

SAUDI AIRLINES CATERING COMPANY
(A Saudi Joint Stock Company)

**UNAUDITED INTERIM CONDENSED
FINANCIAL STATEMENTS**
For the three-month and nine-month periods ended
September 30, 2016
with
Independent Auditors' Review report



KPMG Al Fozan & Partners
Certified Public Accountants
Zahrán Business Centre, Tower A, 9th Floor
Prince Sultan Street
PO Box 55078
Jeddah 21534
Kingdom of Saudi Arabia

Telephone +966 12 698 9595
Fax +966 12 698 9494
Internet www.kpmg.com.sa
License No. 46/11/323 issued 11/3/1992

REVIEW REPORT ON INTERIM CONDENSED FINANCIAL STATEMENTS

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

Scope of review

We have reviewed the accompanying interim balance sheet of Saudi Airlines Catering Company ("the Company") as at September 30, 2016, the related interim statement of income for the three-months and nine-months periods then ended, the interim statements of cash flows and changes in shareholders' equity for the nine-months period then ended and the attached notes 1 through 18 which form an integral part of these interim condensed financial statements. These interim condensed financial statements are the responsibility of the Company's management and have been prepared by them and submitted to us together with all the information and explanations which we required. Our responsibility is to provide a conclusion on the review of these interim condensed financial statements based on our review.

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

Review conclusion

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

For KPMG Al Fozan & Partners
Certified Public Accountants

Ebrahim Oboud Baeshen
License No. 382



Jeddah, 16 Muharram, 1438H
Corresponding to 17 October, 2016

SAUDI AIRLINES CATERING COMPANY
(A Saudi Joint Stock Company)

INTERIM BALANCE SHEET (UNAUDITED)

As at September 30, 2016

(Expressed in Saudi Arabian Riyals)

	Notes	2016	2015
ASSETS			
Current assets:			
Cash and cash equivalents		80,831,119	108,966,071
Held-for-trading investment	4	158,671,658	204,527,678
Trade receivables		130,060,520	97,993,806
Due from related parties	12	613,142,020	683,378,813
Inventories		151,992,444	123,399,322
Held-to-maturity investment – current portion	5	--	100,000,000
Prepayments and other current assets		155,075,525	129,418,124
Total current assets		1,289,773,286	1,447,683,814
Non-current assets:			
Held-to-maturity investment – non-current portion	5	40,000,000	40,000,000
Property and equipment	6	549,876,768	403,266,862
Letters of guarantee	16	32,437,228	11,646,091
Total non-current assets		622,313,996	454,912,953
Total assets		1,912,087,282	1,902,596,767
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Trade payables		189,111,083	177,937,481
Due to related parties	12	15,474,323	15,827,187
Dividend payable	14	3,200,595	2,910,251
Accrued expenses and other current liabilities		216,894,180	265,724,032
Accrued Zakat and income tax	7	22,088,580	28,896,799
Total current liabilities		446,768,761	491,295,750
Non-current liabilities:			
Employees' end of service benefits		151,965,659	126,416,172
Accrued long-term bonus		7,821,142	7,726,173
Total non-current liabilities		159,786,801	134,142,345
Total liabilities		606,555,562	625,438,095
Shareholders' equity			
Share capital	15	820,000,000	820,000,000
Statutory reserve		330,230,429	267,525,612
Retained earnings		155,301,291	189,633,060
Total shareholders' equity		1,305,531,720	1,277,158,672
Total liabilities and shareholders' equity		1,912,087,282	1,902,596,767

Chief Financial Officer

Chief Executive Officer

Authorized Board of Directors' Member

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

SAUDI AIRLINES CATERING COMPANY
(A Saudi Joint Stock Company)

INTERIM STATEMENT OF INCOME (UNAUDITED)

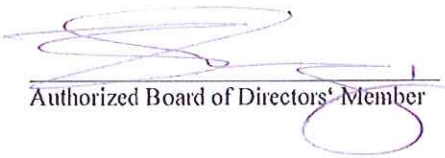
For the three-month and nine-month periods ended September 30, 2016

(Expressed in Saudi Arabian Riyals)

	Notes	<u>Three-month period ended</u>		<u>Nine month period ended</u>	
		<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
Revenue	8	592,010,795	578,878,691	1,721,623,796	1,704,436,234
Cost of revenue	10	(379,345,363)	(375,621,243)	(1,125,345,594)	(1,108,256,897)
Gross profit		212,665,432	203,257,448	596,278,202	596,179,337
General and administrative expenses		(63,990,026)	(43,283,153)	(164,710,491)	(111,273,658)
Operating income		148,675,406	159,974,295	431,567,711	484,905,679
Other non-operating revenues and expenses, net		887,369	4,523,108	4,734,707	22,849,517
Net income for the period		149,562,775	164,497,403	436,302,418	507,755,196
Earnings per share:					
Operating income	13	1.81	1.95	5.26	5.91
Non-operating income	13	0.01	0.06	0.06	0.28
Net income	13	1.82	2.01	5.32	6.19


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SAUDI AIRLINES CATERING COMPANY
(A Saudi Joint Stock Company)

INTERIM STATEMENT OF CASH FLOWS (UNAUDITED)

For the nine month period ended September 30, 2016

(Expressed in Saudi Arabian Riyals)

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities:		
Net income for the period	436,302,418	507,755,196
<u>Adjustments for:</u>		
Depreciation	27,133,914	17,317,289
Allowance (reversal) for doubtful debts	12,542,287	(16,945,852)
Allowance for slow moving inventories	1,825,997	1,331,871
Loss on disposal of property and equipment	70,319	258,442
Unrealised gain on held-for-trading investment	(3,500,784)	(1,014,869)
Provision for employees' end of service benefits	18,654,970	17,138,247
Provision for accrued bonus - long-term	3,015,000	2,727,657
Investment income	(840,712)	(2,608,920)
	<u>495,203,409</u>	<u>525,959,061</u>
Changes in operating assets and liabilities		
(Increase) / decrease in trade receivables	(39,138,410)	3,916,872
Increase in due from related parties	(163,210,819)	(218,630,382)
Increase in inventories	(11,442,047)	(37,977,621)
(Increase) / decrease prepayments and other current assets	(24,628,769)	21,579,298
Increase in letters of guarantee	(17,629,815)	(1,478,980)
(Decrease) / increase in trade payables	(5,262,527)	15,518,006
(Decrease) / increase in due to related parties	(85,446)	3,391,635
Increase in accrued expenses and other current liabilities	<u>80,392,100</u>	<u>24,616,945</u>
	<u>314,197,676</u>	<u>336,894,834</u>
Payment of accrued bonus - long-term	(3,664,570)	(1,857,130)
Zakat and income tax paid	(38,249,088)	(43,891,871)
Employees' end of service benefits paid	(3,851,910)	(7,642,645)
Net cash from operating activities	<u>268,432,108</u>	<u>283,503,188</u>
Cash flows from investing activities:		
Purchase of property and equipment	(119,043,809)	(229,419,915)
Proceeds from disposal of property and equipment	16,520	74,714
Proceeds from disposal of held for trading investment	50,000,000	--
Investment income received	562,462	2,372,208
Net cash used in investing activities	<u>(68,464,827)</u>	<u>(226,972,993)</u>
Cash flows from financing activities:		
Dividend paid	(423,384,276)	(424,472,723)
Net decrease in cash and cash equivalents	<u>(223,416,995)</u>	<u>(367,942,528)</u>
Cash and cash equivalents as at beginning of the period	<u>304,248,114</u>	<u>476,908,599</u>
Cash and cash equivalents as at end of the period	<u>80,831,119</u>	<u>108,966,071</u>
Non-cash supplemental information:		
Zakat and income tax charged to shareholders accounts	<u>28,621,282</u>	<u>32,492,844</u>

Chief Financial Officer

Chief Executive Officer

Authorized Board of Directors' Member

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

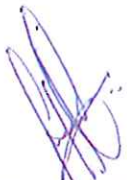
SAUDI AIRLINES CATERING COMPANY
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INTERIM STATEMENT OF SHAREHOLDERS' EQUITY (UNAUDITED)

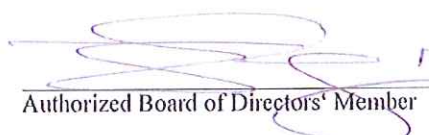
For the nine month period ended September 30, 2016

(Expressed in Saudi Arabian Riyals)

	<u>Share capital</u>	<u>Statutory reserves</u>	<u>Retained earnings</u>	<u>Total</u>
Balance at January 1, 2016 (Audited)	820,000,000	286,600,187	211,560,179	1,318,160,366
Net income for the period	--	--	436,302,418	436,302,418
Transfer to reserves	--	43,630,242	(43,630,242)	--
Zakat and income tax (Note 7)	--	--	(25,227,722)	(25,227,722)
Dividends net of Zakat and income-tax (Note 14)	--	--	(423,703,342)	(423,703,342)
Balance at September 30, 2016 (Unaudited)	<u>820,000,000</u>	<u>330,230,429</u>	<u>155,301,291</u>	<u>1,305,531,720</u>
Balance at January 1, 2015 (Audited)	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 7)	--	--	(32,492,844)	(32,492,844)
Dividends net of Zakat and income-tax (Note 14)	--	--	(423,810,600)	(423,810,600)
Balance at September 30, 2015 (Unaudited)	<u>820,000,000</u>	<u>267,525,612</u>	<u>189,633,060</u>	<u>1,277,158,672</u>


Chief Financial Officer


Chief Executive Officer


Authorized Board of Directors' Member

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

SAUDI AIRLINES CATERING COMPANY
(A Saudi Joint Stock Company)

NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED)
For the three-month and nine-month periods ended September 30, 2016
(Expressed in Saudi Arabian Riyals)

1. ORGANIZATION AND PRINCIPLE ACTIVITIES

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

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

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

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

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

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

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

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

SAUDI AIRLINES CATERING COMPANY
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NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED)
For the three-month and nine-month periods ended September 30, 2016
(Expressed in Saudi Arabian Riyals)

1. ORGANIZATION AND ACTIVITIES (continued)

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

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

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

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

2. BASIS OF PREPARATION

a) Statement of compliance

These interim condensed financial statements have been prepared in accordance with the accounting standards generally accepted in the Kingdom of Saudi Arabia and the Accounting Standard on Interim Financial Reporting issued by Saudi Organization for Certified Public Accountants (SOCPA). These interim condensed financial statements do not contain all information and disclosures required for full financial statements prepared in accordance with accounting standards generally accepted in the Kingdom of Saudi Arabia and should be read in conjunction with the Company's audited financial statements for the year ended December 31, 2015.

b) Basis of measurement

The interim condensed financial statements have been prepared under the historical cost convention, except for held for trading investment which is 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.

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NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED)
For the three-month and nine-month periods ended September 30, 2016
(Expressed in Saudi Arabian Riyals)

2. BASIS OF PREPARATION (continued)

d) Use of estimates and judgments

The preparation of interim condensed financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in future periods affected. The key areas requiring significant management judgments and estimates are as follows:

i) Impairment of trade receivables

An allowance for impairment of trade receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the agreement. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganization, and default or delinquency in payments are considered indicators of objective evidence that the trade receivable is impaired. For significant individual amounts, assessment is made on an individual basis. Amounts which are not individually significant, but are overdue, are assessed collectively and a provision is recognized considering the length of time considering past recovery rates.

ii) Allowance for slow moving inventories

The management makes an allowance for slow moving and obsolete inventory items. Estimates of net realizable value of inventories are based on the most reliable evidence at the time the estimates are made. These estimates take into consideration fluctuations of price or cost directly related to events occurring subsequent to the balance sheet date to the extent that such events confirm conditions existing at the end of period.

iii) Useful lives of property and equipment

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

iv) Accruals for services provided by Saudia and its affiliates

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

SAUDI AIRLINES CATERING COMPANY
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NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED)
For the three-month and nine-month periods ended September 30, 2016
(Expressed in Saudi Arabian Riyals)

2. BASIS OF PREPARATION (continued)

d) Use of estimates and judgments (continued)

v) Impairment of held-to-maturity investments

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

vi) Going concern

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

a) Cash and cash equivalents

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

b) Trade receivables

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

SAUDI AIRLINES CATERING COMPANY
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NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED)

For the three-month and nine-month periods ended September 30, 2016

(Expressed in Saudi Arabian Riyals)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

c) Inventories

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

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

d) Investments

i) Held for trading investments

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

ii) Held-to-maturity investments

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

e) Property and equipment

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

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

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

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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

e) Property and equipment (continued)

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

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

f) Impairment of assets

Non-financial assets are reviewed for impairment losses whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss, if any, is recognized for the amount by which the carrying amount of the asset exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows.

g) Accounts payable and accruals

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

h) Provisions

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

i) Employees' end of service benefits

Employees' end of service benefits, calculated in accordance with Saudi Arabian labour regulations, are accrued and charged to the statement of income. The liability is calculated by estimating the amount of future benefit that employees have earned in the current and prior periods, using the projected unit credit method. The Company used an independent actuary to ensure the adequacy of provision for employees' end of service benefits.

j) Revenue recognition

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

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

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

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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 General Authority of Zakat and Income Tax ("GAZT") regulations. Zakat and income tax are charged to the statement of changes in shareholders' equity. Additional Zakat and income tax liabilities, if any, related to prior years' assessments arising from GAZT are accounted for in the period in which the final assessments are finalized.

n) Segment reporting

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

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

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

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NOTES TO THE INTERIM CONDENSED FINANCIAL STATEMENTS (UNAUDITED)
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3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

o) Foreign currency transactions

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

p) Dividends

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

4. HELD-FOR-TRADING INVESTMENT

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

	<u>2016</u>	<u>2015</u>
Balance at beginning of the period	205,170,874	203,512,809
Disposal of held-for-trading investment	(58,671,657)	--
Gain on disposal of held-for-trading investment	8,671,657	--
Unrealized gain on held-for-trading investment	3,500,784	1,014,869
	<u>158,671,658</u>	<u>204,527,678</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>Notes</u>	<u>2016</u>	<u>2015</u>
Held-to-maturity – short-term investment	5.1	--	100,000,000
Held-to-maturity – long-term investment	5.2	40,000,000	40,000,000

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

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

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6. PROPERTY AND EQUIPMENT

Included in the property and equipment is an amount equivalent to SR 210.25 million which represents the new buildings in Madinah, Dammam Camp and the Jeddah laundry project.

7. ZAKAT AND INCOME TAX

The Company has charged directly to its retained earnings the Zakat and income tax liabilities for the period amounting to SR 28,621,282 (2015: SR 32,492,844) offsetting with prior period overstatement of SR 3,393,560.

The Company has finalized its Zakat and income-tax assessment for the year ended December 31, 2008. The Company has submitted its Zakat and income tax declarations for the years 2009 to 2015. The Company has paid the amounts due according to the declarations, which are currently under review by the GAZT.

8. REVENUE

	Three-month period ended September 30, <u>2016</u>	Three-month period ended September 30, <u>2015</u>	Nine-month period ended September 30, <u>2016</u>	Nine-month period ended September 30, <u>2015</u>
Inflight catering revenue	420,377,695	424,986,595	1,215,906,521	1,245,447,311
Sky sales revenue	61,533,405	60,978,583	196,578,602	173,065,337
Business lounge revenue	38,783,370	33,305,320	117,163,121	94,752,544
Non-airlines revenue	53,158,526	47,459,591	151,461,898	156,929,779
Other operating revenue (note 9)	18,157,799	12,148,602	40,513,654	34,241,263
	<u>592,010,795</u>	<u>578,878,691</u>	<u>1,721,623,796</u>	<u>1,704,436,234</u>

9. OTHER OPERATING REVENUE

	Three-month period ended September 30, <u>2016</u>	Three-month period ended September 30, <u>2015</u>	Nine-month period ended September 30, <u>2016</u>	Nine-month period ended September 30, <u>2015</u>
Camp facilities sales	5,300,647	15,000	10,599,016	458,625
Exclusive purchase income and services to suppliers	125,163	4,380,046	1,379,148	11,194,905
Transfer of airline equipment charges	12,731,989	7,753,556	28,535,490	22,587,733
	<u>18,157,799</u>	<u>12,148,602</u>	<u>40,513,654</u>	<u>34,241,263</u>

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10. COST OF REVENUE

	Three-month period ended September 30, <u>2016</u>	Three-month period ended September 30, <u>2015</u>	Nine-month period ended September 30, <u>2016</u>	Nine-month period ended September 30, <u>2015</u>
Cost of materials and goods sold	234,210,657	245,912,032	698,470,365	719,943,801
Personnel cost	64,686,337	55,727,896	181,788,895	165,289,394
Rent and maintenance of production units	28,150,983	23,411,239	86,392,578	69,677,273
Depreciation	8,685,385	5,139,979	22,582,692	14,352,368
Other operating cost (note 11)	43,612,001	45,430,097	136,111,064	138,994,061
	<u>379,345,363</u>	<u>375,621,243</u>	<u>1,125,345,594</u>	<u>1,108,256,897</u>

11. OTHER OPERATING COST

	Three-month period ended September 30, <u>2016</u>	Three-month period ended September 30, <u>2015</u>	Nine-month period ended September 30, <u>2016</u>	Nine-month period ended September 30, <u>2015</u>
Communication and utilities	859,976	4,729,982	10,351,385	14,024,849
Supplies and expendable items	9,368,187	9,609,144	27,571,812	29,084,790
Service agreement	20,539,533	19,579,754	63,327,872	58,656,449
Other operational cost	12,844,305	11,511,217	34,859,995	37,227,973
	<u>43,612,001</u>	<u>45,430,097</u>	<u>136,111,064</u>	<u>138,994,061</u>

12. RELATED PARTY TRANSACTIONS AND BALANCES

- a) Related parties include the Company's shareholders and their relatives up to the fourth generation, associated and affiliated companies and directors and key management personnel of the Company. Terms and conditions of these transactions are approved by the Company's management.
- b) Significant related party transactions for the period ended September 30 and balances arising therefrom are described as under:

<u>Name</u>	<u>Relationship</u>	<u>Nature of transactions</u>	<u>Amount of transactions</u>		<u>Closing balance</u>	
			<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
<u>Due from related parties included in trade receivables:</u>						
Saudi Arabian Airlines Corporation	Shareholder	Trade / operations	1,109,456,000	1,100,634,000	553,602,576	637,947,537
Alhokair Group Joint Stock Company	Shareholder	Trade / operations	--	--	76,780	367,949

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12. RELATED PARTY TRANSACTIONS (continued)

<u>Name</u>	<u>Relationship</u>	<u>Nature of transactions</u>	<u>Amount of transactions</u>		<u>Closing balance</u>	
			<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2015</u>
<u>Due from related parties included in trade receivables (continued):</u>						
Saudi Airlines Cargo Company	Affiliate	Trade / operations	10,509,000	12,334,000	31,915,121	17,591,195
Newrest Group Holding S.L.	Shareholder	Trade / operations	--	--	--	--
Saudi Ground Services Company	Affiliate	Trade / operations	36,519,000	33,921,000	27,547,543	27,472,132
					<u>613,142,020</u>	<u>683,378,813</u>
<u>Due to related parties included in trade payables:</u>						
Newrest Group Holding S.L.	Shareholder	Trade / operations	13,708,938	9,568,000	1,089	10,871
Saudi Airlines Real Estate Development Company	Affiliate	Trade / operations	2,432,000	10,502,000	15,473,234	15,816,316
					<u>15,474,323</u>	<u>15,827,187</u>

- c) Remuneration, compensation and bonuses of the key management personnel/executive directors and attendance fee of Board Directors and members of Board Committees paid during the period ended September 30, was as under:

<u>Name</u>	<u>Nature of transactions</u>	<u>Amount of transactions</u>	
		<u>2016</u>	<u>2015</u>
Key management personnel	Remuneration	4,643,492	4,909,724
Board of Directors	Annual fee	1,699,000	1,875,000

13. EARNINGS PER SHARE

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

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

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13. EARNINGS PER SHARE (continued)

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

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

14. DIVIDENDS

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

On May 9, 2016, the Board of Directors resolved to distribute interim dividend amounting to SR 143.5 million, which is equivalent to SR 1.75 per share after Zakat and before income tax deduction, from the Company's interim profit.

On July 19, 2016, the Board of Directors resolved to distribute interim dividend amounting to SR 143.5 million, which is equivalent to SR 1.75 per share after Zakat and before income tax deduction, from the Company's interim profit.

15. SHARE CAPITAL

The share capital of the Company amounting to SR 820 million (2015: SR 820 million) is divided into 82 million (2015: 82 million) shares of SR 10 each (2015: SR 10 each). At September 30, 2016, the shareholders and their percentage interests in the share capital of the Company are as follows:

	<u>No. of shares</u>	<u>Value in SR</u>	<u>%</u>
Saudi Arabian Airlines Corporation	29,274,000	292,740,000	35.7
Strategic Catering Company Limited	18,949,714	189,497,140	23.1
General public	33,776,286	337,762,860	41.2
	<u>82,000,000</u>	<u>820,000,000</u>	<u>100</u>

During the period ended September 30, 2016, Strategic Catering Company Limited sold 1,426,204 its shares to the general public.

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16. COMMITMENTS AND CONTINGENCIES

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

	30 September 2016 (Unaudited)	30 September 2015 (Unaudited)
Capital commitments	88,763,412	97,000,909
Letters of guarantee (See below)	32,437,228	11,646,091

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 September 30, 2016, the Company fully paid the amount against letters of guarantee, hence no further financial charges are payable.

17. SEGMENTAL INFORMATION

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

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

1. Catering including business lounges, non-airlines customers 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, 2016 and 2015 by business segments are detailed below:

	<u>Catering</u>	<u>Sky sales</u>	<u>Total</u>
2016 (Unaudited)			
Assets	1,773,262,796	138,824,486	1,912,087,282
Liabilities	533,784,122	72,771,440	606,555,562
Revenue	1,525,045,194	196,578,602	1,721,623,796
Net income	401,100,776	35,201,642	436,302,418
2015 (Unaudited)			
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

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18. APPROVAL OF THE INTERIM CONDENSED FINANCIAL STATEMENTS

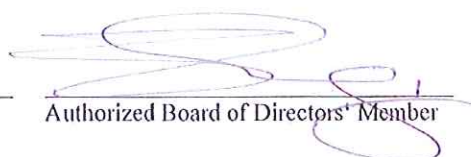
The interim condensed financial statements were approved and authorised to issue by the Board of Directors on 16 Muharram 1438H corresponding to 17 October 2016.



Chief Financial Officer



Chief Executive Officer



Authorized Board of Directors' Member