8,811,216	--	39,317,676
Disposals	--	(1,713,675)	(12,890,900)	(8,011,063)	--	(22,615,638)
Balance at December 31, 2016	--	27,801,663	57,793,182	22,687,920	--	108,282,765
<b>Net book value:</b>						
At December 31, 2016	33,786,058	238,157,753	78,426,948	78,434,452	134,964,588	563,769,799
At December 31, 2015	33,786,058	19,280,439	54,060,625	54,169,351	296,757,239	458,053,712

The capital work-in-progress represents mainly construction works on welcome lounge at King Khalid International Airport (Terminals 1, 2 and 5) in Riyadh.

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**10. TRADE PAYABLES**

Trade payables at December 31 comprise the following:

	<u>2016</u>	<u>2015</u>
Related parties (Note 20)	6,272,066	15,559,769
Other parties	<u>201,718,842</u>	<u>194,373,610</u>
	<u>207,990,908</u>	<u>209,933,379</u>

**11. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES**

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

	<u>2016</u>	<u>2015</u>
Employees related accruals	38,012,927	30,378,918
Accrued expenses and other liabilities	<u>204,690,230</u>	<u>106,123,165</u>
	<u>242,703,157</u>	<u>136,502,083</u>

**12. EMPLOYEES' END OF SERVICE BENEFITS**

Movement summary for the year ended December 31 is as follows:

	<u>2016</u>	<u>2015</u>
Balance at beginning of the year	137,162,600	116,920,570
Charge for the year	25,279,947	30,006,786
Payments during the year	<u>(6,786,047)</u>	<u>(9,764,756)</u>
Balance at end of the year	<u>155,656,500</u>	<u>137,162,600</u>

**13. 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 December 31, the shareholders and their percentage interests in the share capital of the Company are as follows:

<u>Shareholder</u>	<u>2016</u>		
	<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	18,949,714	189,497,140	23.11
General public	<u>33,776,286</u>	<u>337,762,860</u>	<u>41.19</u>
	<u>82,000,000</u>	<u>820,000,000</u>	<u>100</u>



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**13. SHARE CAPITAL (continued)**

<u>Shareholder</u>	<u>2015</u>		
	<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	24.85
General public	32,350,082	323,500,820	39.45
	<u>82,000,000</u>	<u>820,000,000</u>	<u>100</u>

During the year ended December 31, 2016, Strategic Catering Company Limited sold 1,426,204 of its shares to the general public.

**14. STATUTORY RESERVE**

In accordance with its bylaws, the Company is required to transfer 10% of its net income for the year to a statutory reserve until such reserve equals 50% of its share capital. This statutory reserve is not available for distribution to shareholders.

**15. OTHER OPERATING REVENUE**

Other operating revenue for the year ended December 31 comprise the following:

	<u>2016</u>	<u>2015</u>
Camp facilities sales	15,928,082	491,125
Exclusive purchase income and services to suppliers	1,710,398	15,913,969
Transfer of airline equipment charges	37,300,418	30,004,549
	<u>54,938,898</u>	<u>46,409,643</u>

**16. OTHER OPERATING COST**

Other operating cost for the year ended December 31 comprise the following:

	<u>2016</u>	<u>2015</u>
Communication and utilities – net	18,394,886	12,065,113
Supplies and expendable items	36,854,010	37,212,922
Manpower and transportation cost	84,591,746	79,072,006
Other operational cost	46,043,320	53,874,111
	<u>185,883,962</u>	<u>182,224,152</u>

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**17. GENERAL AND ADMINISTRATIVE EXPENSES**

The general and administrative expenses as at December 31 comprise the following:

	<u>2016</u>	<u>2015</u>
Personnel costs	108,109,941	97,878,396
Depreciation	6,810,389	4,177,649
Allowance (reversal) for doubtful debts (Note 5)	26,629,082	(16,225,207)
Professional and technical fee	3,837,361	5,546,183
Rent	19,047,718	11,295,019
Marketing and promotional	9,009,456	13,373,738
Utilities	7,555,550	4,503,207
Stationery and printing	479,898	340,988
Repairs and maintenance	77,879	224,421
Travelling	5,159,646	5,561,983
Management fee	15,343,249	12,671,840
Board of Directors' fee	2,166,265	1,589,868
Service agreement fee	7,137,118	4,463,399
Insurance	3,865,170	3,086,794
Others	6,485,779	7,141,055
	<u>221,714,501</u>	<u>155,629,333</u>

**18. 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.

On May 9, 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.

On July 19, 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.

On October 17, 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.

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**19. ZAKAT AND INCOME TAX**

**a) Zakat and income tax provision**

The movement summary in Zakat provision is as follows:

	<u>2016</u>	<u>2015</u>
Balance at beginning of the year	32,624,846	36,298,829
Charge for the year	26,716,426	32,624,849
Adjustment related to prior years	(4,569,900)	(2,707,918)
Payments during the year	(28,054,946)	(33,590,914)
Balance at end of the year	<u>26,716,426</u>	<u>32,624,846</u>

The movement in income tax provision is as follows:

	<u>2016</u>	<u>2015</u>
Balance at beginning of the year	2,485,097	3,996,947
Charge for the year	10,182,979	11,889,065
Adjustment related to prior years	1,176,340	34,698
Payments during the year	(13,460,490)	(13,435,613)
Balance at end of the year	<u>383,926</u>	<u>2,485,097</u>

**b) Zakat component**

The Zakat base is comprised of the following:

	<u>2016</u>	<u>2015</u>
Non-current assets	646,028,475	512,861,125
Non-current liabilities	163,272,642	145,633,311
Shareholders' equity	1,318,160,366	1,225,706,920
Net income	541,138,865	698,500,954

**c) Zakat assessments**

The Company has submitted its Zakat and income tax declarations for the years 2009 to 2015. The Company has paid the amounts due according to the declarations, which are currently under review by the GAZT.



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**20. 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 year ended December 31 and balances arising therefrom are described as under:

Name	Relationship	Nature of transactions	Amount of transactions		Closing balance	
			2016	2015	2016	2015
<b><u>Due from related parties included in trade receivables:</u></b>						
Saudi Arabian Airlines Corporation	Shareholder	Trade / operations	1,446,822,000	1,459,600,000	561,458,670	393,551,551
Alhokair Group Joint Stock Company	Shareholder	Trade / operations	--	--	--	367,949
Saudi Airlines Cargo Company	Affiliate	Trade / operations	14,179,000	15,949,000	29,993,080	21,772,503
Saudi Ground Services Company	Affiliate	Trade / operations	48,443,000	47,582,000	30,370,678	34,239,198
					621,822,428	449,931,201
<b><u>Due to related parties included in trade payables:</u></b>						
Newrest Group Holding S.L.	Shareholder	Trade / operations	17,515,976	13,994,840	204,726	52,904
Alhokair Group Joint Stock Company	Shareholder	Trade / operations	144,615	--	63,035	--
Gulfwest Company Limited	Affiliate	Trade / operations	986,202	--	1,483,379	--
Saudi Airlines Real Estate Development Company	Affiliate	Trade / operations	7,659,000	10,192,000	4,520,926	15,506,865
					6,272,066	15,559,769

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

Name	Nature of transactions	Amount of transactions	
		2016	2015
Key management personnel	Remuneration	6,638,749	6,923,362
Board of Directors	Annual fee	2,166,265	1,965,000

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**21. 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.

**22. OPERATING LEASES**

	<u>2016</u>	<u>2015</u>
Payments under operating leases recognized as an expense	106,138,953	74,627,686

Operating lease payments represent rentals paid 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 ("GACA") and are renewable on an annual basis.

During 2010, the Company leased a central kitchen in Riyadh from GACA for a period of 10 years starting 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 GACA. As per the lease agreement, GACA is entitled to 8% of the Company's annual sales that exceed SR 290,000,000 to be paid in the first month of the following year.

During 2012, the Company renewed the Dammam lease agreement with GACA for a period of 10 years starting from May 3, 2012 for an annual rental amount of SR 5,000,000.

During 2014, the Company renewed the Jeddah lease agreement with GACA for a period of 2 years starting from March 31, 2015 for an annual rental amount of SR 24,500,000.

During 2014, the Company leased a land in Medinah for a period of 30 years for an annual rental amount of SR 3,800,000.

The minimum lease payments under non-cancellable operating leases are as follows:

	<u>2016</u>	<u>2015</u>
Not later than one year	105,375,503	65,437,983
Later than one year and less than five years	204,583,401	164,913,946
Later than five years	115,300,144	87,400,000
	<u>425,259,048</u>	<u>317,751,929</u>



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**23. COMMITMENTS AND CONTINGENCIES**

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

	<u>2016</u>	<u>2015</u>
Capital commitments	<u>94,794,681</u>	<u>88,110,813</u>
Letters of guarantee (See below)	<u>42,258,676</u>	<u>14,807,413</u>

Letters of guarantee are issued by a bank on behalf of the Company to a supplier and promises to meet any financial obligations to the supplier in the event of default and this requires the Company to place cash with the bank. As at December 31, 2016, the Company fully paid the amount against letters of guarantee, hence no further financial charges are payable.

**24. 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 customers and others
2. Retails (formerly Skysales)

The Company's assets, liabilities and results of operations as of and for the year ended December 31, 2016 and 2015 by business segments are detailed below:

	<u>Catering</u>	<u>Retail (formerly Skysales)</u>	<u>Total</u>
<b><u>2016</u></b>			
Assets	<u>1,768,860,985</u>	<u>136,463,449</u>	<u>1,905,324,434</u>
Liabilities	<u>595,740,161</u>	<u>48,494,726</u>	<u>644,234,887</u>
Revenue	<u>1,987,490,868</u>	<u>269,159,400</u>	<u>2,256,650,268</u>
Net income	<u>492,282,953</u>	<u>48,855,912</u>	<u>541,138,865</u>
<b><u>2015</u></b>			
Assets	<u>1,714,721,807</u>	<u>133,498,805</u>	<u>1,848,220,612</u>
Liabilities	<u>457,930,954</u>	<u>72,129,292</u>	<u>530,060,246</u>
Revenue	<u>2,021,458,544</u>	<u>239,341,917</u>	<u>2,260,800,461</u>
Net income	<u>630,834,736</u>	<u>67,666,218</u>	<u>698,500,954</u>

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**25. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT**

Financial instruments carried on the consolidated balance sheet include cash and cash equivalents, investments, accounts receivable, accounts payable and other liabilities.

**Credit risk** is the risk that one party will fail to discharge an obligation to a financial instrument and will cause the other party to incur a financial loss. The Company seeks to limit the credit risk with respect to the customers by monitoring outstanding receivables. Cash and cash equivalents are placed with national and international banks with sound credit ratings. Accounts receivable are mainly due from Saudia and other foreign airlines and are stated at their estimated realizable values. The six largest customers account for 50% of outstanding trade receivables at December 31, 2016.

**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 Company's financial position and cash flows. The Company'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 Company 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 Company'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 Company's transactions are principally in Saudi Arabian Riyals, Euros 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. Except for the held-for-trading investments, which are stated at the fair value, the accompanying financial statements are prepared under the historical cost method and the differences may arise between the book values and the fair value estimates. Management believes that the fair values of the Company's financial assets and liabilities are not materially different from their carrying values.

**26. APPROVAL OF THE FINANCIAL STATEMENTS**

The financial statements were approved and authorised to issue by the Board of Directors on 1 March 2017, corresponding to 2 Jumada Al-Thani 1438H.