

SAUDI AIRLINES CATERING COMPANY
(Saudi Joint Stock Company)

**UNAUDITED INTERIM CONDENSED
FINANCIAL STATEMENTS**

For the three-month and nine-month periods ended
September 30, 2015

**KPMG Al Fozan & Al Sadhan**

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REVIEW REPORT ON THE INTERIM CONDENSED FINANCIAL STATEMENTS

The Shareholders
Saudi Airlines Catering 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 of September 30, 2015, the related interim statement of income for the three-month and nine-month periods then ended, the interim statements of cash flows and changes in shareholders' equity for the nine-month period then ended and the attached notes 1 to 15 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 express a conclusion on these interim condensed financial statements based on our review.

We conducted our review in accordance with the Auditing Standard on Review of Interim Financial Reporting issued by the Saudi Organization for Certified Public Accountants (SOCPA). A review consists principally of applying analytical procedures to financial data and information and making inquiries of persons 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 regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

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 accounting standards generally accepted in the Kingdom of Saudi Arabia.

For KPMG Al Fozan & Al Sadhan

Ebrahim Oboud Baeshen
License No. 382



Jeddah, Muharam 2, 1437H
Corresponding to October 15, 2015

SAUDI AIRLINES CATERING COMPANY
(Saudi Joint Stock Company)

INTERIM BALANCE SHEET (UNAUDITED)

As at September 30, 2015

(Expressed in Saudi Arabian Riyals)

	Notes	2015	2014
<u>ASSETS</u>			
Current assets:			
Cash and cash equivalents		108,966,071	382,681,012
Held-for-trading investment	4	204,527,678	203,203,050
Trade receivables		97,993,806	71,956,278
Due from related parties	9	683,378,813	593,934,067
Inventories		123,399,322	100,548,233
Held-to-maturity investment – current portion	5	100,000,000	--
Prepayments and other current assets		129,418,124	146,350,563
Total current assets		1,447,683,814	1,498,673,203
Non-current assets:			
Held-to-maturity investment – noncurrent portion	5	40,000,000	140,000,000
Property and equipment		403,266,862	159,723,302
Margins on letters of guarantee		11,646,091	10,094,048
Total non-current assets		454,912,953	309,817,350
Total assets		1,902,596,767	1,808,490,553
<u>LIABILITIES AND SHAREHOLDERS' EQUITY</u>			
Current liabilities:			
Trade payables		177,937,481	179,565,391
Due to related parties	9	15,827,187	12,264,479
Dividend payable	11	2,910,251	3,967,859
Accrued expenses and other current liabilities		265,724,032	248,551,811
Accrued Zakat and income tax	6	28,896,799	34,762,436
Total current liabilities		491,295,750	479,111,976
Non-current liabilities:			
Employees' end of service benefits		126,416,172	122,248,515
Accrued long-term bonus		7,726,173	4,445,735
Total non-current liabilities		134,142,345	126,694,250
Total liabilities		625,438,095	605,806,226
Shareholders' equity			
Share capital	1	820,000,000	820,000,000
Statutory reserve		267,525,612	199,467,580
Retained earnings		189,633,060	183,216,747
Total shareholders' equity		1,277,158,672	1,202,684,327
Total liabilities and shareholders' equity		1,902,596,767	1,808,490,553

Chief Financial Officer

Chief Executive Officer

Authorized Board of Directors' Member


The accompanying notes 1 to 15 form an integral part
of these unaudited interim condensed financial statements.


SAUDI AIRLINES CATERING COMPANY
(Saudi Joint Stock Company)

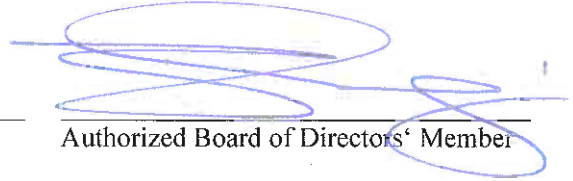
INTERIM STATEMENT OF INCOME (UNAUDITED)

For the three-month and nine-month periods ended September 30, 2015
(Expressed in Saudi Arabian Riyals)

	Notes	<u>Three-month period ended</u>		<u>Nine month period ended</u>	
		<u>2015</u>	<u>2014</u>	<u>2015</u>	<u>2014</u>
Revenue:					
Inflight catering revenue		424,986,595	420,550,588	1,245,447,311	1,216,187,087
Sky sales revenue		60,978,583	51,676,455	173,065,337	153,696,230
Business lounge revenue		33,305,320	22,756,676	94,752,544	64,980,371
Non-airlines revenue		47,459,591	43,782,229	156,929,779	125,091,358
Other operating revenue	7	12,148,602	13,770,665	34,241,263	40,609,405
Total revenue		<u>578,878,691</u>	<u>552,536,613</u>	<u>1,704,436,234</u>	<u>1,600,564,451</u>
Cost of revenue:					
Cost of materials and goods		(245,912,032)	(244,068,290)	(719,943,801)	(680,696,903)
Personnel cost		(55,727,896)	(48,772,591)	(165,289,394)	(141,588,308)
Rent and maintenance of production units		(23,411,239)	(20,669,469)	(69,677,273)	(66,363,108)
Depreciation		(5,139,979)	(3,958,883)	(14,352,368)	(11,081,430)
Other operating cost	8	(45,430,097)	(47,041,741)	(138,994,061)	(109,595,525)
Total cost of revenue		<u>(375,621,243)</u>	<u>(364,510,974)</u>	<u>(1,108,256,897)</u>	<u>(1,009,325,274)</u>
Gross profit		203,257,448	188,025,639	596,179,337	591,239,177
General and administrative expenses		(43,283,153)	(35,877,408)	(111,273,658)	(122,592,126)
Operating income		159,974,295	152,148,231	484,905,679	468,647,051
Other revenues and expenses, net		4,523,108	2,827,709	22,849,517	12,460,663
Net income		<u>164,497,403</u>	<u>154,975,940</u>	<u>507,755,196</u>	<u>481,107,714</u>
Earnings per share (Saudi Riyals):					
Operating income	10	<u>1.95</u>	<u>1.86</u>	<u>5.91</u>	<u>5.72</u>
Non-operating income	10	<u>0.06</u>	<u>0.03</u>	<u>0.28</u>	<u>0.15</u>
Net income	10	<u>2.01</u>	<u>1.89</u>	<u>6.19</u>	<u>5.87</u>


Chief Financial Officer


Chief Executive Officer


Authorized Board of Directors' Member

The accompanying notes 1 to 15 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 nine month period ended September 30, 2015

(Expressed in Saudi Arabian Riyals)

	<u>2015</u>	<u>2014</u>
Cash flows from operating activities:		
Net income	507,755,196	481,107,714
<u>Adjustments for:</u>		
Depreciation	17,317,289	13,409,129
Reversal of allowance for doubtful debts	(16,945,852)	(13,186,077)
Allowance for slow moving inventories	1,331,871	1,017,575
Loss on sale of property and equipment	258,442	45,219
Unrealised gain on held for trading investments	(1,014,869)	(3,203,050)
Provision for employees' end of service benefits	17,138,247	17,803,541
Provision for accrued bonus – long-term	2,727,657	4,445,735
Investment income	(2,608,920)	(3,457,486)
	<u>525,959,061</u>	<u>497,982,300</u>
Changes in operating assets and liabilities		
Decrease / (increase) in trade receivables	3,916,872	(2,105,773)
Increase in due from related parties	(218,630,382)	(238,069,520)
Increase in inventories	(37,977,621)	(24,936,057)
Decrease / (increase) prepayments and other current assets	21,579,298	(76,792,246)
(Increase) / decrease in margins on letters of guarantee	(1,478,980)	75,000
Increase in trade payables	15,518,006	33,532,426
Increase in due to related parties	3,391,635	12,264,479
Increase in accrued expenses and other current liabilities	24,616,945	17,824,623
	<u>336,894,834</u>	<u>219,775,232</u>
Payment of accrued bonus - long-term	(1,857,130)	-
Zakat and income tax paid	(43,891,871)	(41,343,713)
Employees' end of service benefits paid	(7,642,645)	(7,962,070)
Net cash from operating activities	<u>283,503,188</u>	<u>170,469,449</u>
Cash flows from investing activities:		
Purchase of property and equipment	(229,419,915)	(75,134,995)
Proceeds from disposal of fair value investments	--	100,000,000
Proceeds from sale of property and equipment	74,714	77,000
Investment income received	2,372,208	2,498,143
Net cash (used in) / from investing activities	<u>(226,972,993)</u>	<u>27,440,148</u>
Cash flows from financing activities:		
Dividend paid	(424,472,723)	(398,044,334)
Net decrease in cash and cash equivalents	<u>(367,942,528)</u>	<u>(200,134,737)</u>
Cash and cash equivalents as at beginning of the period	<u>476,908,599</u>	<u>582,815,749</u>
Cash and cash equivalents as at end of the period	<u>108,966,071</u>	<u>382,681,012</u>

Chief Financial Officer

Chief Executive Officer

Authorized Board of Directors' Member

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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 nine month period ended September 30, 2015

(Expressed in Saudi Arabian Riyals)

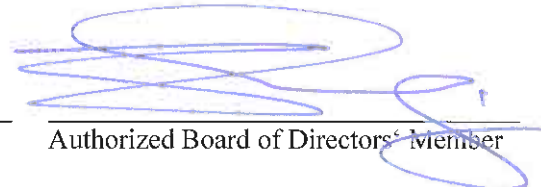
	Share capital	Statutory reserves	Retained earnings	Total
Balance at January 1, 2015	820,000,000	216,750,092	188,956,828	1,225,706,920
Net income for the period	--	--	507,755,196	507,755,196
Transfer to reserves	--	50,775,520	(50,775,520)	--
Zakat and income tax (Note 6)	--	--	(32,492,844)	(32,492,844)
Dividends (Note 11)	--	--	(423,810,600)	(423,810,600)
Balance at September 30, 2015	820,000,000	267,525,612	189,633,060	1,277,158,672
Balance at January 1, 2014	820,000,000	151,356,809	187,272,203	1,158,629,012
Net income for the period	--	--	481,107,714	481,107,714
Transfer to reserves	--	48,110,771	(48,110,771)	--
Zakat and income tax (Note 6)	--	--	(37,832,747)	(37,832,747)
Dividends (Note 11)	--	--	(399,219,652)	(399,219,652)
Balance at September 30, 2014	820,000,000	199,467,580	183,216,747	1,202,684,327



Chief Financial Officer



Chief Executive Officer



Authorized Board of Directors' Member

The accompanying notes 1 to 15 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 and nine-month periods ended September 30, 2015

(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 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 Rajab 19, 1429H (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 Muharram 29, 1432H (January 4, 2011) and obtained the amended Commercial Registration on Rabi-al-Awwal 10, 1432H (February 13, 2011).

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. 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 July 9, 2012. Following the sale of shares, the Company is owned as follows:

	<u>No. of shares</u>	<u>Value in SR</u>
Saudi Arabian Airlines Corporation	29,274,000	292,740,000
Strategic Catering Company Limited	28,126,000	281,260,000
Public stockholders	24,600,000	246,000,000
	<u>82,000,000</u>	<u>820,000,000</u>

The Company has obtained the amended commercial registration and the amended by-laws reflecting the public offering.

SAUDI AIRLINES CATERING COMPANY
(Saudi Joint Stock Company)

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED)
For the three-month and nine-month periods ended September 30, 2015
(Expressed in Saudi Arabian Riyals)

1. ORGANIZATION AND ACTIVITIES (continued)

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 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.

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

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

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 which has still not been incorporated 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. 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).

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, 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.

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED)

For the three-month and nine-month periods ended September 30, 2015

(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.

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED)
For the three-month and nine-month periods ended September 30, 2015
(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 statement of income and any subsequent recovery of receivable amounts previously written off are credited to income.

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED)

For the three-month and nine-month periods ended September 30, 2015

(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 principle, 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 fair value and then re-measured and stated in the balance sheet at market value and included under current assets. Realized gain or loss on sale of held-for-trading investments and changes in market 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:

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED)
For the three-month and nine-month periods ended September 30, 2015
(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

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.

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.

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED)
For the three-month and nine-month periods ended September 30, 2015
(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 financial statements.

SAUDI AIRLINES CATERING COMPANY
(Saudi Joint Stock Company)

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED)
For the three-month and nine-month periods ended September 30, 2015
(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>2015</u>	<u>2014</u>
Balance at beginning of the period	203,512,809	200,000,000
Unrealized gain on held-for-trading investment	1,014,869	3,203,050
	<u>204,527,678</u>	<u>203,203,050</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 September 30 comprise the followings:

		<u>2015</u>	<u>2014</u>
Held-to-maturity – short-term investment	5.1	<u>100,000,000</u>	<u>--</u>
Held-to-maturity – long-term investment	5.2	<u>40,000,000</u>	<u>140,000,000</u>

- 5.1 The Saudi Binladin Group Sukuk carrying a return of SIBOR plus margin of 1.7 percent calculated quarterly is due for redemption on October 7, 2015. The Company purchased the investment for an amount of SR 100,000,000.
- 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 ability 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.

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6. ZAKAT AND INCOME TAX

The Company has charged directly to its retained earnings the Zakat and income tax liabilities for the period amounting to SR 32,492,844 (2014: SR 37,832,747).

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.

7. OTHER OPERATING REVENUE

	Three-month period ended September 30, 2015	Three-month period ended September 30, 2014	Nine-month period ended September 30, 2015	Nine-month period ended September 30, 2014
Camp facilities sales (staff feeding & accommodation)	15,000	15,000	458,625	46,667
Exclusive purchase income and services to suppliers	4,380,046	5,968,947	11,194,905	21,040,483
Transfer of airline equipment charges	7,753,556	7,786,718	22,587,733	19,522,255
	12,148,602	13,770,665	34,241,263	40,609,405

8. OTHER OPERATING COST

	Three-month period ended September 30, 2015	Three-month period ended September 30, 2014	Nine-month period ended September 30, 2015	Nine-month period ended September 30, 2014
Communication and utilities	4,729,982	4,854,141	14,024,849	13,270,177
Supplies and expendable items	9,609,144	9,364,817	29,084,790	23,756,531
Service agreement	19,579,754	22,420,627	58,656,449	44,164,816
Other operational cost	11,511,217	10,402,156	37,227,973	28,404,001
	45,430,097	47,041,741	138,994,061	109,595,525

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9. RELATED PARTY TRANSACTIONS

Related parties include the Company's shareholders and their relatives upto 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.

Followings are the significant related parties to the Company as at 30 September 2015 and 30 September 2014.

Name	Relationship
Saudi Arabian Airlines Corporation ("Saudia")	Shareholder
Newrest Group Holding S.L.	One of the ultimate shareholder
Saudi Airlines Cargo Company	Affiliate
Alhokair Group Joint Stock Company	One of the ultimate shareholders
Saudi Ground Services Company	Affiliate
Saudia Airlines Real Estate Development Company	Affiliate
Board of Directors	Key management personnel

The significant related party transactions and the related balances are as follows:

	Nine-month period ended from January 1 to September 30, <u>2015</u>	Nine-month period ended from January 1 to September 30, <u>2014</u>
Catering and other services rendered to Saudia	1,105,253,000	1,078,371,000
Services and other expenses charged by Saudia	4,619,000	9,445,000
Services charged and expenses re-allocated to Saudi Ground Services Company	33,921,000	33,829,000
Re-allocation of leasing charges	10,502,000	145,000
Services rendered to/charged by Saudi Airlines Cargo Company	12,334,000	14,185,000
Services rendered to/charged by Al Hokair Group Joint Stock Company	--	1,280,000
Services rendered to/charged by Newrest Group Holding S.L	568,000	793,551
Management fees	9,000,000	9,000,000
Board of directors' fees and expenses	1,875,000	1,746,000

Due from related parties as of September 30:

	<u>2015</u>	<u>2014</u>
Saudi Arabian Airlines Corporation ("Saudia") – trade	637,947,537	554,576,130
Al Hokair Group Joint Stock Company	367,949	470,748
Saudi Ground Services Company	27,472,132	22,846,764
Saudi Airlines Cargo Company	17,591,195	16,040,425
	<u>683,378,813</u>	<u>593,934,067</u>

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9. RELATED PARTY TRANSACTIONS (continued)

Due to related parties as of September 30:

	<u>2015</u>	<u>2014</u>
Saudi Airlines Real Estate Development Company	15,816,316	6,542,931
Newrest Group Holding S.L.	10,871	5,721,548
	<u>15,827,187</u>	<u>12,264,479</u>

10. 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.

11. DIVIDENDS

In ordinary general assembly meeting held on April 29, 2015, the shareholders approved the distribution of dividend from the Company's retained earnings as at December 31, 2014 of SR 143.5 million, which is equivalent to SR 1.75 per share after Zakat and before income tax deduction.

On May 7, 2015, 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 26, 2015, 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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12. COMMITMENTS AND CONTINGENCIES

As at September 30, the Company had the following commitments and contingencies:

	30 September 2015 (Unaudited)	30 September 2014 (Unaudited)
Capital commitments	<u>97,000,909</u>	<u>220,084,551</u>

13. 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 nine-month period ended September 30, 2015 and 2014 by business segments are detailed below:

	<u>Catering</u>	<u>Sky sales</u>	<u>Total</u>
<u>2015 (Unaudited)</u>			
Assets	1,793,878,588	108,718,179	1,902,596,767
Liabilities	593,166,657	32,271,438	625,438,095
Revenue	1,531,370,898	173,065,336	1,704,436,234
Net income	454,164,341	53,590,855	507,755,196
<u>2014 (Unaudited)</u>			
Assets	1,732,485,650	76,004,903	1,808,490,553
Liabilities	549,171,430	56,634,796	605,806,226
Revenue	1,446,868,221	153,696,230	1,600,564,451
Net income	430,471,981	50,635,733	481,107,714

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14. RECLASSIFICATION AND CORRESPONDING FIGURES

Certain reclassification has been made to the prior period financial statements to confirm with current year'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	3,203,050
Cash and cash equivalents	Prepayments and other current assets	389,452
Trade payables	Due to related parties	5,721,548

15. APPROVAL OF THE INTERIM CONDENSED FINANCIAL STATEMENTS

The interim condensed financial statements were approved and authorised to issue by the Board of Directors on Muharam 2, 1437H, corresponding to October 15, 2015.