

SAUDI AIRLINES CATERING COMPANY
(A Saudi Joint Stock Company)

CONDENSED INTERIM FINANCIAL STATEMENTS
For the three months ended March 31, 2019
with
INDEPENDENT AUDITORS' REPORT



KPMG Al Fozan & Partners
Certified Public Accountants
Zahrán Business Centre, 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

Independent auditors' report on review of condensed interim financial statements

To the Shareholders of Saudi Airlines Catering Company

Introduction

We have reviewed the accompanying March 31, 2019 condensed interim financial statements of Saudi Airlines Catering Company ("the Company") which comprises:

- the condensed statement of financial position as at March 31, 2019 ;
- the condensed statement of profit or loss and other comprehensive income for the three-month period ended March 31, 2019;
- the condensed statement of changes in equity for the three-month period ended March 31, 2019;
- the condensed statement of cash flows for the three-month period ended March 31, 2019; 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 March 31, 2019 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, Ramadan 14, 1440H
Corresponding to May 19, 2019

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

As at March 31, 2019
(Expressed in Saudi Arabian Riyals)

	<u>Note</u>	<u>March 31,</u> <u>2019</u>	<u>December 31,</u> <u>2018</u>
Assets			
Property, plant and equipment	5	566,056,093	586,708,910
Right-of-use assets	3B	591,136,848	--
Subleased assets	3B	15,191,345	--
Intangible assets		206,109	258,269
Investment property		37,850,196	38,337,434
Equity accounted investee	6	15,304,633	15,125,813
Financial assets at amortized costs	7	26,510,160	29,991,692
Non-current assets		<u>1,252,255,384</u>	<u>670,422,118</u>
Subleased assets	3B	13,453,766	--
Inventories		119,765,175	125,027,878
Trade and other receivables	8	1,012,984,745	950,225,547
Prepayments and other assets		113,921,465	192,857,373
Cash and cash equivalents		163,943,992	147,252,743
Current assets		<u>1,424,069,143</u>	<u>1,415,363,541</u>
Total assets		<u>2,676,324,527</u>	<u>2,085,785,659</u>
Equity			
Share capital	9	820,000,000	820,000,000
Statutory reserve	10	353,835,879	353,835,879
Retained earnings		108,420,312	127,619,578
Total equity		<u>1,282,256,191</u>	<u>1,301,455,457</u>
Liabilities			
Lease liabilities	3B	430,694,868	--
Employees benefits		167,944,524	167,423,832
Non-current liabilities		<u>598,639,392</u>	<u>167,423,832</u>
Lease liabilities	3B	146,759,813	--
Zakat and income tax liabilities	12	39,969,761	30,310,014
Trade and other payables		608,699,370	586,596,356
Current liabilities		<u>795,428,944</u>	<u>616,906,370</u>
Total liabilities		<u>1,394,068,336</u>	<u>784,330,202</u>
Total equity and liabilities		<u>2,676,324,527</u>	<u>2,085,785,659</u>

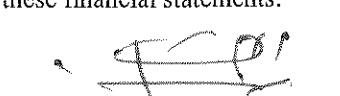
The accompanying notes 1 through 21 form an integral part of these financial statements.



Chief Financial Officer



Chief Executive Officer



Authorized Board of Directors
Member

SAUDI AIRLINES CATERING COMPANY
(A Saudi Joint Stock Company)

CONDENSED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the three months ended March 31, 2019

(Expressed in Saudi Arabian Riyals)

	<u>Note</u>	<u>2019</u>	<u>2018</u> (Restated, Note 16)
Revenue	14	521,630,840	488,522,469
Cost of sales	15	(329,758,058)	(313,201,072)
Gross profit		191,872,782	175,321,397
Other income		1,654,352	1,508,903
General and administrative expenses		(66,309,585)	(57,458,475)
(Allowance) / reversal of expected credit losses	8	(5,064,007)	13,991,691
Other expenses		(718,544)	(676,406)
Operating profit		121,434,998	132,687,110
Finance income		345,238	340,750
Finance costs		(8,773,229)	(1,218,300)
Net finance costs		(8,427,991)	(877,550)
Share of profit/ (loss) of equity accounted investee	6	178,820	(2,281,561)
Profit before zakat and income tax		113,185,827	129,527,999
Zakat and income tax expense	12	(9,659,747)	(9,276,961)
Profit for the period		103,526,080	120,251,038
Other comprehensive income			
Items that will not be reclassified to profit or loss			
Remeasurement of defined benefit liability		--	--
Share of other comprehensive gain of associate		--	--
Other comprehensive gain for the period		--	--
Total comprehensive income for the period		103,526,080	120,251,038
Earnings per share			
Basic earnings per share	17	1.26	1.47
Diluted earnings per share	17	1.26	1.47

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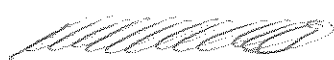
CONDENSED STATEMENT OF CHANGES IN EQUITY

For the three months ended March 31, 2019

(Expressed in Saudi Arabian Riyals)

	<u>Note</u>	<u>Share capital</u>	<u>Statutory reserve</u>	<u>Retained earnings</u>	<u>Total</u>
Balance at January 1, 2019		820,000,000	353,835,879	127,619,578	1,301,455,457
Impact of adoption of IFRS 16	3B	--	--	(17,583,849)	(17,583,849)
Total comprehensive income					
Profit for the period		--	--	103,526,080	103,526,080
Other comprehensive income		--	--	--	--
Total comprehensive income		--	--	103,526,080	103,526,080
<u>Transactions with owners of the Company</u>					
Contributions and distributions					
Dividends declared	11	--	--	(105,141,497)	(105,141,497)
Balance at March 31, 2019		<u>820,000,000</u>	<u>353,835,879</u>	<u>108,420,312</u>	<u>1,282,256,191</u>
Balance at January 1, 2018		820,000,000	353,835,879	109,109,072	1,282,944,951
Total comprehensive income					
Profit for the period		--	--	120,251,038	120,251,038
Other comprehensive loss		--	--	--	--
Total comprehensive income		--	--	120,251,038	120,251,038
<u>Transactions with owners of the Company</u>					
Contributions and distributions					
Dividends declared	11	--	--	(104,673,521)	(104,673,521)
Balance at March 31, 2018		<u>820,000,000</u>	<u>353,835,879</u>	<u>124,686,589</u>	<u>1,298,522,468</u>

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SAUDI AIRLINES CATERING COMPANY
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STATEMENT OF CASH FLOWS

For the three months ended March 31, 2019
(Expressed in Saudi Arabian Riyals)

	<u>Note</u>	<u>2019</u>	<u>2018</u>
Cash flows from operating activities			
Profit for the period		103,526,080	120,251,038
<u>Adjustments for:</u>			
Zakat and tax		9,659,747	9,276,961
Depreciation		36,899,406	15,443,542
Amortization		52,160	299,726
Bad debt write off		296,621	--
Allowance / (reversal) for expected credit losses, net	8	5,064,007	(13,991,691)
Provision of slow-moving inventory, net		6,649,450	1,614,570
Finance income		(345,238)	(340,750)
Finance cost		8,773,229	1,218,300
Share of (profit) / loss in equity accounted investee	6	(178,820)	2,281,561
Loss on sale of property, plant and equipment		32,470	--
Employees' benefits service cost		4,302,453	3,303,875
(Reversal) / provision for accrued bonus - long term		(666,784)	600,000
		<u>174,064,781</u>	<u>139,957,132</u>
<u>Changes in:</u>			
Inventories		(1,386,747)	(93,165)
Trade and other receivables		(77,805,925)	(46,217,485)
Prepayments and other assets		52,705,619	4,886,991
Trade and other payables		<u>21,588,595</u>	<u>(2,467,759)</u>
Cash generated from operating activities		<u>169,166,323</u>	<u>96,065,714</u>
Payment of accrued bonus - long term		(178,890)	--
Employees' benefits paid		<u>(4,517,804)</u>	<u>(6,664,495)</u>
Net cash from operating activities		<u>164,469,629</u>	<u>89,401,219</u>
Cash flows from investing activities			
Additions to property, plant and equipment	5	<u>(9,890,866)</u>	<u>(25,630,083)</u>
Net cash used in investing activities		<u>(9,890,866)</u>	<u>(25,630,083)</u>
Cash flow from financing activities			
Payment of lease liabilities		(17,219,874)	--
Dividends paid	11	<u>(120,667,640)</u>	<u>(94)</u>
Net cash used in financing activities		<u>(137,887,514)</u>	<u>(94)</u>
Net increase in cash and cash equivalents		<u>16,691,249</u>	<u>63,771,042</u>
Cash and cash equivalents at beginning of the period		<u>147,252,743</u>	<u>101,547,658</u>
Cash and cash equivalents at end of the period		<u>163,943,992</u>	<u>165,318,700</u>

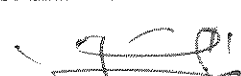
The accompanying notes 1 through 21 form an integral part of these financial statements.



Chief Financial Officer



Chief Executive Officer



Authorized Board of Directors
Member

SAUDI AIRLINES CATERING COMPANY

(A Saudi Joint Stock Company)

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

For the three months ended March 31, 2019

(Expressed in Saudi Arabian Riyals)

1. REPORTING ENTITY

Saudi Airlines Catering Company (the "Company") is a Saudi Joint Stock Company domiciled in the Kingdom of Saudi Arabia. The Company was registered as a Saudi limited liability company on Muharram 20, 1429H (January 29, 2008) under commercial registration number 4030175741.

The main objectives of the Company are the 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, and the ownership, operation and management of central laundries.

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

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

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

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

Saudi Airlines Catering Company
Al Saeb Al Jomhi Street
Prince Sultan Bin Abdulaziz Road, Almohammadya District (5)
P. O. Box 9178, Jeddah 21413
Kingdom of Saudi Arabia

SAUDI AIRLINES CATERING COMPANY

(A Saudi Joint Stock Company)

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

For the three months ended March 31, 2019

(Expressed in Saudi Arabian Riyals)

2. BASIS OF PREPARATIONS

a) Statement of compliance

These Condensed Interim Financial Statements have been prepared in accordance with IAS 34 Interim Financial Reporting that is endorsed in Kingdom of Saudi Arabia and other standards and pronouncements that are issued by Saudi Organization for Certified Public Accountants ("SOCPA") and should be read in conjunction with the Company's last annual Financial Statements as at and for the year ended December 31, 2018 ("last annual Financial Statements"). They do not include all of the information required for a complete set of IFRS Financial Statements however, accounting policies and selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the Company's financial position and performance since the last annual Financial Statements.

The Company has started to apply IFRS 16 Leases effective from January 1, 2019. Changes to significant accounting policies are described in Note 3 B.

According to the announcement of the Capital Market Authority (CMA) dated October 16, 2016, the Company has to apply the cost method for the measurement of the property, plant and equipment, investment properties and intangible assets for 3 years from the date of applying IFRS.

b) Basis of Measurement

These financial statements have been prepared under the historical cost basis, except for the defined benefit obligation which is recognized at the present value of future obligation using the projected unit credit method. Further, the financial statements are prepared using the accrual basis of accounting and going concern concept.

c) Functional and presentation currency

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

3. SIGNIFICANT ACCOUNTING POLICIES

a) Use of judgments and estimates

In preparing these financial statements, management has made judgments, estimates and assumptions that affect the application of the Company's 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 accounting estimates are recognized prospectively.

The significant judgments made by management in applying the Company's accounting policies and the key sources of estimation uncertainty were the same as those described in the last annual financial statements, except for new significant judgments and key sources of estimation uncertainty related to the application of IFRS 16 which are described in Notes 3 B.

SAUDI AIRLINES CATERING COMPANY

(A Saudi Joint Stock Company)

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

For the three months ended March 31, 2019

(Expressed in Saudi Arabian Riyals)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

b. New Standards, Amendments to Standards and Interpretations

The Company has initially adopted IFRS 16 Leases from 1 January 2019. IFRS 16 introduced a single, on-balance sheet accounting model for lessees. As a result, the Company, as a lessee, has recognised right-of-use assets representing its rights to use the underlying assets and lease liabilities representing its obligation to make lease payments. Lessor accounting remains similar to previous accounting policies. The Company has applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognised in retained earnings at 1 January 2019. Accordingly, the comparative information presented for 2018 has not been restated - i.e. it is presented, as previously reported in the last annual financial statements, under IAS 17 and related interpretations. The details of the changes in accounting policies are disclosed below.

i. Definition of a lease

Previously, the Company determined at contract inception whether an arrangement was or contained a lease under IFRIC 4 Determining Whether an Arrangement contains a Lease. The Company now assesses whether a contract is or contains a lease based on the new definition of a lease. Under IFRS 16, a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration.

On transition to IFRS 16, the Company elected to apply the practical expedient to grandfather the assessment of which transactions are leases. It applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 and IFRIC 4 were not reassessed. Therefore, the definition of a lease under IFRS 16 has been applied, only to contracts entered into or changed on or after 1 January 2019.

At inception or on reassessment of a contract that contains a lease component, the Company allocates the consideration in the contract to each lease and non-lease component on the basis of their relative stand-alone prices. However, for leases of properties in which it is a lessee, the Company has elected not to separate non-lease components and will instead account for the lease and non-lease components as a single lease component.

ii. As a lessee

As a lessee, the Company previously classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the Company. Under IFRS 16, the Company recognises right-of-use assets and lease liabilities for most leases - i.e. these leases are on-statement of financial position.

The Company decided to apply recognition exemptions to short-term leases. For leases of other assets, which were classified as operating under IAS 17, the Company recognised right-of-use assets and lease liabilities. The carrying amounts of right of use assets and lease liabilities are as below:

SAUDI AIRLINES CATERING COMPANY
(A Saudi Joint Stock Company)
NOTES TO THE CONDENSED FINANCIAL STATEMENTS
For the three months ended March 31, 2019
(Expressed in Saudi Arabian Riyals)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

b New Standards, Amendments to Standards and Interpretations (continued)

ii. As a lessee (continued)

Balances at 1 January 2019

<u>Rights-of-use assets:</u>	<u>January 1, 2019</u>
Present value of lease liability	587,483,042
<u>Adjustment for:</u>	
Prepaid lease	29,711,821
Accrued liabilities	(1,759,437)
Transferred to subleased assets	(3,834,886)
	<u>611,600,540</u>
<u>Lease liabilities:</u>	
Discounted future payments	587,483,042

Balances at 31 March 2019

	<u>March 31, 2019</u>
Net rights of use of assets	591,136,848
Lease liabilities	577,454,681

The Company recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, and subsequently at cost less any accumulated depreciation and impairment losses, and adjusted for certain remeasurements of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, and the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as its discount rate.

The lease liability is subsequently increased by the interest cost on the lease liability and decreased by lease payments made. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, a change in the estimate of the amount expected to be payable under a residual value guarantee, or as appropriate, changes in the assessment of whether a purchase or extension option is reasonably certain to be exercised or a termination option is reasonably certain not to be exercised.

The Company has applied judgement to determine the lease term for some lease contracts in which it is a lessee that include renewal options. The assessment of whether the Company is reasonably certain to exercise such options impacts the lease term, which significantly affects the amount of lease liabilities and right-of-use assets recognized.

SAUDI AIRLINES CATERING COMPANY
(A Saudi Joint Stock Company)
NOTES TO THE CONDENSED FINANCIAL STATEMENTS
For the three months ended March 31, 2019
(Expressed in Saudi Arabian Riyals)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

b New Standards, Amendments to Standards and Interpretations (continued)

iii. Transition

Previously, the Company classified property leases as operating leases under IAS 17. At transition, for leases classified as operating leases under IAS 17, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Company's incremental borrowing rate as at 1 January 2019. Right-of-use assets are measured at either:

- their carrying amount as if IFRS 16 had been applied since the commencement date, discounted using the lessee's incremental borrowing rate at the date of initial application, or;
- an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments - the Company applied this approach to all other leases.

The Company used the following practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17.

- Applied the exemption not to recognise right-of-use assets and liabilities for leases with less than 12 months of lease term.
- Excluded initial direct costs from measuring the right-of-use asset at the date of initial application.
- Used hindsight when determining the lease term if the contract contains options to extend or terminate the lease.

For these finance leases, the carrying amount of the right-of-use asset and the lease liability at 1 January 2019 were determined at the carrying amount of the lease asset and lease liability under IAS 17 immediately before that date.

iv. As a lessor

As on transition date, the Company has assessed the classification of a sub-lease contract previously classified as an operating lease under IAS 17 and concluded that the sub-lease is a finance lease under IFRS 16, except where the Company has accounted the head lease as a short-term lease.

The Company has sub-lease contracts for residential building and commercial building lease. A lease was classified as a finance lease if it transferred substantially all of the risks and rewards incidental to ownership of the leased asset to the Company; otherwise it was classified as an operating lease. When the Company is an intermediate lessor, it accounts for its interest in the head lease and sub-lease separately. It assesses the lease classification of a sub-lease with reference to the right-of use asset arising from the head lease, not with the reference to the underlying asset. If a head lease is a short-term lease to which the Company applies the exemption of short-term lease under IFRS 16, then it classifies the sub-lease as an operating lease. If an arrangement contains lease and non-lease components, the Company applies the respective other standard to allocate the consideration in the contract.

SAUDI AIRLINES CATERING COMPANY
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NOTES TO THE CONDENSED FINANCIAL STATEMENTS
For the three months ended March 31, 2019
(Expressed in Saudi Arabian Riyals)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

b New Standards, Amendments to Standards and Interpretations (continued)

iv. As a lessor (continued)

In Finance leases, the company recognizes receivable at an amount equal to the net subleased assets. In an operating lease, the Company recognizes lease payments received as income on a straight line basis over the lease term.

v. Impact on financial statements of the transition

On transition to IFRS 16, the Company recognized additional right-of-use assets, and additional lease liabilities, recognizing the difference in retained earnings. The impact on transition is summarized below.

	<u>1 January 2019</u>
Property and equipment owned	(14,562,737)
Right-of-use assets presented	611,600,540
Subleased assets	28,299,872
Lease liabilities	(587,483,042)
Receivable adjustment for subleased assets	(9,686,099)
Receivables	(29,711,821)
Accruals	1,759,438
<u>Impairment of Rights of use assets</u>	<u>(17,800,000)</u>
Impact on Retained earnings	17,583,849

When measuring lease liabilities for leases that were classified as operating leases, the Company discounted lease payments using its adjusted incremental borrowing rates at 1 January 2019.

	<u>1 January 2019</u>
Operating lease commitment at 31 December 2018 as disclosed in the Company's financial statements	1,178,088,996
Discounted using the incremental borrowing rate at 1 January 2019	890,277,367
Short term leases	32,307,222
Extension and termination option reasonably certain to be exercised	270,487,103
<u>Lease liabilities recognised at 1 January 2019</u>	<u>587,483,042</u>

vi. Impact for the period

The Company has recognised depreciation and interest costs, instead of operating lease expense. During the three months ended 31 March 2019, the Company recognised SR 20 million of depreciation charges and SR 7.2 million of interest costs from these leases.

SAUDI AIRLINES CATERING COMPANY
(A Saudi Joint Stock Company)
NOTES TO THE CONDENSED FINANCIAL STATEMENTS
For the three months ended March 31, 2019
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3. SIGNIFICANT ACCOUNTING POLICIES (continued)

b New Standards, Amendments to Standards and Interpretations (continued)

vi. Impact for the period (continued)

Furthermore, during the assessment, the Company identified a leased property which is vacant and not used nor sub leased. Management is currently negotiating with the lessor to exit and terminate the contract related to this vacant property. Management has formed a provision of SR 17.8 million for the expected cash out flows on termination of the contract. Movement in lease liabilities and subleased assets over the three months ended March 31, 2019 are as follows:

Lease liabilities

Lease liability as at 1 January 2019	587,483,042
Increase in Lease Liability due to finance cost	7,191,513
Lease payment made during the period	(17,219,874)
Lease liability as at 31 March 2019	577,454,681
Less: Current portion of lease liability	(146,759,813)
Non-current portion of lease liability	430,694,868

Subleased assets

Net subleased assets as at 1 January 2019	28,299,873
Increase due to finance income	345,238
Lease receipts during the period	--
Net subleased assets as at 31 March 2019	28,645,111
Less: Current portion of net subleased assets	(13,453,766)
Non-current portion of net subleased assets	15,191,345

The Company didn't received any payment during the quarter ended March 31, 2019 from the leased out assets.

c New standards and amendments issued but not yet effective

Standards and amendments issued but not yet effective up to the date of issuance of the Group's condensed consolidated interim financial statements are listed below. The Group is currently assessing the implications of the below mentioned standards and amendments on its condensed consolidated interim financial statements, however, it expects that the impact, if any, would not be material to the condensed consolidated interim financial statements.

Effective for annual periods beginning on or after	New Standards or amendments
1 January 2020	Amendments to References to Conceptual Framework in IFRS Standards
	Definition of a Business (Amendments to IFRS 3)
	Definition of Material (Amendments to IAS 1 and IAS 8)
1 January 2021	IFRS 17 Insurance Contracts
Available for optional adoption/effective date deferred indefinitely	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (Amendments to IFRS 10 and IAS 28)

SAUDI AIRLINES CATERING COMPANY

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4. 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
Inflight	Inflight catering, airline equipment and business lounge
Retail	Onboard and ground
Catering and Facilities	Remote & Camp management, Business & Industries catering, Security services, Laundry services, Hajj & Umrah & Baggage handling services

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

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4. OPERATING SEGMENTS (continued)

B. Information about reportable segments

March 31, 2019

	<u>Inflight</u>	<u>Retail</u>	<u>Catering and facilities</u>	<u>Total reportable segments</u>	<u>All other segments</u>	<u>Head office</u>	<u>Total</u>
External revenue	418,063,497	38,892,473	44,131,565	501,087,535	20,543,305	--	521,630,840
Inter-segment revenue	12,980,127	--	1,425,132	14,405,259	77,867,710	--	92,272,969
Segment revenue	<u>431,043,624</u>	<u>38,892,473</u>	<u>45,556,697</u>	<u>515,492,794</u>	<u>98,411,015</u>	<u>-</u>	<u>613,903,809</u>
Segment profit / (loss) before zakat and tax	213,028,591	9,447	(6,503,453)	206,534,585	(93,348,758)	--	113,185,827
Depreciation and amortization	23,640,866	813,788	4,952,732	29,407,386	7,544,180	--	36,951,566
Assets:							
Segment assets	1,275,186,414	173,475,418	166,720,543	1,615,382,375	370,724,753	--	1,986,107,128
Other assets	--	--	--	--	--	690,217,399	690,217,399
Total	<u>1,275,186,414</u>	<u>173,475,418</u>	<u>166,720,543</u>	<u>1,615,382,375</u>	<u>370,724,753</u>	<u>690,217,399</u>	<u>2,676,324,527</u>
Liabilities:							
Segment liabilities	517,560,481	81,844,364	39,210,289	638,615,134	244,339,527	--	882,954,661
Other liabilities	--	--	--	--	--	511,113,675	511,113,675
Total	<u>517,560,481</u>	<u>81,844,364</u>	<u>39,210,289</u>	<u>638,615,134</u>	<u>244,339,527</u>	<u>511,113,675</u>	<u>1,394,068,336</u>

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4. OPERATING SEGMENTS (continued)

B. Information about reportable segments

March 31, 2018

	<u>Inflight</u>	<u>Retail</u>	<u>Catering and Facilities</u>	<u>Total reportable segments</u>	<u>All other segments</u>	<u>Head office</u>	<u>Total</u>
External revenue	395,211,756	44,931,888	33,300,145	473,443,789	15,078,680	--	488,522,469
Inter-segment revenue	13,215,149	--	1,322,634	14,537,783	74,045,937	--	88,583,720
Segment revenue	<u>408,426,905</u>	<u>44,931,888</u>	<u>34,622,779</u>	<u>487,981,572</u>	<u>89,124,617</u>	<u>--</u>	<u>577,106,189</u>
Segment profit / (loss) before zakat and tax	223,365,932	3,069,665	2,140,042	228,575,639	(99,047,640)	--	129,527,999
Depreciation and amortization	7,213,386	776,399	1,673,270	9,663,055	6,080,213	--	15,743,268
Assets:							
Segment assets	956,978,650	130,186,669	125,117,394	1,212,282,713	278,214,753	--	1,490,497,466
Other assets	--	--	--	--	--	517,981,769	517,981,769
Total	<u>956,978,650</u>	<u>130,186,669</u>	<u>125,117,394</u>	<u>1,212,282,713</u>	<u>278,214,753</u>	<u>517,981,769</u>	<u>2,008,479,235</u>
Liabilities:							
Segment liabilities	263,577,872	41,680,855	19,968,613	325,227,340	124,434,718	--	449,662,058
Other liabilities	--	--	--	--	--	260,294,709	260,294,709
Total	<u>263,577,872</u>	<u>41,680,855</u>	<u>19,968,613</u>	<u>325,227,340</u>	<u>124,434,718</u>	<u>260,294,709</u>	<u>709,956,767</u>

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4. OPERATING SEGMENTS (continued)

C. Reconciliations of information on reportable segments to IFRS measures

I. Revenue

	March 31, <u>2019</u>	March 31, <u>2018</u> (Restated, Note 16)
Total revenue for reportable segments	515,492,794	487,981,572
Revenue for other segments	98,411,015	89,124,617
Elimination of intersegment revenue	<u>(92,272,969)</u>	<u>(88,583,720)</u>
Total revenue	<u>521,630,840</u>	<u>488,522,469</u>

II. Profit

	March 31, <u>2019</u>	March 31, <u>2018</u>
Total profit for reportable segments	206,534,585	228,575,639
Loss for other segments	<u>(93,348,758)</u>	<u>(99,047,640)</u>
Total profit before Zakat and income tax	<u>113,185,827</u>	<u>129,527,999</u>

III. Assets

	March 31, <u>2019</u>	March 31, <u>2018</u>
Total assets for reportable segments	1,615,382,375	1,212,282,713
Assets for other segments	370,724,753	278,214,753
Other unallocated amounts	<u>690,217,399</u>	<u>517,981,769</u>
Total assets	<u>2,676,324,527</u>	<u>2,008,479,235</u>

Other unallocated amounts principally related to cash and cash equivalents, investment securities and prepayment and other current assets. Right of use assets and subleased assets have been allocated to the related segments.

IV. Liabilities

	March 31, <u>2019</u>	March 31, <u>2018</u>
Total liabilities for reportable segments	638,615,134	325,227,340
Liabilities for other segments	244,339,527	124,434,718
Other unallocated amounts	<u>511,113,675</u>	<u>260,294,709</u>
Total liabilities	<u>1,394,068,336</u>	<u>709,956,767</u>

Head office amounts principally related to trade and other payables, current zakat and tax liabilities and employee benefits. Lease liability have been allocated to the related segments.

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4. OPERATING SEGMENTS (continued)

V. Geographical information

	March 31, 2019	March 31, 2018
– Revenue		
Kingdom of Saudi Arabia	506,950,429	471,290,649
<i>All foreign countries</i>		
Egypt – Cairo	14,680,411	17,231,820
Total revenue	521,630,840	488,522,469

C. Major customer

Revenue from one customer of the Company's Airline segment represented approximately 62% of the Company's total revenues.

5. PROPERTY, PLANT AND EQUIPMENT

A. Reconciliation and carrying amount

	Land	Leasehold improvements	Equipment	Motor vehicles	Under construction	Total
Cost:						
Balance at January 1, 2019	33,786,058	257,549,100	181,582,096	93,733,541	170,726,195	737,376,990
Additions	--	684,800	2,701,991	--	6,504,075	9,890,866
Disposal	--	--	(442,743)	--	--	(442,743)
Adjustment for finance lease (note 3B)	--	(17,651,803)	--	--	--	(17,651,803)
Transfer from capital work under construction	--	40,731,964	10,303,646	25,270,367	(76,305,977)	--
Balance at March 31, 2019	33,786,058	281,314,061	194,144,990	119,003,908	100,924,293	729,173,310
Accumulated depreciation:						
Balance at January 1, 2019	--	24,418,526	97,279,850	28,969,704	--	150,668,080
Charge for the period	--	6,769,274	6,492,599	3,127,897	--	16,389,770
Disposals	--	--	(410,273)	--	--	(410,273)
Adjustment for finance lease (note 3B)	--	(3,530,360)	--	--	--	(3,530,360)
Balance at March 31, 2019	--	27,657,440	103,362,176	32,097,601	--	163,117,217
Carrying amounts:						
At March 31, 2019	33,786,058	253,656,621	90,782,814	86,906,307	100,924,293	566,056,093
At December 31, 2018	33,786,058	233,130,574	84,302,246	64,763,837	170,726,195	586,708,910

B. Capital work in progress status

Capital work under construction mainly includes construction works at Saudia City Motel in Jeddah, and Alfursan Lounges.

There are no restrictions on any asset neither any asset have been pledged as security to any party

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5. PROPERTY, PLANT AND EQUIPMENT (continued)

C. Subleased assets adjustment in property, plant and equipment

As a result of the adoption of IFRS 16 and as explained under note 3B, the Company transferred some assets that are subleased from the property, plant and equipment.

The cost and accumulated depreciation of the transferred assets are as follows:

	March 31, 2019
Cost of the asset sub-leased	17,651,803
Accumulated depreciation as at January 1, 2019	(3,089,065)
Depreciation reversed for the 3 months ended March 31, 2019	(441,295)
Total Right of use assets	<u>14,121,443</u>

6. EQUITY ACCOUNTED INVESTEE

A. Investment in associate

On May 10, 2017, the Company invested an amount of SR 30,757,600 in Saudi French Company for Duty Free Operations and Management representing 40% of its share capital.

The Company started to record its share in the losses of the associate from May 10, 2017.

B. The balances of the investment in associate as at March 31, 2019 and December 31, 2018 are as follows:

<u>Name</u>	<u>Country of incorporation</u>	<u>Effective ownership interest (%)</u>		<u>Carrying value</u>	
		<u>March 31, 2019</u>	<u>December 31, 2018</u>	<u>March 31, 2019</u>	<u>December 31, 2018</u>
Saudi French Company For Duty Free Operations and Management (Limited Liability Company)	Kingdom of Saudi Arabia	40%	40%	15,304,633	15,125,813

C. The movement in the investment in associate during the period was as follows:

	March 31, 2019	December 31, 2018
Opening balance	15,125,813	20,642,074
Share in net profit / (loss)	178,820	(5,406,251)
Share in other comprehensive loss	—	(110,010)
Ending balance	<u>15,304,633</u>	<u>15,125,813</u>

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6. EQUITY ACCOUNTED INVESTEE (continued)

D. Below is the summary of the financial information of the investee as at March 31, 2019 and December 31, 2018:

The invested Company does not issue quarterly reviewed interim financial statements, accordingly the financial data below and the share of profit for the three months ended March 31, 2019 are based on internal management reporting.

i) Share in net assets

	March 31, 2019	December 31, 2018
Non current assets	29,907,985	31,405,421
Current assets	85,236,175	79,893,590
Total assets	115,144,160	111,299,011
Non current liabilities	1,063,791	819,847
Current liabilities	75,818,787	72,664,632
Total liabilities	76,882,578	73,484,479
Net assets	38,261,582	37,814,532
Company's share in net assets (40%)	15,304,633	15,125,813

ii) Share in profit / (loss)

	Three months ended March 31, 2019	Three months ended March 31, 2018
Revenue	70,454,701	62,485,492
Net profit / (loss) for the period	447,049	(5,703,903)
Company's share of profit / (loss) for the period (40%)	178,820	(2,281,561)

The Company has a call option by which it has the right to purchase 11% of the total shares of the associate from one of the shareholders subject to fulfilling legal requirements and obtaining certain approvals. If the Company succeeded to fulfill all the requirements and purchased the 11% shares, its shares in the investee will reach 51% and accordingly will have control over the investee and will then start consolidating.

At the date of the financial statements, the Company was unable to practice the call option due to legal formalities and accordingly was unable to obtain control and management continued to account for this investment as an associate.

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7. FINANCIAL ASSETS AT AMORTIZED COSTS

	March 31, 2019	December 31, 2018
Financial assets measured at amortized cost:		
Letters of guarantee	<u>26,510,160</u>	<u>29,991,692</u>

8. TRADE AND OTHER RECEIVABLES

A. Trade and other receivables at March 31, 2019 and December 31, 2018 comprise the following:

	Note	March 31, 2019	December 31, 2018
Trade receivables due from related parties (net of purser provision)	14 C	793,759,428	722,310,992
Trade receivables -- third parties		<u>264,950,963</u>	<u>268,417,405</u>
		<u>1,058,710,391</u>	<u>990,728,397</u>
Less: Allowance for expected credit losses	8 B	<u>(45,725,646)</u>	<u>(40,502,850)</u>
		<u>1,012,984,745</u>	<u>950,225,547</u>

- Trade receivables disclosed above are classified as loans and receivables and are measured at amortized cost.
- The Company does not have any collateral over receivables and the vast majority are, therefore, unsecured. Unimpaired trade receivables are expected on the basis of past experience, to be fully recoverable.
- 78% of the trade receivables is due from government or semi-government entities (December 31, 2018: 72%)

B. Movements summary in impairment losses provision for receivables are as follows:

	March 31, 2019	December 31, 2018
Balance at beginning of the period/year	40,502,850	53,427,618
Charged for the period/year	5,222,796	--
Write-off during the period/year	--	(538,781)
Reversal during the period/year	--	(12,385,987)
Balance at end of the period/year	<u>45,725,646</u>	<u>40,502,850</u>

C. Movements summary in allowance for related parties balance are as follows:

	March 31, 2019	December 31, 2018
Balance at beginning of the period/year	4,026,001	4,476,079
Charged for the period/year	93,100	388,045
Write-off during the period/year	--	(17,284)
Reversal during the period/year	<u>(251,889)</u>	<u>(820,839)</u>
Balance at end of the period/year	<u>3,867,212</u>	<u>4,026,001</u>

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9. SHARE CAPITAL**A. Share capital**

	March 31, 2019	December 31, 2018
In issue at January 1, 2019 and 2018 (number of shares)	82,000,000	82,000,000
Issued for cash	--	--
In issue at March 31, 2019 and December 31, 2018-- fully paid (number of shares)	<u>82,000,000</u>	<u>82,000,000</u>
Issued -- par value SR 10	<u>820,000,000</u>	<u>820,000,000</u>

B. At March 31, 2019 and December 31, 2018 the shareholders and their percentage interests in the share capital of the Company are as follows:

<u>Shareholder</u>	<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	7,641,379	76,413,790	9.3
Alhokair Company Joint Stock Company	7,111,256	71,112,560	8.7
General public	37,973,365	379,733,650	46.3
	<u>82,000,000</u>	<u>820,000,000</u>	<u>100</u>

C. 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.

10. STATUTORY RESERVE

In accordance with the new Company's bylaws approved by the General Assembly meeting dated April 17, 2017 and the new Saudi Arabian Regulations for Companies, the Company sets aside 10% of its profit each year as statutory reserve until such reserve equals to 30% of the share capital.

The Company has transferred an amount in excess of 30% to the statutory reserve in previous years.

11. DIVIDENDS

A. i The following dividends were declared by the Company during the period ended March 31, 2019.

	March 31, 2019
February 27, 2019: SR 1.30 per ordinary share after Zakat and before tax deduction (Income tax adjusted)	<u>105,141,497</u>

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11. DIVIDENDS (continued)

ii The following dividends were declared by the Company during the period ended March 31, 2018.

	March 31, 2018
March 27, 2018: SR 1.30 per ordinary share after Zakat and before tax deduction (Income tax adjusted)	104,673,521

B. The movement in the dividends payable during the period / year is as follows:

	March 31, 2019	December 31, 2018
Balance at beginning of the period / year	123,229,981	3,120,329
Declared during the period / year	105,141,497	445,351,075
Paid during the period / year	(120,667,640)	(325,241,423)
Balance at end of the period / year	107,703,838	123,229,981

C. Subsequent to these interim financial statements date the Company announced dividends of SR 1.30 per ordinary share with an amount of SR 106.6 million.

12. ZAKAT AND INCOME TAX LIABILITIES

The following is the breakdown of the Zakat and income tax liability as at March 31, 2019 and December 31, 2018:

	March 31, 2019	December 31, 2018
Zakat payable	35,597,797	28,259,464
Income tax payable	4,371,964	2,050,550
Zakat and income tax liabilities	39,969,761	30,310,014

A. Zakat and income tax provision

i) The movement summary in Zakat provision is as follows:

	March 31, 2019	December 31, 2018
Balance at beginning of the period / year	28,259,464	29,522,917
Charge for the period / year	7,338,333	28,259,464
Adjustment related to prior years	--	(426,233)
Payments during the period / year	--	(29,096,684)
Balance at end of the period / year	35,597,797	28,259,464

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12. ZAKAT AND INCOME TAX LIABILITIES (continued)

A. Zakat and income tax provision (continued)

ii) The movement in income tax provision is as follows:

	March 31, <u>2019</u>	December 31, <u>2018</u>
Balance at beginning of the period / year	2,050,550	1,667,170
Charge for the period / year	2,321,414	9,024,271
Adjustment related to prior period / year	--	256,675
Payments during the period / year	--	(8,897,566)
Balance at end of the period / year	<u>4,371,964</u>	<u>2,050,550</u>

iii) Charge of the period ended March 31, 2019 and year ended December 31, 2018 is as follows:

	<u>2019</u>	<u>2018</u>
Zakat charge for the period / year	7,338,333	28,259,464
Zakat prior year adjustment	--	(426,233)
	<u>7,338,333</u>	<u>27,833,231</u>
Income tax charge of the period / year	2,321,414	9,024,271
Income tax prior year adjustment	--	256,675
	<u>2,321,414</u>	<u>9,280,946</u>
Total Zakat and income tax of the period/year	<u>9,659,747</u>	<u>37,114,177</u>

B. Zakat components

	March 31, <u>2019</u>	December 31, <u>2018</u>
Non-current assets	1,252,255,384	670,422,118
Non-current liabilities	598,639,392	167,423,832
Shareholders' equity	1,282,256,191	1,301,455,457
Profit before Zakat and income tax	<u>113,185,827</u>	<u>496,395,061</u>

C. Zakat assessments

The Company has submitted its Zakat and tax declarations for the years from 2009 to 2014 and paid the amounts due according to the declarations and received queries from GAZT which it has responded to and currently waiting for GAZT review of these responses.

The Company has also submitted its Zakat and tax declarations for the years 2015 to 2018 which are currently under review by GAZT. The Company has obtained a certificate until April 30, 2020.

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13. RELATED PARTIES DISCLOSURES

A. Related parties include the Company's shareholders and their relatives up to the fourth generation, associated companies and directors and key management personnel of the Company. Terms and conditions of these transactions at agreed rates are approved by the Company's management.

B. Transactions with key management personnel

Key management personnel compensation comprised the following:

	March 31, 2019	March 31, 2018
Short term employee benefits	1,475,528	1,452,707
Post employment benefits	36,450	36,450
Termination benefits	79,838	81,729
	<u>1,591,816</u>	<u>1,570,886</u>

C. Related parties' transactions and balances

Significant related parties transactions and balances arising there from are as follows:

		Transaction values for the three months ended		Balances	
	Relationship	March 31, 2019	March 31, 2018	March 31, 2019	December 31, 2018
i) <u>Sale of goods and services (under trade and other receivables)</u>					
Saudi Arabian Airlines Corporation*	Shareholders	434,264,157	368,562,000	739,895,088	663,009,364
Alhokair Company Joint Stock Company	Shareholders	203,491	--	14,253	(159,913)
Saudi Airlines Cargo Company	Sister Company	3,482,842	3,545,000	17,659,607	14,176,765
Saudi Ground Services Company	Sister Company	8,832,709	10,357,000	25,286,009	32,527,902
Saudi French Company for Duty Free Operations and Management	Associate	1,145,160	2,390,520	10,448,519	12,338,822
Saudi Airlines Real Estate Development Company	Associate	37,900	24,948	455,952	418,052
Total				<u>793,759,428</u>	<u>722,310,992</u>

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13. RELATED PARTIES DISCLOSURES (continued)**C. Related parties' transactions and balances (continued)**

	<u>Relationship</u>	<u>Transaction values for the three months ended</u>		<u>Balances</u>	
		<u>March 31, 2019</u>	<u>March 31, 2018</u>	<u>March 31, 2019</u>	<u>December 31, 2018</u>
i) <u>Purchase of goods (under trade and other payables)</u>					
Saudi Arabian Airlines Corporation*	Shareholders	2,252,149	--	6,835,434	4,606,589
Newrest Company Holding S.L.	Shareholders	1,267,876	3,159,900	(29,850)	(29,850)
Alhokair Company Joint Stock Company	Shareholders	104,386	--	104,386	--
Saudi Airlines Real Estate Development Company	Sister Company	21,800	--	21,162,016	21,150,466
Saudi Airlines Cargo Company	Sister Company	--	--	7,455,197	7,455,197
Saudi Ground Services Company	Sister Company	--	--	1,422,838	1,422,838
Gulfwest Company Limited	Sister Company	1,064,472	1,176,001	1,006,642	829,168
Total				<u>37,956,663</u>	<u>35,434,408</u>

*Transactions with Saudi Arabian Airlines Corporation includes transaction with the entities which are wholly owned by Saudi Arabian Airlines. The entities includes Saudia Airlines Company, Saudi Private Aviation, Saudi Royal Vip, Saudia Royal Fleet, Saudia Aerospace Engineering, Saudia Medical Service, Prince Sultan Aviation and Flyadeal.

14. REVENUE

	<u>2019</u>	<u>2018</u> (Restated, Note 16)
In-flight catering revenue	376,277,320	350,850,263
Retail revenue	38,901,473	44,931,887
Business lounge revenue	41,659,398	43,180,653
Non-airlines revenue	52,389,079	43,210,125
Other operating revenues		
Camp facilities sales (staff feeding & accommodation)	6,547,481	6,145,901
Exclusivity purchase income & services to suppliers	5,856,089	203,640
	<u>521,630,840</u>	<u>488,522,469</u>

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15. COST OF SALES

	<u>2019</u>	<u>2018</u> (Restated, Note 16)
Cost of materials and goods	158,101,403	155,033,241
Personnel costs	77,593,690	67,203,066
Rent and maintenance of production units	12,844,187	37,656,337
Depreciation	31,417,846	12,943,459
Other operating costs		
Manpower and transportation cost	16,845,542	14,113,854
Supplies and expandable items	8,611,863	8,038,066
Communication and utilities	6,745,597	5,594,729
Other operational costs	17,597,930	12,618,320
	<u>329,758,058</u>	<u>313,201,072</u>

16. RESTATEMENT TO PRIOR PERIODS

The Company has adopted IFRS 15 from January 1, 2018 but has not recorded the impact of the adoption in the interim financial statements as at March 31, 2018, accordingly management has restated the comparative figures in this financial statements. The restatement did not have any impact on the gross profit or the total comprehensive income of the period ended March 31, 2018 nor on the financial position and cashflows for the period as follows:

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	<u>As per IFRS 15</u>	<u>As per old policy</u>	<u>Impact of restatement</u>
Revenue	488,522,469	531,068,166	(42,545,697)
Cost of Sales	(313,201,072)	(355,746,769)	42,545,697
Gross profit	<u>175,321,397</u>	<u>175,321,397</u>	<u>--</u>

17. EARNINGS PER SHARE

A. Basic 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)

	<u>March 31, 2019</u>	<u>March 31, 2018</u>
Profit for the period, attributable to the owners of the Company	<u>103,526,080</u>	<u>120,251,038</u>

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17. EARNINGS PER SHARE (continued)

A. Basic earnings per share (continued)

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

	March 31, 2019	March 31, 2018
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

B. Diluted earnings per share

There were no diluted shares during the period, accordingly, the diluted earnings per share will be the same as the basic earnings per share.

18. CAPITAL MANAGEMENT

The Company's objective when managing capital is to safeguard the Company's ability as a going concern so that it can continue to provide returns for shareholders and benefits for other stakeholders; and to maintain an efficient capital base so as to maintain investor, creditor and market confidence and to sustain the future development of its businesses.

The Company manages the Capital structure in the context of economic conditions and risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may, for example, opt for short term or loan term loans.

The Company monitors return on capital employed and makes adjustment to it in the light of changes in economic conditions. In order to maintain or adjust the capital structure, the Company may obtain short term or loan term loans. The Company monitors capital using a debt equity ratio.

	March 31, 2019	December 31, 2018
Total liabilities	1,394,068,336	784,330,202
Less: cash and cash equivalents	(163,943,992)	(147,252,743)
Net debt	1,230,124,344	637,077,459
 Total equity	 1,282,256,191	 1,301,455,457
 Net debt to total equity ratio	 96%	 49%

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19. FINANCIAL INSTRUMENTS – FAIR VALUES

A. Measurement of fair values

Except for the investment property, the fair values of the Company's financial assets and liabilities approximate their carrying amounts.

B. Credit risk

Credit risk reflects the risk that a counterparty will default on its contractual obligations, resulting in financial loss to the Company. The credit risk arising from cash and cash equivalents and deposits with banks and financial institutions are limited because the counterparties are banks and financial institutions which, in general, have an investment grade rating assigned by international credit rating agencies.

The Company's gross maximum exposure to credit risk at the reporting date is as follows:

	March 31, 2019	December 31, 2018
Financial assets		
Other financial asset	26,510,160	29,991,692
Trade receivables	264,950,963	268,417,405
Due from related parties	797,626,640	726,336,993
Other receivables	36,816,950	22,687,824
Balances with banks	163,032,579	145,997,345
	<u>1,288,937,292</u>	<u>1,193,431,259</u>

Credit risk on receivable and bank balances is limited as:

- Cash balances are held with banks with sound credit ratings ranging from A3 to A1 based on Moody's credit rating and BBB+ based on Fitch credit rating. All bank accounts are held with banks within Saudi Arabia and Cairo.
- The Company currently does not obtain security / collaterals from its customers.
- Financial position of related parties is stable.

As at March 31, 2019, 5 largest customers (December 31, 2018: 5 largest customers) account for approximately 80% (31 December 2018: 75%) of gross outstanding trade receivables.

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19. FINANCIAL INSTRUMENTS – FAIR VALUES AND RISK MANAGEMENT (continued)

Fair value of assets and liabilities

The following table shows the carrying amount of the financial assets and financial liabilities at March 31, 2019 and December 31, 2018. The Company does not have any assets measured at FVTPL or FVOCI at March 31, 2019 and December 31, 2018.

Financial assets at amortised cost <u>Carrying value:</u>	March 31, 2019	December 31, 2018
Other financial assets	26,510,160	29,991,692
Trade and other receivables	219,225,317	227,914,555
Due from related parties	793,759,428	722,310,992
Other receivables	36,816,950	22,687,824
Balances with banks	163,032,579	145,997,345
	<u>1,239,344,434</u>	<u>1,148,902,408</u>

Financial liabilities at amortised cost

<u>Carrying amount:</u>	March 31, 2019	December 31, 2018
Trade and other payables	<u>608,699,370</u>	<u>586,596,356</u>

All the financial assets and liabilities mentioned above are at amortised cost and are not subject to fair value assessment.

20. COMMITMENTS AND CONTINGENCIES

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

	March 31, 2019	March 31, 2018
Capital commitments	<u>137,241,853</u>	<u>84,501,000</u>
Letter of guarantees	<u>48,251,757</u>	<u>34,507,052</u>

Letters of guarantee are issued by a bank on behalf of the Company to a supplier and promises to meet any financial obligations to the supplier in the event of default and this requires the Company to place cash with the bank. As at March 31, 2019, the Company fully paid the amount against letters of guarantee, hence no further financial charges are payable.

The Company had a credit facility with SABB from April 2018 for the new bank guarantee issued on behalf of the Company to a supplier with the year-to-date issued amount of SR 14,249,479.

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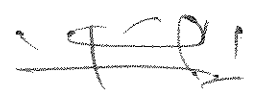
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21. DATE OF AUTHORISATION FOR ISSUE

These financial statements were approved by the Board of Directors on Ramadan 14, 1440H, corresponding to May 19, 2019.

		
_____ Chief Financial Officer	_____ Chief Executive Officer	_____ Authorized Board of Directors Member