

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

**CONDENSED INTERIM FINANCIAL STATEMENTS FOR THE  
THREE MONTHS PERIOD ENDED MARCH 31, 2017**



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## INDEPENDENT AUDITORS' REPORT ON REVIEW OF INTERIM FINANCIAL STATEMENTS

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

### Introduction

We have reviewed the accompanying 31 March 2017 condensed interim financial statements of Saudi Airlines Catering Company which comprises:

- the condensed statement of financial position as at 31 March 2017;
- the condensed statement of profit or loss and other comprehensive income for the three-month period ended 31 March 2017;
- the condensed statement of changes in equity for the three-month period ended 31 March 2017;
- the condensed statement of cash flows for the three-month period ended 31 March 2017; and
- the notes to the condensed interim financial statements.

Management is responsible for the preparation and presentation of these condensed interim financial statements in accordance with IAS 34, 'Interim Financial Reporting' that is endorsed in the Kingdom of Saudi Arabia. Our responsibility is to express a conclusion on these condensed interim financial statements based on our review.

### Scope of review

We conducted our review in accordance with the International Standard on Review Engagements 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' that is endorsed in the Kingdom of Saudi Arabia. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing that are endorsed in the Kingdom of Saudi Arabia, and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying 31 March 2017 condensed interim financial statements of Saudi Airlines Catering Company are not prepared, in all material respects, in accordance with IAS 34, 'Interim Financial Reporting' that is endorsed in the Kingdom of Saudi Arabia.

For KPMG Al Fozan & Partners  
Certified Public Accountants

Ebrahim Oboud Baeshen  
License No. 382

Jeddah, 7 Shaban 1438H  
Corresponding to 3 May 2017



KPMG Al Fozan & Partners Certified Public Accountants, a registered company in the Kingdom of Saudi Arabia, and a non-partner member firm of the KPMG network of independent firms affiliated with KPMG International Cooperative, a Swiss entity.

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

**CONDENSED STATEMENT OF FINANCIAL POSITION**  
**FOR THE THREE MONTHS PERIOD ENDED MARCH 31, 2017**  
(Expressed in Saudi Arabian Riyals)

Particulars	Note	March 31, 2017	December 31, 2016	January 01, 2016
<b>Assets</b>				
Property, plant and equipment	3	547,401,289	525,112,467	455,310,635
Intangible assets		2,181,362	2,481,088	2,743,077
Investment property		35,755,590	36,176,244	--
Investment securities	4	85,899,795	82,258,676	54,807,413
<b>Non-current assets</b>		<b>671,238,036</b>	<b>646,028,475</b>	<b>512,861,125</b>
Prepayments and other current assets		128,658,733	143,101,215	130,168,505
Investment securities	4	85,256,822	84,721,772	205,170,874
Inventories		125,262,172	125,530,978	121,261,687
Trade and other receivables		703,774,244	730,691,867	553,395,599
Cash and cash equivalents		100,504,691	151,711,045	304,248,115
<b>Current assets</b>		<b>1,143,456,662</b>	<b>1,235,756,877</b>	<b>1,314,244,780</b>
<b>Total assets</b>		<b>1,814,694,698</b>	<b>1,881,785,352</b>	<b>1,827,105,905</b>
<b>Equity</b>				
Share capital		820,000,000	820,000,000	820,000,000
Statutory reserve		353,835,879	340,714,074	286,600,187
Retained earnings		103,465,289	99,875,473	211,143,512
<b>Total equity</b>		<b>1,277,301,168</b>	<b>1,260,589,547</b>	<b>1,317,743,699</b>
<b>Liabilities</b>				
Employee benefits	6	162,616,183	163,272,642	145,633,311
<b>Non-current liabilities</b>		<b>162,616,183</b>	<b>163,272,642</b>	<b>145,633,311</b>
Current zakat and tax liabilities	7	36,932,519	27,100,352	35,109,943
Trade and other payables		337,844,828	430,822,811	328,618,952
<b>Current liabilities</b>		<b>374,777,347</b>	<b>457,923,163</b>	<b>363,728,895</b>
<b>Total liabilities</b>		<b>537,393,530</b>	<b>621,195,805</b>	<b>509,362,206</b>
<b>Total equity and liabilities</b>		<b>1,814,694,698</b>	<b>1,881,785,352</b>	<b>1,827,105,905</b>

Chief Financial Officer

Chief Executive Officer

Authorized Board of Director Member

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

**CONDENSED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME**

**FOR THE THREE MONTHS PERIOD ENDED MARCH 31, 2017**

(Expressed in Saudi Arabian Riyals)

Particulars	Note	March 31, 2017	March 31, 2016
Revenue	8	533,883,890	559,165,842
Cost of sales	9	(366,895,607)	(367,079,474)
Gross profit		166,988,283	192,086,368
Finance income		1,163,383	1,255,327
Finance cost		(1,211,400)	(1,039,600)
Other income		1,442,604	1,718,021
General and administrative expenses		(36,751,256)	(51,462,031)
Other expenses		(413,568)	(780,353)
<b>Profit before zakat and tax</b>		<b>131,218,046</b>	<b>141,777,732</b>
Zakat and tax		(9,832,167)	(11,388,471)
<b>Profit</b>		<b>121,385,879</b>	<b>130,389,261</b>
<b>Other comprehensive income</b>			
Items that will not be reclassified to profit or loss		--	--
Items that are or may be reclassified subsequently to profit or loss		--	--
<b>Other comprehensive income</b>		<b>--</b>	<b>--</b>
<b>Total comprehensive income</b>		<b>121,385,879</b>	<b>130,389,261</b>
<b>Earnings per share</b>			
Basic earnings per share	10	1.48	1.59
Diluted earnings per share	10	1.48	1.59



Chief Financial Officer



Chief Executive Officer



Authorized Board of Director Member

**SAUDI AIRLINES CATERING COMPANY**  
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**CONDENSED STATEMENT OF CHANGES IN EQUITY**  
**FOR THE THREE MONTHS PERIOD ENDED MARCH 31, 2017**  
(Expressed in Saudi Arabian Riyals)

Particulars	Share Capital	Statutory Reserve	Retained Earnings	Total
Balance at January 1, 2017	820,000,000	340,714,074	99,875,473	1,260,589,547
Total comprehensive income				
Profit	-	-	121,385,879	121,385,879
Other comprehensive income	-	-	-	-
Total comprehensive income	-	-	121,385,879	121,385,879
Transactions with owners of the Company				
Contributions and distributions				
Dividends	-	-	(104,674,258)	(104,674,258)
Transfer to statutory reserve	-	13,121,805	(13,121,805)	-
Balance at March 31, 2017	820,000,000	353,835,879	103,465,289	1,277,301,168

Particulars	Share Capital	Statutory Reserve	Retained Earnings	Total
Balance at January 1, 2016	820,000,000	286,600,187	211,143,512	1,317,743,699
Total comprehensive income				
Profit	-	-	130,389,261	130,389,261
Other comprehensive income	-	-	-	-
Total comprehensive income	-	-	130,389,261	130,389,261
Transactions with owners of the Company				
Contributions and distributions				
Dividends	-	-	(142,234,916)	(142,234,916)
Transfer to statutory reserve	-	14,167,357	(14,167,357)	-
Balance at March 31, 2016	820,000,000	300,767,544	185,130,500	1,305,898,044



Chief Financial Officer



Chief Executive Officer



Authorized Board of Director Member

**SAUDI AIRLINES CATERING COMPANY**  
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**CONDENSED STATEMENT OF CASH FLOWS**  
**FOR THE THREE MONTHS PERIOD ENDED MARCH 31, 2017**  
(Expressed in Saudi Arabian Riyals)

Particulars	March 31, 2017	March 31, 2016
<b>Cash flows from operating activities</b>		
Profit	121,385,879	130,389,261
<i>Adjustments for:</i>		
- Zakat and tax	9,832,167	11,388,471
- Depreciation	13,376,307	7,649,041
- Amortization	299,726	253,849
- (Reversal) / allowance for doubtful debts	(15,012,598)	1,169,625
- Inventories obsolescence provision	724,928	661,477
- Loss on sales of property & equipment	27,400	--
- Finance income	(1,163,383)	(1,255,327)
- Finance cost	1,211,400	1,039,600
- Provision for employees' end of service benefits	3,049,737	3,250,609
- Provision for accrued bonus - long term	--	763,995
	133,731,563	155,310,601
<i>Changes in:</i>		
- Trade and other receivables	41,930,221	(69,296,290)
- Inventories	(456,122)	(214,400)
- Prepayments and other current assets	14,813,751	(32,192,827)
- Letters of guarantee	(3,641,118)	(1,694,480)
- Trade and other payables	(92,933,708)	155,052,561
Cash generated from operating activities	93,444,587	206,965,165
Payment of accrued bonus - long term	(3,046,385)	(3,423,564)
Employees' end of service benefits paid	(1,871,211)	(1,497,134)
Interest income received	257,063	--
<b>Net cash from operating activities</b>	<b>88,784,054</b>	<b>202,044,467</b>
<b>Cash flow from investing activities</b>		
Purchase of property, plant and equipment	(35,271,875)	(55,153,423)
Additions to intangible assets	--	(434,625)
<b>Net cash used in investing activities</b>	<b>(35,271,875)</b>	<b>(55,588,048)</b>
<b>Cash flow from financing activities</b>		
Dividends paid	(104,718,533)	(142,238,456)
<b>Net cash from financing activities</b>	<b>(104,718,533)</b>	<b>(142,238,456)</b>
<b>Net increase in cash and cash equivalents</b>	<b>(51,206,354)</b>	<b>4,217,963</b>
Cash and cash equivalents at January 1	151,711,045	304,248,115
<b>Cash and cash equivalents at March 31</b>	<b>100,504,691</b>	<b>308,466,078</b>



Chief Financial Officer



Chief Executive Officer



Authorized Board of Director Member

**SAUDI AIRLINES CATERING COMPANY**  
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**NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS**  
**FOR THE THREE MONTHS PERIOD ENDED MARCH 31, 2017**  
(Expressed in Saudi Arabian Riyals)

**1. REPORTING ENTITY**

Saudi Airlines Catering Company (the "Company") is domiciled in Saudi Arabia. The Company's registered office is at Catering HQ – SW/10-22/3, P.O. Box 9178, Jeddah 21413, Kingdom of Saudi Arabia ("KSA"). The Company was registered as a Saudi limited liability company on 20 Muharram 1429 (January 29, 2008) under commercial registration number 4030175741. The share capital of the Company, amounting to Saudi Riyals ("SR") 100,767,000 was divided into 1,007,670 shares of SR 100 each. The Company was established as a wholly owned subsidiary of Saudi Arabian Airlines Corporation ("Saudia") whose contribution to the share capital was made up of SR 500,000 cash and SR 100,267,000 of net assets of its catering division transferred effective on January 1, 2008.

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

On December 26, 2010 the shareholders resolved to amend the Articles of Association to reflect the sale of 3% of Saudia's shares in the Company to Saudi Airlines Company Limited, Saudia Private Aviation Company Limited and Saudia Real Estate and Development Company Limited which are wholly owned subsidiaries of Saudia. Furthermore, the shareholders decided to convert the Company from a limited liability company to a closed joint stock company and divide the capital of the Company which amounted to SR 100,767,000 into 10,076,700 ordinary shares of SR 10 each instead of 1,007,670 shares of SR 100 each. The Company obtained the approval of the Minister of Commerce and Industry for the above sale and conversion on 29/1/1432 (January 4, 2011) and obtained the amended Commercial Registration on 10/3/1432 (February 13, 2011).

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 13,71,428 from general reserve and SR 46,723,180 from statutory reserve. The Company finalized the related formalities and obtained the amended commercial registration on 26 Jamad'1, 1432 (April 30, 2011).

During the period from 28 Rajab, 1433 (June 18, 2012) to 4 Shaban, 1433 (June 24, 2012), the Company sold 24.6 million shares through an initial public offering representing 30% of the Company's share capital at SR 54 per share including the nominal value amounting to SR 10 per share and an issue premium of SR 44 per share. Thus, the Company converted into a public joint stock company and commenced trading on the Tadawul in the Kingdom of Saudi Arabia on July 9, 2012. Following the sale of stock, the Company is owned as follows:

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



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**1. REPORTING ENTITY (continued)**

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

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

**2. SIGNIFICANT ACCOUNTING POLICIES**

The Company has consistently applied the following accounting policies to all periods presented in these financial statements:

**A. Statement of compliance**

The accompanying condensed interim financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting as endorsed in the Kingdom of Saudi Arabia. Up to and including the year ended December 31, 2016, the Company prepared and presented statutory financial statements in accordance with the generally accepted accounting standards in the Kingdom of Saudi Arabia issued by the SOCPA and the requirements of the Saudi Arabian Regulations for Companies and the Company's By-laws in so far as they relate to the preparation and presentation of the financial statements.

For financial periods commencing January 1, 2017, the applicable regulations require the Company to prepare and present financial statements in accordance with International Financial Reporting Standards that are endorsed in the Kingdom of Saudi Arabia and other standards and pronouncements that are issued by SOCPA ("IFRS"). As part of this requirement, the Company has prepared these condensed interim financial statements. In preparing these condensed interim financial statements, the Company's opening statement of financial position under IFRS has been prepared as at January 1, 2016, which is the Company's date of transition to IFRS to establish the opening financial position of the Company expected to be presented in the Company's first complete set of IFRS financial statements for the year ending 31 December 2017.

As required by the Capital Market Authority ("CMA") through its circular dated 16<sup>th</sup> October 2016 the Company needs to apply the cost model to measure the property, plant, equipment, investment property, and intangible assets upon adopting the IFRS for three years period starting from the IFRS adoption date.



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**2. SIGNIFICANT ACCOUNTING POLICIES (continued)**

As these are the Company's first condensed interim financial statements prepared in accordance with IFRSs, IFRS 1 *First-time Adoption of International Financial Reporting Standards* has been applied. An explanation of how the transition to IFRS has affected the previously reported financial position as at January 1, 2016, March 31, 2016 and December 31, 2016, financial performance and cash flows of the Company for the three month period ended March 31, 2016, and year ended December 31, 2016 is provided in Note 15.

At the date of authorization of these financial statements, various Standards and Interpretations (including amendments thereto) were in issue but not yet effective. Management is still accessing the likely impact of the adoption of these Standards and Interpretations in future periods. (Refer note 14).

*i. Accounting convention / Basis of Measurement*

These financial statements have been prepared under the historical cost basis, except financial assets measured at fair value through profit & loss, which are stated at fair value and the going concern concept.

*ii. Functional and presentation currency*

These financial statements are presented in Saudi Arabian Riyals ("SR") which is the Company's functional currency.

*iii. Use of judgments and estimates*

In preparing these condensed interim financial statements, management has made judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to estimates are recognised prospectively.

*a) Judgments*

Information about judgments made in applying accounting policies that have the most significant effects on the amounts recognised in the condensed interim financial statements are:

- Leases: whether an arrangement contains a lease
- Lease classification

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**2. SIGNIFICANT ACCOUNTING POLICIES (continued)**

b) Assumptions and estimation uncertainty

*Impairment of trade accounts receivable and amounts due from related parties*

An estimate of the collectible amount of accounts receivable and amounts due from related parties is made when collection of the full amount is no longer probable. For individually significant amounts, this estimation is performed on an individual basis. Amounts which are not individually significant, but which are past due, are assessed collectively and an allowance applied according to the length of time past due.

At the reporting date, gross accounts receivable and amounts due from related parties were SR 174 million (31 December 2016: SR 175 million and 1 January 2016: SR 140 million) and SR 582 million (31 December 2016: SR 622 million and 1 January 2016: SR 450 million) respectively with allowance for impairment of receivables amounting to SR 52 million (31 December 2016: SR 66 million and 1 January 2016: 36 million) and Nil (31 December 2016: Nil and 1 January 2016: Nil) respectively. Any difference between the amounts actually collected in future periods and the amounts expected will be recognised in the income statement.

*Inventories obsolescence provision*

Inventories are held at the lower of cost and net realisable value. When inventories become old or obsolete, an estimate is made of their net realisable value. For individually significant amounts, this estimation is performed on an individual basis. Amounts which are not individually significant, but which are old or obsolete, are assessed collectively and a provision applied according to the inventory type and the degree of ageing or obsolescence, based on anticipated selling prices.

At the reporting date, gross inventories were SR 134 million (31 December 2016: SR 133 million and 1 January 2016: SR 129 million) with provision for obsolete and slow-moving inventories amounting to SR 9 million (31 December 2016: SR 8 million and 1 January 2016: SR 8 million). Any difference between the amounts actually realised in future periods and the amounts expected will be recognised in the income statement.

*Estimated economic useful life of property, plant and equipment*

The Company's management estimates the economic useful life of its property, plant and equipment for calculating depreciation. This estimate is determined after considering the expected usage of the asset or physical wear and tear. Management reviews the estimated residual value and estimated economic useful life annually and future depreciation charges would be adjusted where management believes the estimated economic useful life differs from previous estimates.

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**FOR THE THREE MONTHS PERIOD ENDED MARCH 31, 2017**  
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**2. SIGNIFICANT ACCOUNTING POLICIES (continued)**

*Defined Benefit Obligation*

The Company's obligation in respect of the defined benefit plan is calculated by estimating the amount of future benefit that employees have earned in the current and prior periods and discounting that amount. The calculation of the defined benefit obligation is performed annually by a qualified actuary using the projected unit credit method. Judgments are made in estimating the actuarial assumptions. Key assumptions are given in Note 6.

**B. Foreign currency transactions**

Transactions in foreign currencies are translated into the functional currency of the Company at the exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the exchange rate at the reporting date. Non-monetary items that are measured based on historical cost in a foreign currency are translated at the exchange rate at the date of the transaction. Foreign currency differences are generally recognised in profit or loss.

**C. Revenue**

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured, regardless of when the payment is received. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. The Company assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Company has concluded that it is acting as principal in all of its revenue arrangements as it has primary responsibility for providing goods or services and assumes the inventory and credit risk. The following specific recognition criteria must also be met before revenue is recognised:

*Catering revenue*

Revenue from catering and other services is recognised when the services are rendered to the customer.

*Sales of goods*

Revenue from the sales of goods is recognised when the significant risks and rewards of ownership have been transferred to the customer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably, usually on delivery of the goods. Revenue from the sales of goods is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates.

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**NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS**  
**FOR THE THREE MONTHS PERIOD ENDED MARCH 31, 2017**  
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**2. SIGNIFICANT ACCOUNTING POLICIES (continued)**

*Interest income*

Interest income is recognised on a time proportion basis using the effective interest method.

*Advertising income*

Advertising income recognised on a time proportion basis.

*Rental income*

Rental income arising from operating leases on investment properties is accounted for on a straight-line basis over the lease terms and is included in other income in the statement of profit or loss and other comprehensive income due to its non-operating nature.

**D. Employee benefits**

*i. Short-term employee benefits*

Short-term employee benefits are expensed as the related service is provided. A liability is recognised for the amount expected to be paid if the Company has a present legal or constructive obligation to pay this amount as a result of the past service provided by the employee and the obligation can be estimated reliably.

*ii. Defined benefit plans*

The Company operates an approved unfunded employees' end of service benefits plan ("EOSB") for its employees as required by the Saudi Arabian Labor Law.

Remeasurements of the defined benefit liability, which comprise actuarial gains and losses are recognised immediately in OCI. The Company determines the interest expense on the defined liability for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then defined liability, taking into account any changes in the defined benefit liability during the period as a result of benefit payments. Interest expense and other expenses related to defined benefit plans are recognised in profit or loss.

When the benefits of the plan are changed or when the plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognised immediately in profit or loss. The Company recognises gains and losses on the settlement of a defined benefit plan when the settlement occurs.

*iii. Other long-term employee benefits*

The Company's net obligation in respect of long-term employee benefits is the amount of future benefit that employees have earned in return for their service in the current and prior periods. That benefit is discounted to determine its present value if the impact is material. Remeasurements are recognised in profit or loss in the period in which they arise.

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**FOR THE THREE MONTHS PERIOD ENDED MARCH 31, 2017**  
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**2. SIGNIFICANT ACCOUNTING POLICIES (continued)**

*iv. Termination benefits*

Termination benefits are expensed at the earlier of when the Company can no longer withdraw the offer of those benefits and when the Company recognises costs for a restructuring. If benefits are not expected to be settled wholly within 12 months of the reporting date, then they are discounted.

**E. Zakat and tax**

The Company is subject to Regulations of Saudi General Authority of Zakat and Income Tax ("GZAT") in the Kingdom of Saudi Arabia. Zakat and tax are provided on an accruals basis. The Zakat charge is computed on the Zakat base. Tax is computed on adjusted net income. The amount of Zakat and tax is the best estimate of the Zakat and tax amount expected to be paid or received that reflects uncertainty related to income taxes, if any. It is measured using Zakat and tax rates enacted or substantially enacted at the reporting date.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Future taxable profits are determined based on business plans of the Company and the reversal of temporary differences. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised; such reductions are reversed when the probability of future taxable profits improves. Unrecognised deferred tax assets are reassessed at each reporting date and recognised to the extent that it has become probable that future taxable profits will be available against which they can be used. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted at the reporting date.

The Company withholds taxes on transactions with non-resident parties and on dividends paid to foreign shareholders in accordance with GZAT regulations, which is not recognized as an expense being the obligation of the counter party on whose behalf the amounts are withheld.

**F. Inventories**

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is 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 estimated costs of completion and the estimated costs to sell.

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**NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS**  
**FOR THE THREE MONTHS PERIOD ENDED MARCH 31, 2017**  
(Expressed in Saudi Arabian Riyals)

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**2. SIGNIFICANT ACCOUNTING POLICIES (continued)**

The Company determines its allowance for inventory obsolescence based upon historical experience, current condition, and current and future expectations with respect to sales. The estimate of the Company's allowance for inventory obsolescence could materially change from period to period, which could be due to differing remaining useful life of the portfolio of inventory from year to year.

**G. Property, plant and equipment**

*i. Recognition and measurement*

Items of property, plant and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses. The cost of items of property, plant and equipment at January 1, 2016, the Company's date of transition to IFRS, was determined with reference to its cost at that date.

Expenditure on maintenance and repairs of items of Property, plant and equipment is expensed, while expenditure for betterment is capitalised.

If significant parts of an item of property, plant and equipment have different useful lives, then they are accounted for as separate items (major components) of property, plant and equipment.

Any gain or loss on disposal of an item of property, plant and equipment is recognised in the profit or loss.

Capital work-in-progress represents all costs relating directly to on-going construction projects and are capitalised as a separate component of property, plant and equipment. On completion, the cost of construction is transferred to the appropriate category.

Capital work-in-progress is not depreciated.

*ii. Subsequent expenditure*

Subsequent expenditure is capitalised only if it is probable that the future economic benefits associated with the expenditure will flow to the Company.

*iii. Depreciation*

Depreciation is calculated to write off the cost of items of property, plant and equipment less their estimated residual values using the straight-line method over the estimated useful lives, and is generally recognised in profit or loss. Land is not depreciated.

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**2. SIGNIFICANT ACCOUNTING POLICIES (continued)**

The estimated useful lives of the principal classes of assets are as follows:

Leasehold improvements	2-30 years
Equipment	3-15 years
Motor Vehicles	7-10 Years

Depreciation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

*iv. Reclassification to investment property*

When the use of a property changes from owner-occupied to investment property, the property is reclassified accordingly at carrying value.

**H. Investment property**

Investment property is measured using the cost model and are stated at cost. The cost model means that carrying amount is cost less accumulated depreciation and accumulated impairment losses.

Any gain or loss on disposal of investment property (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised in profit or loss.

**I. Intangible assets**

Intangibles comprise software, which have finite useful lives and are measured at cost less accumulated amortization and any accumulated impairment losses.

Subsequent expenditure is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is recognised in profit or loss as incurred.

Amortisation is calculated to write off the cost of intangible assets less their estimated residual values using the straight-line method over their estimated useful lives, and is generally recognised in profit or loss. The estimated useful lives of intangible assets are 5 years.

Amortization methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.



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**2. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**J. Non-derivative financial instruments**

***i. Non-derivative financial assets and financial liabilities – Recognition and derecognition***

The Company initially recognises loans and receivables, deposits and debt securities issued on the date when they are originated. All other financial assets and financial liabilities are initially recognised on the trade date when the entity becomes a party to the contractual provisions of the instrument.

The Company derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred, or it neither transfers nor retains substantially all of the risks and rewards of ownership and does not retain control over the transferred asset. Any interest in such derecognised financial assets that is created or retained by the Company is recognised as a separate asset or liability.

The Company derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

***ii. Non-derivative financial assets - Measurement***

**Loan and receivables and held to maturity financial assets**

These assets are initially measured at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, they are measured at amortised cost, using the effective interest method and net of any impairment loss, if any.

**Financial assets at fair value through profit or loss**

A financial asset is classified as at fair value through profit or loss if it is classified as held for-trading or is designated as such on initial recognition. Directly attributable transaction costs are recognised in profit or loss as incurred. Financial assets at fair value through profit or loss are measured at fair value and changes therein, including any interest or dividend income, are recognised in profit or loss.

***iii. Non-derivative financial liabilities***

Non-derivative financial liabilities are initially measured at fair value less any directly attributable transaction costs. Subsequent to initial recognition, these liabilities are measured at amortised cost using the effective interest method.

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**2. SIGNIFICANT ACCOUNTING POLICIES (continued)**

**K. Share capital**

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares recognised as a deduction from equity.

**L. Impairment**

*i. Non-derivative financial assets*

Financial assets not classified as at fair value through profit or loss, are assessed at each reporting date to determine whether there is objective evidence of impairment.

Objective evidence that financial assets are impaired includes:

- default or delinquency by a debtor;
- indication that a debtor or issuer will enter bankruptcy;
- restructuring of the amount due to the Company on the terms that Company would not consider otherwise; or
- disappearance from an active market for a security because of financial difficulties.

For an investment in an equity security, objective evidence of impairment includes a significant or prolonged decline in its fair value below its cost. The Company considers a decline of 20% to be significant and a period of nine months to be prolonged.

The Company considers evidence of impairment for these assets at both an individual asset and a 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 Company uses historical information on the timing of recoveries and the amount of loss incurred, and makes an adjustment if current economic and credit conditions are such that the actual losses are likely to be greater or lesser than suggested by historical trends.

An impairment loss is calculated as the difference between an asset's carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account. When the Company considers that there are no realistic prospects of recovery of the asset, the relevant amounts are written off. If the amount of impairment loss subsequently decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, then the previously recognised impairment loss is reversed through profit or loss.

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**2. SIGNIFICANT ACCOUNTING POLICIES (continued)**

*ii. Non-financial assets*

The carrying amounts of the Company's non-financial assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

Impairment exists when the carrying value of an asset or cash generating unit ("CGU") exceeds the recoverable amount, which is the higher of the fair value less costs to sell and value in use. The value in use is based on a discounted cash flow (DCF) model, whereby the future expected cash flows are discounted using a pre-tax discount rate that reflects current market assessments of the time value of money and risks specific to the asset.

Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis.

**M. Provisions**

A provision is recognised if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as a finance cost.

**N. Leases**

*i) Determining whether an arrangement contains a lease*

At inception of an arrangement, the Company determines whether such an arrangement is or contains a lease. A specific asset is the subject of a lease if fulfilment of the arrangement is dependent on the use of that specified asset. An arrangement conveys the right to use the asset if the arrangement conveys to the Company the right to control the use of the underlying asset.

At inception or on reassessment of the arrangement, the Company separates payments and other consideration required by such an arrangement into those for the lease and those for other elements on the basis of their relative fair values. If the Company concludes for a finance lease that it is impracticable to separate the payments reliably, an asset and a liability are recognised at an amount equal to the fair value of the underlying asset. Subsequently the liability is reduced as payments are made and an imputed finance charge on the liability is recognised using the Company's incremental borrowing rate.

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**2. SIGNIFICANT ACCOUNTING POLICIES (continued)**

*ii) Leased assets*

Leases of property, plant and equipment that transfer to the Company substantially all of the risk and rewards of ownership are classified as finance leases. The leased assets are measured initially at an amount equal to the lower of their fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the assets are accounted for in accordance with the accounting policy applicable to that asset.

Assets held under other leases are classified as operating leases and are not recognised in the Company's statement of financial position.

*iii) Lease payments*

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

**O. Fair Value measurement**

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Company has access at that date. The fair value of a liability reflects its non-performance risk.

A number of the Company's accounting policies and disclosures require the measurement of fair values, for both financial and non-financial assets and liabilities

When one is available, the Company measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

If there is no quoted price in an active market, then the Company uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

If an asset or a liability measured at fair value has a bid price and an ask price, then the Company measures assets and long positions at a bid price and liabilities and short positions at an ask price.

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**2. SIGNIFICANT ACCOUNTING POLICIES (continued)**

The best evidence of the fair value of a financial instrument on initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received. If the Company determines that the fair value on initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique for which any unobservable inputs are judged to be insignificant in relation to the measurement, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value on initial recognition and the transaction price. Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

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3. PROPERTY, PLANT AND EQUIPMENT

See accounting policies in Notes 2 (G) and (L).

A. Reconciliation and carrying amount

	Land	Leasehold improvements	Equipment	Motor vehicles	Under construction	Total
<b>Cost:</b>						
Balance at January 1, 2016	33,786,058	38,260,036	101,822,414	76,057,118	296,757,239	546,682,865
Additions	--	996,357	4,844,302	573,502	100,910,061	107,324,222
Disposals	--	(1,713,675)	(13,046,995)	(8,032,229)	--	(22,792,899)
Transfer from capital work-in-progress	--	191,399,146	38,779,585	32,523,981	(262,702,712)	--
Balance at December 31, 2016	33,786,058	228,941,864	132,399,306	101,122,372	134,964,588	631,214,188
Additions	--	758,980	3,788,292	3,481,389	27,243,214	35,271,875
Disposal	--	--	(1,087,755)	(23,000)	--	(1,110,755)
Transfer from capital work-in-progress	--	59,713,023	9,429,710	228,014	(69,370,747)	--
Balance at March 31, 2017	33,786,058	289,413,867	144,529,553	104,808,775	92,837,055	665,375,308

Accumulated depreciation:

Balance at January 1, 2016	--	18,979,597	50,504,866	21,887,767	--	91,372,230
Charge for the year	--	9,694,433	18,839,480	8,811,216	--	37,345,129
Disposals	--	(1,713,675)	(12,890,900)	(8,011,063)	--	(22,615,638)
Balance at December 31, 2016	--	26,960,355	56,453,446	22,687,920	--	106,101,721
Charge for the period	--	4,754,002	5,434,596	2,767,055	--	12,955,653
Disposals	--	--	(1,060,355)	(23,000)	--	(1,083,355)
Balance at March 31, 2017	--	31,714,357	60,827,687	25,431,975	--	117,974,019

Carrying amounts:

At March 31, 2017	33,786,058	257,699,510	83,701,866	79,376,800	92,837,055	547,401,289
At December 31, 2016	33,786,058	201,981,509	75,945,860	78,434,452	134,964,588	525,112,467
At January 1, 2016	33,786,058	19,280,439	51,317,548	54,169,351	296,757,239	455,310,635

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**B. Property, plant and equipment under construction**

Property, plant and equipment under construction represents construction works on welcome lounge at King Khalid International Airport (Terminals 1, 2 and 5) in Riyadh.



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**4. INVESTMENT SECURITIES**

Particulars	March 31, 2017	December 31, 2016	January 1, 2016
<b>Financial assets measured at amortized cost:</b>			
Investment in Saudi British Bank Sukuk	40,000,000	40,000,000	40,000,000
Letters of guarantee	45,899,795	42,258,676	14,807,413
	<b>85,899,795</b>	<b>82,258,676</b>	<b>54,807,413</b>
<b>Financial assets measured at fair value through profit and loss</b>			
Investment in mutual funds	85,256,822	84,721,772	205,170,874
	<b>85,256,822</b>	<b>84,721,772</b>	<b>205,170,874</b>

The Company measures fair value of the investment in mutual funds based on quoted prices in an active market. The Company considers the carrying values of other financial assets and liabilities to be a reasonable approximation of fair value.

**5. SHARE CAPITAL AND RESERVES**

**A. Share capital**

Particulars	March 31, 2017	December 31, 2016	January 1, 2016
In issue at January 1, 2017 (number of shares)	82,000,000	82,000,000	82,000,000
Issued for cash	-	-	-
In issue at March 31, 2017 – fully paid (number of shares)	82,000,000	82,000,000	82,000,000
Issued – par value SR 10	820,000,000	820,000,000	820,000,000

**i. Ordinary shares**

Holders of these shares are entitled to dividends as declared from time to time and are entitled to one vote per share at general meetings of the Company.

**B. Nature and purpose of reserves**

**i. Statutory reserve**

In accordance with the Company's bylaws and the previous Saudi Arabian Regulations for Companies, the Company sets aside 10% of its net income each year as statutory reserve until such reserve equals to 50% of the share capital. The new Saudi Arabian Regulations for Companies that came into effect on 25 Rajab 1437H (corresponding to May 2, 2016) requires companies to set aside 10% of its net income each year as statutory reserve until such reserve reaches 30% of the share capital. The Company is currently in the process of amending its bylaws.

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**5. SHARE CAPITAL AND RESERVES (continued)**

**C. Dividends**

The following dividends were declared and paid by the Company for the year.

Particulars	March 31, 2017	December 31, 2016	January 1, 2016
SR 1.75 per ordinary share after Zakat and before tax deduction	--	564,703,839	--
SR 1.30 per ordinary share after Zakat and before tax deduction	104,674,258	--	--

**6. EMPLOYEE BENEFITS**

Particulars	March 31, 2017	December 31, 2016	January 1, 2016
Employees end-of-service benefits (See below)	158,046,426	155,656,500	137,162,600
Accrued bonus - long term	4,569,757	7,616,142	8,470,711
	<b>162,616,183</b>	<b>163,272,642</b>	<b>145,633,311</b>

**General Description of the plan**

The movement in EOSB is as follows:

Particulars	March 31, 2017	December 31, 2016	January 1, 2016
Balance at January 1,	155,656,500	137,162,600	116,920,570
<i>Included in profit or loss</i>			
- Current service cost	3,049,737	9,911,600	8,960,000
- Interest cost	1,211,400	4,158,400	2,999,100
<i>Included in other comprehensive income</i>			
- Actuarial loss	--	11,209,947	18,047,686
Benefits paid	(1,871,211)	(6,786,047)	(9,764,756)
	<b>158,046,426</b>	<b>155,656,500</b>	<b>137,162,600</b>

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**6. EMPLOYEE BENEFITS (continued)**

**Actuarial assumptions**

The following were the principal actuarial assumptions applied at January 1:

	January 1, 2017	January 1, 2016
Discount rate	3.50%	3.40%
Expected rate of salary increase	2.75%	2.75%
Voluntary turnover rate	11% to 18%	11% to 18%
In-voluntary turnover rate	3%	3%
Retirement age	60 years	60 years

**7. CURRENT ZAKAT AND TAX LIABILITIES**

**a) Zakat and tax provision**

The movement summary in Zakat provision is as follows:

Particulars	March 31, 2017	December 31, 2016	January 1, 2016
Balance at beginning of the year	26,716,426	32,624,846	36,298,829
Charge for the year	7,785,126	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	<b>34,501,552</b>	<b>26,716,426</b>	<b>32,624,846</b>

The movement in tax provision is as follows:

Particulars	March 31, 2017	December 31, 2016	January 1, 2016
Balance at beginning of the year	383,926	2,485,097	3,996,947
Charge for the year	2,047,041	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	<b>2,430,967</b>	<b>383,926</b>	<b>2,485,097</b>

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**7. CURRENT ZAKAT AND TAX LIABILITIES (continued)**

**b) Zakat component**

Particulars	March 31, 2017	December 31, 2016	January 1, 2016
Non-current assets	671,238,036	646,028,475	512,861,125
Non-current liabilities	162,616,183	163,272,642	145,633,311
Shareholders' equity	1,277,301,168	1,260,589,547	1,317,743,669
Net income	121,385,879	507,549,687	698,500,954

**c) Zakat assessments**

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

**8. REVENUE**

Particulars	March 31, 2017	March 31, 2016
In-flight catering revenue	368,867,447	398,102,991
Retail revenue	74,605,067	66,485,964
Business lounge revenue	36,133,328	36,776,397
Non-airlines revenue	39,846,259	50,426,760
<b>Other operating revenues</b>		
Camp facilities sales (staff feeding & accommodation)	4,708,987	441,380
Exclusivity purchase income & services to suppliers	506,250	620,743
Transfer of airline equipment charges	9,216,552	6,311,607
	<b>533,883,890</b>	<b>559,165,842</b>

**9. COST OF SALES**

Particulars	March 31, 2017	March 31, 2016
Cost of materials and goods	218,370,416	232,030,861
Personnel costs	62,468,547	54,418,156
Rent and maintenance of production units	31,244,790	27,565,993
Depreciation	11,434,185	6,609,267
<b>Other operating costs</b>		
Communication and utilities	4,787,386	4,779,610
Supplies and expandable items	8,501,229	9,687,869
Manpower and transportation cost	18,206,565	21,465,122
Other operational costs	11,882,489	10,522,596
	<b>366,895,607</b>	<b>367,079,474</b>

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**10. EARNINGS PER SHARE**

The calculation of basic earnings per share has been based on the following profit attributable to ordinary shareholders and weighted-average number of ordinary shares outstanding.

*i. Profit attributable to ordinary shareholders (basic)*

Particulars	March 31, 2017	March 31, 2016
Profit for the three months period, attributable to the owners of the Company	121,385,879	130,389,261

*ii. Weighted-average number of ordinary shares (basic)*

Particulars	March 31, 2017	March 31, 2016
Issued ordinary shares at January 1	82,000,000	82,000,000
Effect of shares issued	--	--
Weighted-average number of ordinary shares at March 31	82,000,000	82,000,000

**11. RELATED PARTY DISCLOSURES**

**A. Parent and Ultimate Controlling Party**

In 2008, Saudi Airlines Catering Company was established as a wholly owned subsidiary Saudi Arabian Airlines Corporation ("Saudia") whose contribution to the share capital was made by transferring the net assets of its catering division.

**B. Transactions with key management personnel**

Key management personnel compensation comprised the following.

Particulars	March 31, 2017	March 31, 2016
Short-term employee benefits	1,296,665	1,315,700
Post-employment benefits	36,450	36,450
Other long-term benefits	-	-
Termination benefits	80,016	237,590
Share-based payments	-	-

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**11. RELATED PARTY DISCLOSURES (continued)**

**C. Other related party transactions**

Particulars	Transaction for the three months ended		Balance outstanding		
	March 31, 2017	March 31, 2016	March 31, 2017	December 31, 2016	January 1, 2016
<b>Sale of goods and services</b>					
<i>Parent of the Company:</i>					
Saudi Arabian Airlines Corporation	353,675,000	356,152,000	507,602,020	561,458,670	393,551,551
<i>Shareholder:</i>					
Alhokair Group Joint Stock Company	-	-	--	--	367,949
Newrest Group Holding S.L.	-	256,000	--	--	--
<i>Affiliate:</i>					
Saudi Airlines Cargo Company	4,529,000	3,708,000	37,108,279	29,993,080	21,772,503
Saudi French Company for Duty Free Operations and Management	2,120,840	--	2,120,840	--	--
Saudi Airlines Real Estate Development Company	8,884	--	--	--	--
Saudi Ground Services Company	10,766,000	13,361,000	35,033,786	30,370,678	34,239,198
<b>Total</b>			<b>581,864,925</b>	<b>621,822,428</b>	<b>449,931,201</b>
<b>Purchase of goods</b>					
<i>Shareholder:</i>					
Newrest Group Holding S.L.	2,828,610	4,290,000	--	204,726	52,904
Alhokair Group Joint Stock Company	144,615	--	--	63,035	--
<i>Affiliate:</i>					
Gulfwest Company Limited	986,202	--	1,493,677	1,483,379	--
Saudi Airlines Real Estate Development Company	7,659,000	113,000	1,397,179	4,520,926	15,506,865
<b>Total</b>			<b>2,890,856</b>	<b>6,272,066</b>	<b>15,559,769</b>

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**12. OPERATING SEGMENTS**

**A. Basis for segmentation**

The Company has the following three strategic divisions, which are reportable segments. These divisions offer different products and services, and are managed separately because of their different fundamentals.

The following summary describes the operations of each reportable segment:

Reportable segments	Operations
Flight & Catering	Inflight catering, airline equipment and business lounge
Retail	Onboard and ground
Facilities Management	Remote & Camp management, Business & Industries catering, Security services, Laundry services & Hajj & Umrah

The Company's Board reviews the internal management reports of each strategic division at least quarterly.

**B. Information about reportable segments**

**31 March 2017**

Particulars	Inflight Catering	Retail	Catering and Facility Management	Total reportable segments
External revenues	420,490,500	74,550,062	28,862,280	523,902,842
Inter-segment revenue	12,181,325	--	413,945	12,595,270
Segment revenue	432,671,825	74,550,062	29,276,225	536,498,112
Segment profit (loss)	161,269,347	9,570,507	(4,432,914)	166,406,940
Depreciation and amortization	6,288,438	629,122	1,584,518	8,502,078
Assets:				
Segment assets	865,423,491	117,731,573	113,147,281	1,096,302,345
<b>Total</b>	865,423,491	117,731,573	113,147,281	1,096,302,345
Liabilities:				
Segment liabilities	199,512,206	31,549,839	15,115,009	246,177,054
<b>Total</b>	199,512,206	31,549,839	15,115,009	246,177,054



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**12. OPERATING SEGMENTS (continued)**

Particulars	Total reportable segments	All other segments	Unallocated	Total
External revenues	523,902,842	9,981,048	-	533,883,890
Inter-segment revenue	12,595,270	63,809,753	-	76,405,023
Segment revenue	536,498,112	73,790,801	-	610,288,913
Segment profit (loss)	166,406,940	(35,188,894)	-	131,218,046
Depreciation and amortization	8,502,078	5,173,955	-	13,676,033
<b>Assets:</b>				
Segment assets	1,096,302,345	249,966,446	-	1,346,268,791
Other assets		-	468,425,907	468,425,907
<b>Total</b>	<b>1,096,302,345</b>	<b>249,966,446</b>	<b>468,425,907</b>	<b>1,814,694,698</b>
<b>Liabilities:</b>				
Segment liabilities	246,177,054	94,189,414	-	340,366,468
Other liabilities			197,027,062	197,027,062
<b>Total</b>	<b>246,177,054</b>	<b>94,189,414</b>	<b>197,027,062</b>	<b>537,393,530</b>

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**12. OPERATING SEGMENTS (continued)**

**31 March 2016**

Particulars	Inflight Catering	Retail	Catering and Facility Management	Total reportable segments
External revenues	408,512,905	66,485,964	75,244,227	550,243,096
Inter-segment revenue	3,767,071	--	--	3,767,071
Segment revenue	412,279,976	66,485,964	75,244,227	554,010,167
Segment profit (loss)	147,198,824	12,578,441	9,354,203	169,131,468
Depreciation and amortization	3,273,960	431,495	1,035,458	4,740,913
<b>Assets:</b>				
Segment assets	897,500,013	88,635,995	110,871,045	1,097,007,053
<b>Total</b>	897,500,013	88,635,995	110,871,045	1,097,007,053
<b>Liabilities:</b>				
Segment liabilities	213,001,857	13,779,131	16,249,925	243,030,913
<b>Total</b>	213,001,857	13,779,131	16,249,925	243,030,913

Particulars	Total reportable segments	All other segments	Unallocated	Total
External revenues	550,243,096	8,922,746	--	559,165,842
Inter-segment revenue	3,767,071	76,722,186	--	80,489,257
Segment revenue	554,010,167	85,644,932	--	639,655,099
Segment profit (loss)	169,131,468	(27,353,736)	--	141,777,732
Depreciation and amortization	4,740,913	3,161,977	--	7,902,890
<b>Assets:</b>				
Segment assets	1,097,007,053	151,084,571	--	1,248,091,624
Other assets	--	--	733,755,505	733,755,505
<b>Total</b>	1,097,007,053	151,084,571	733,755,505	1,981,847,129
<b>Liabilities:</b>				
Segment liabilities	243,030,913	90,569,056	--	333,599,969
Other liabilities	--	--	342,349,116	342,349,116
<b>Total</b>	243,030,913	90,569,056	342,349,116	675,949,085

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**12. OPERATING SEGMENTS (continued)**

**C. Reconciliations of information on reportable segments to IFRS measures**

***I. Revenues***

<b>Particulars</b>	<b>March 31, 2017</b>	<b>March 31, 2016</b>
Total revenue for reportable segments	523,902,842	550,243,096
Revenue for other segments	9,981,048	8,922,746
Elimination of intersegment revenue	--	--
<b>Total revenue</b>	<b>533,883,890</b>	<b>559,165,842</b>

***II. Profit***

<b>Particulars</b>	<b>March 31, 2017</b>	<b>March 31, 2016</b>
Total profit for reportable segments	166,406,940	169,131,468
Profit for other segments	(35,188,894)	(27,353,736)
Elimination of intersegment profit	--	--
<b>Total profit</b>	<b>131,218,046</b>	<b>141,777,732</b>

***III. Assets***

<b>Particulars</b>	<b>March 31, 2017</b>	<b>December 31, 2016</b>
Total assets for reportable segments	1,096,302,346	1,025,984,161
Assets for other segments	249,966,445	238,877,659
Other unallocated amounts	468,425,907	616,923,532
<b>Total assets</b>	<b>1,814,694,698</b>	<b>1,881,785,352</b>

Other unallocated amounts principally related to cash and cash equivalents, investment securities and prepayment and other current assets.

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**12. OPERATING SEGMENTS (continued)**

*IV. Liabilities*

<b>Particulars</b>	<b>March 31, 2017</b>	<b>December 31, 2016</b>
Total liabilities for reportable segments	246,177,054	244,403,230
Liabilities for other segments	94,189,414	99,835,397
Other unallocated amounts	197,027,062	276,957,178
<b>Total liabilities</b>	<b>537,393,530</b>	<b>621,195,805</b>

Other unallocated amounts principally related to trade and other payables, current zakat and tax liabilities and employee benefits.

*V. Geographical information*

<b>Particulars – Revenue</b>	<b>March 31, 2017</b>	<b>March 31, 2016</b>
Kingdom of Saudi Arabia	519,787,367	536,175,046
<i>All foreign countries</i>		
Egypt – Cairo	14,096,523	22,990,796
<b>Total revenue</b>	<b>533,883,890</b>	<b>559,165,842</b>

**E. Major customer**

Revenue from one customer of the Company's Airline segment represented approximately 63% of the Company's total revenues.

**13. COMMITMENTS AND CONTINGENCIES**

As at March 31, 2017, the Company had the following commitments and contingencies:

<b>Particulars</b>	<b>March 31, 2017</b>	<b>December 31, 2016</b>	<b>January 1, 2016</b>
Capital commitments	90,587,211	94,794,681	88,110,813
Letter of guarantees	45,899,795	42,258,676	14,807,413

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 March 31, 2017, the Company fully paid the amount against letters of guarantee, hence no further financial charges are payable.

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**14. NEW STANDARDS OR AMENDMENTS AND FORTHCOMING REQUIREMENTS**

Standards issued but not yet effective up to the date of issuance of the Company's condensed interim financial statements are listed below.

**A. New Standards**

Effective for annual periods beginning on or after	Standard, amendment or interpretation	Summary of requirements
Annual reporting periods beginning on or after January 1, 2018, early adoption is permitted	IFRS 15 – Revenue from contracts with Customers	<p>The standard replaces IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfer of Assets from Customers and SIC-31 Revenue – Barter Transactions Involving Advertising Services.</p> <p>It applies to contracts with customers but does not apply to insurance contracts, financial instruments or lease contracts, which fall in the scope of other IFRSs. It also does not apply if two companies in the same line of business exchange non-monetary assets to facilitate sales to other parties.</p> <p>The standard introduces a new revenue recognition model that recognises revenue either at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognised.</p>
Annual reporting periods beginning on or after 1 January 2019, early adoption is permitted	IFRS 16 – Leases	<p>IFRS 16 changes fundamentally the accounting for leases by lessees. It eliminates the current IAS 17 dual accounting model, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases and, instead, introduces a single, on-balance sheet accounting model that is similar to current finance lease accounting.</p> <p>Lessor accounting remains similar to current practice – i.e. lessors continue to classify leases as finance and operating leases.</p> <p>Sale-and-leaseback is effectively eliminated as an off-balance sheet financing structure.</p>

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**14. NEW STANDARDS OR AMENDMENTS AND FORTHCOMING REQUIREMENTS**  
(continued)

Effective for annual periods beginning on or after	Standard, amendment or interpretation	Summary of requirements
Annual reporting periods beginning on or after January 1, 2018, early adoption is permitted	IFRS 9 – Financial instruments	<p>IFRS 9 is a new standard on accounting for financial instruments which will replace IAS 39 Financial Instruments: Recognition and Measurement.</p> <p>The standard contains two primary measurement categories for financial assets:</p> <ul style="list-style-type: none"> <li>- amortised cost; and</li> <li>- fair value.</li> </ul> <p>Financial assets are classified into one of these categories on initial recognition.</p> <p>A financial asset is measured at amortised cost if the following conditions are met:</p> <ul style="list-style-type: none"> <li>- it is held within a business model whose objective is to hold assets in order to collect contractual cash flows, and</li> <li>- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal outstanding.</li> </ul> <p>All other financial assets are measured at fair value.</p>

**15. EXPLANATION OF TRANSITION TO IFRS**

The Company is preparing its condensed interim financial statements in accordance with IFRS for the first time and consequently has applied IFRS 1 First-time Adoption of International Financial Reporting Standards. The Company's date of transition is January 1, 2016. The accounting policies stated in Note 2 have been applied in preparing the condensed interim financial statements for the three months period ended 31 March 2017, the comparative information presented for both the three months periods ended 31 March 2016 and year ended 31 December 2016 and in the preparation of the opening IFRS statement of financial position at January 1, 2016.

IFRS 1 grants certain exemptions from the full requirements of IFRS in the transition period. None of the optional exemptions to the general restatement and measurement principles have been adopted. An explanation of how the transition from SOCPA standards to IFRS has affected the Company's financial position and financial performance is set out in the following tables and the notes that accompany the tables.

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**Reconciliation of Equity**

Particulars	SOCPA	Effect of transition to IFRS		Notes	January 1, 2016		SOCPA	Effect of transition to IFRS		December 31, 2016
			IFRS			IFRS			IFRS	
<b>Assets</b>										
Property, plant and equipment	458,053,712	(2,743,077)		15.1(a)	455,310,635		563,769,799	(38,657,332)		525,112,467
Intangible assets	--	2,743,077		15.1(a)	2,743,077		--	2,481,088		2,481,088
Investment property	--	--		15.1(b)	--		--	36,176,244		36,176,244
Investment securities	54,807,413	--			54,807,413		82,258,676	--		82,258,676
<b>Non-current assets</b>	<b>512,861,125</b>	<b>--</b>			<b>512,861,125</b>		<b>646,028,475</b>	<b>--</b>		<b>646,028,475</b>
<b>Prepayments and other current assets</b>	<b>130,168,505</b>	<b>--</b>			<b>130,168,505</b>		<b>143,101,215</b>	<b>--</b>		<b>143,101,215</b>
Investment securities	205,170,874	--			205,170,874		84,721,772	--		84,721,772
Inventories	142,376,394	*(21,114,707)		15.1(c)	121,261,687		149,070,060	*(23,539,082)		125,530,978
Trade and other receivables	553,395,599	--			553,395,599		730,691,867	--		730,691,867
Cash and cash equivalents	304,248,115	--			304,248,115		151,711,045	--		151,711,045
<b>Current assets</b>	<b>1,335,359,487</b>	<b>(21,114,707)</b>			<b>1,314,244,780</b>		<b>1,259,295,959</b>	<b>(23,539,082)</b>		<b>1,235,756,877</b>
<b>Total assets</b>	<b>1,848,220,612</b>	<b>(21,114,707)</b>			<b>1,827,105,905</b>		<b>1,905,324,434</b>	<b>(23,539,082)</b>		<b>1,881,785,352</b>
<b>Equity</b>										
Share capital	820,000,000	--			820,000,000		820,000,000	--		820,000,000
Statutory reserve	286,600,187	--			286,600,187		340,714,074	--		340,714,074
Retained earnings	211,560,179	(416,667)		15.1(d)	211,143,512		100,375,473	(500,000)		99,875,473
<b>Total equity</b>	<b>1,318,160,366</b>	<b>(416,667)</b>			<b>1,317,743,699</b>		<b>1,261,089,547</b>	<b>(500,000)</b>		<b>1,260,589,547</b>
<b>Liabilities</b>										
Employee benefits	145,633,311	--			145,633,311		163,272,642	--		163,272,642
<b>Non-current liabilities</b>	<b>145,633,311</b>	<b>--</b>			<b>145,633,311</b>		<b>163,272,642</b>	<b>--</b>		<b>163,272,642</b>
Current tax liabilities	35,109,943	--			35,109,943		27,100,352	--		27,100,352
Trade and other payables	349,316,992	(20,698,040)		15.1(c,d)	328,618,952		453,861,893	(23,039,082)		430,822,811
<b>Current liabilities</b>	<b>384,426,935</b>	<b>(20,698,040)</b>			<b>363,728,895</b>		<b>480,962,245</b>	<b>(23,039,082)</b>		<b>457,923,163</b>
<b>Total liabilities</b>	<b>530,060,246</b>	<b>(20,698,040)</b>			<b>509,362,206</b>		<b>644,234,887</b>	<b>(23,039,082)</b>		<b>621,195,805</b>
<b>Total equity and liabilities</b>	<b>1,848,220,612</b>	<b>(21,114,707)</b>			<b>1,827,105,905</b>		<b>1,905,324,434</b>	<b>(23,539,082)</b>		<b>1,881,785,352</b>

\* This represents the correction of a balance sheet classification and is not an impact of the move to IFRS. Refer to 15.1(c) for further details.



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Particulars	SOCPA	Effect of transition to IFRS March 31, 2016	Notes	IFRS
<b>Assets</b>				
Property, plant and equipment	505,738,870	(2,923,853)	15.1(a)	502,815,017
Intangible assets	--	2,923,853	15.1(a)	2,923,853
Investment securities	56,501,893	--		56,501,893
<b>Non-current assets</b>	<b>562,240,763</b>	<b>--</b>		<b>562,240,763</b>
Prepayments and other current assets	162,588,205	--		162,588,205
Investment securities	206,199,328	--		206,199,328
Inventories	133,892,825	*(13,078,215)	15.1(c)	120,814,610
Trade and other receivables	621,538,145	--		621,538,145
Cash and cash equivalents	308,466,078	--		308,466,078
<b>Current assets</b>	<b>1,432,684,581</b>	<b>(13,078,215)</b>		<b>1,419,606,366</b>
<b>Total assets</b>	<b>1,994,925,344</b>	<b>(13,078,215)</b>		<b>1,981,847,129</b>
<b>Equity</b>				
Share capital	820,000,000	--		820,000,000
Statutory reserve	300,767,544	--		300,767,544
Retained earnings	185,443,000	(312,500)	15.1(d)	185,130,500
<b>Total equity</b>	<b>1,306,210,544</b>	<b>(312,500)</b>		<b>1,305,898,044</b>
<b>Liabilities</b>				
Employee benefits	145,766,817	--		145,766,817
<b>Non-current liabilities</b>	<b>145,766,817</b>	<b>--</b>		<b>145,766,817</b>
Current tax liabilities	46,498,415	--		46,498,415
Trade and other payables	496,449,568	(12,765,715)	15.1(c,d)	483,683,853
<b>Current liabilities</b>	<b>542,947,983</b>	<b>(12,765,715)</b>	<b>15.1(c,d)</b>	<b>530,182,268</b>
<b>Total liabilities</b>	<b>688,714,800</b>	<b>(12,765,715)</b>		<b>675,949,085</b>
<b>Total equity and liabilities</b>	<b>1,994,925,344</b>	<b>(13,078,215)</b>		<b>1,981,847,129</b>

\* This represents the correction of a balance sheet classification and is not an impact of the move to IFRS. Refer to 15.1(c) for further details.

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**15. EXPLANATION OF TRANSITION TO IFRS (continued)**

**Reconciliation of statement of profit and loss and other comprehensive income for the year ended December 31, 2016**

Particulars	SOCPA	Effect of transition to IFRS		IFRS
Revenue	2,256,650,268	--		2,256,650,268
Cost of sales	(1,500,678,362)	9,561,805	15.1(f)	(1,491,116,557)
Gross profit	755,971,906	9,561,805		765,533,711
Finance income	3,674,518	--		3,674,518
Finance cost	--	(4,158,400)	15.1(f)	(4,158,400)
Other income and expenses, net	7,206,417	--		7,206,417
General and administrative expenses	(221,714,501)	5,723,209		(215,991,292)
Other expenses	(3,999,475)	--		(3,999,475)
<b>Profit before zakat and tax</b>	<b>541,138,865</b>	<b>11,126,614</b>		<b>552,265,479</b>
Zakat and tax	-	(33,505,845)	15.1(e)	(33,505,845)
<b>Profit</b>	<b>541,138,865</b>	<b>(22,379,231)</b>		<b>518,759,634</b>
<b>Other comprehensive income</b>				
<b>Items that will not be reclassified to profit or loss</b>				
Re-measurements of defined benefit liability	--	(11,209,947)	15.1(f)	(11,209,947)
<b>Other comprehensive income</b>	<b>--</b>	<b>--</b>		<b>--</b>
<b>Total comprehensive income</b>	<b>541,138,865</b>	<b>(33,589,178)</b>		<b>507,549,687</b>

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**15. EXPLANATION OF TRANSITION TO IFRS (continued)**

Reconciliation of statement of profit and loss and other comprehensive income for the three months period ended March 31, 2016

Particulars	SOCPA	Effect of transition to IFRS		IFRS
Revenue	559,165,842	--		559,165,842
Cost of sales	(367,870,418)	790,944	15.1(f)	(367,079,474)
Gross profit	191,295,424	790,944		192,086,368
Finance income	1,255,327	--		1,255,327
Finance cost	--	(1,039,600)	15.1(f)	(1,039,600)
Other income and expenses, net	1,718,021	--		1,718,021
General and administrative expenses	(51,814,854)	352,823		(51,462,031)
Other expenses	(780,353)	--		(780,353)
<b>Profit before zakat and tax</b>	<b>141,673,565</b>	<b>104,167</b>		<b>141,777,732</b>
Zakat and tax	-	(11,388,471)	15.1(e)	(11,388,471)
<b>Profit</b>	<b>141,673,565</b>	<b>(11,284,304)</b>		<b>130,389,261</b>
<b>Other comprehensive income</b>				
<b>Items that will not be reclassified to profit or loss</b>				
Re-measurements of defined benefit liability	--	--	15.1(f)	--
<b>Other comprehensive income</b>	<b>--</b>	<b>--</b>		<b>--</b>
<b>Total comprehensive income</b>	<b>141,673,565</b>	<b>(11,284,304)</b>		<b>130,389,261</b>

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**15. EXPLANATION OF TRANSITION TO IFRS (continued)**

**Reconciliation of retained earnings upon transition to IFRS from SOCPA**

**31 December 2016**

Particulars	Amount
Closing balance of retained earnings as at 31 December 2016 under SOCPA	100,375,473
<b><u>IFRS Adjustments:</u></b>	
<i>For the opening statement of financial position as at January 1, 2016</i>	
Impact of straight-lining of lease rentals, now charged	(416,667)
<i>For the statement of financial position as at December 31, 2016</i>	
Charge of deferred rent payable accounted under straight-line basis	83,333
<b>Impact of transitioning to IFRS</b>	<b>(500,000)</b>
Closing balance of retained earnings as at 31 December 2016 under IFRS	99,875,473

**Reconciliation of retained earnings upon transition to IFRS from SOCPA**

**31 March 2016**

Particulars	Amount
Closing balance of retained earnings for the three months period under SOCPA	185,443,000
<b><u>IFRS Adjustments:</u></b>	
<i>For the opening statement of financial position as at January 1, 2016</i>	
Impact of straight-lining of lease rentals, now charged	(416,667)
<i>For the statement of financial position as at March 31, 2016</i>	
Reversal of deferred rent payable accounted under straight-line basis	104,167
<b>Impact of transitioning to IFRS</b>	<b>(312,500)</b>
Closing balance of retained earnings for the three months period under IFRS	185,130,500

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

**NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS**  
**FOR THE THREE MONTHS PERIOD ENDED MARCH 31, 2017**  
(Expressed in Saudi Arabian Riyals)

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**15. EXPLANATION OF TRANSITION TO IFRS (continued)**

**15.1 Notes to the reconciliations**

- a) Within property, plant and equipment, an amount of SR 2,481,088 as at December 31, 2016 (Jan 1, 2016: SR 2,743,077) has been reclassified from property, plant and equipment to Intangible assets representing software that were previously classified as part of property, plant and equipment under SOCPA.
- b) Within property, plant and equipment, an amount of SR 36,176,244 as at December 31, 2016 (Jan 1, 2016: SR Nil) has been reclassified from property, plant and equipment to Investment property representing building that were previously classified as part of property, plant and equipment under SOCPA.
- c) Within inventories, an amount of SR (23,539,082) as at December 31, 2016 (Jan 1, 2016: SR 21,114,707) relating to consignment stock was recorded with an offsetting amount recorded in trade and other payables in the SOCPA financial statements. The effect of these amounts has been adjusted by reversing the consignment stock and related liabilities.
- d) According to IFRS, lease payments under operating leases must be recognised as an expense in the income statement over the term of lease on a straight-line basis. Previously, lease expenses were recognised in the income statement when paid. The impact in profit and loss for the three month period ended 31 March 2016 was SR 104,167 and the cumulative impact upto 1 January 2016 was SR 416,667.
- e) Previously under SOCPA, Zakat and tax for mixed status companies was presented in equity. Under IFRS, Zakat and tax should be presented in the income statement.
- f) In the SOCPA financial statements the movement in the employees end of service benefits liability was classified to cost of sales and general and administrative expenses. In the IFRS financial statements, actuarial gains and losses are required to be reported in other comprehensive income, the service cost is allocated to cost of sales and general and administrative expenses and interest cost is allocated to finance cost.

**16. DATE OF AUTHORISATION FOR ISSUE**

These condensed interim financial statements were approved by the Board of Directors on May 3, 2017.



Chief Financial Officer



Chief Executive Officer



Authorized Board of Director Member